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The Ohio State University, Ph.D., 1969
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THE 221(d)(3) BELOW MARKET INTEREST RATE
AND RENT SUPPLEMENT HOUSING PROGRAM

DISSERTATION
Presented in Partial Fulfillment of the
Requirements for the Degree Doctor of
Philosophy in the Graduate School
of The Ohio State University

By
Leonard Garland Gaston, B.S., M.B.A.

The Ohio State University
1969

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ACKNOWLEDGMENTS

The writer is deeply indebted to Professor Halbert C. Smith of the Ohio State University for his invaluable guidance and encouragement which made this study possible. The topic of this paper was chosen because of an expanded interest in the field of low cost housing that resulted from seminars in Real Estate conducted by Professor Smith during the 1966-67 academic year. Sincere appreciation for helpful advice and interest is due also to Professor Glen Miller and Professor Ronald Racster.

The attempt to learn more about the "how and why" of 221(d)(3) in Southwest Ohio required a search for information in the everyday world of sponsors, builders, government officials, and others involved in the creation of housing under these programs. This search benefited from the willingness
of those working in this field to supply facts and to share insights based on experience. The personal involvement of many of these people in the effort to increase the supply of low- and moderate-income housing was impressive. Without implicating those named in any way with whatever inaccuracies may be present in this paper, the author would like to express appreciation to a limited number of those who added much to the study: Mr. Robert Stark of the Cincinnati FHA Office, Mr. Tom Meyung, Mrs. Joan Holcomb of the Xenia Christian Social Relations Commission, Mr. Galbraith of the Marvin C. Warner Corporation, Mr. William Merusi, and Mr. Richard Coleman.

It is customary at this point to conclude with an expression of personal gratitude to family members involved to any degree in an effort of this sort. But what words can properly express appreciation to a wife who not only survives nine years of full and part-time graduate study but climaxes that feat of loyalty by typing repeated drafts and revisions and

iii
a meticulous final copy of the dissertation; or to children who have looked forward, since the day they began to understand even a little of the world of big people, to the day their Dad would receive his degree and could at last devote more time to their personal wants and needs?
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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACKNOWLEDGMENTS</td>
<td>ii</td>
</tr>
<tr>
<td>VITA</td>
<td>v</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>ix</td>
</tr>
<tr>
<td>QUOTATION</td>
<td>x</td>
</tr>
</tbody>
</table>

## Chapter

<table>
<thead>
<tr>
<th>I. HOUSING NEEDS AND PROBLEMS</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Need</td>
<td></td>
</tr>
<tr>
<td>Housing Costs</td>
<td></td>
</tr>
<tr>
<td>Urban Problems</td>
<td></td>
</tr>
<tr>
<td>Particular Problems of Minority Groups</td>
<td></td>
</tr>
<tr>
<td>Factors Making Transfer and Financing of Real Estate A</td>
<td></td>
</tr>
<tr>
<td>Unique Problem</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>II. GOVERNMENT APPROACHES TO HOUSING PROBLEMS</th>
<th>50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approaches in Other Countries</td>
<td></td>
</tr>
<tr>
<td>Government Policies in the United States</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>III. ENACTMENT AND NATIONWIDE IMPACT OF THE 221(d)(3) PROGRAM</th>
<th>111</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishment of the Program</td>
<td></td>
</tr>
<tr>
<td>Use of 221(d)(3) As A Vehicle to Implement Rent Supplements</td>
<td></td>
</tr>
</tbody>
</table>

vi
**Chapter**

Modification of These Housing Policies  
Nationwide Impact of the  
221(d)(3) BMIR and Rent Supplement Program  

IV. EXAMINATION OF BMIR AND RENT SUPPLEMENT PROJECTS IN SOUTHWEST OHIO .......... 138  

The Case Study Approach  
Nonprofit Sponsorship  
Unpromising Projects  
Selected Project Histories  
Interpretation of Findings Regarding Sponsor Characteristics and Project Success  

V. CONCLUSIONS AND RECOMMENDATIONS .... 188  

Summary of Impact of 221(d)(3)  
Difficulties in Sponsorship  
A Recommendation Regarding This Type of Housing Program  
Recommendations for Further Federal Action  

APPENDIX  

A. Steps in Project Sponsorship ........... 205  

B. List of Forms Required for 221(d)(3) Projects .............. 213  

C. An Explanation of the Various Types of Mortgagors Eligible to Participate in the 221(d)(3) Program ........ 218  

D. A Summary of FHA Programs ............. 221  

vii
<table>
<thead>
<tr>
<th>APPENDIX</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>E. HUD Programs Not Administered by FHA</td>
<td>232</td>
</tr>
<tr>
<td>F. An Example of Low Cost Technology</td>
<td>238</td>
</tr>
<tr>
<td>BIBLIOGRAPHY</td>
<td>241</td>
</tr>
</tbody>
</table>
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Federal Housing Programs for Low- and Moderate-Income Families Construction and Rehabilitation Starts</td>
<td>125</td>
</tr>
<tr>
<td>2.</td>
<td>Total 221(d)(3) BMIR Units, Started Or Completed As of 30 September 1968</td>
<td>126</td>
</tr>
<tr>
<td>3.</td>
<td>Units Started Involving Nonprofit Sponsorship</td>
<td>135</td>
</tr>
<tr>
<td>4.</td>
<td>The BMIR Program as of 30 September 1968</td>
<td>136</td>
</tr>
<tr>
<td>5.</td>
<td>221(d)(3) BMIR and Rent Supplement Projects</td>
<td>140</td>
</tr>
<tr>
<td>6.</td>
<td>Construction Start Vs. Type of Sponsor, Number of Projects</td>
<td>178</td>
</tr>
<tr>
<td>7.</td>
<td>Progress Vs. Type of Sponsor, Number of Projects</td>
<td>179</td>
</tr>
<tr>
<td>8.</td>
<td>Processing Time Vs. Type of Sponsor, Number of Projects</td>
<td>180</td>
</tr>
<tr>
<td>9.</td>
<td>Construction Start Vs. Use of Packager, Number of Projects</td>
<td>181</td>
</tr>
<tr>
<td>10.</td>
<td>Project Status Vs. Use of Packager, Number of Projects</td>
<td>182</td>
</tr>
<tr>
<td>11.</td>
<td>Processing Time Vs. Use of Packager, Number of Projects</td>
<td>183</td>
</tr>
</tbody>
</table>
The best security for civilization is the dwelling, and upon proper and becoming dwellings depends more than anything else the improvement of mankind. Such dwellings are the nursery of all domestic virtues, and without a becoming home the exercise of these virtues is impossible.

From a Speech by Benjamin Disraeli, London, July 18, 1874
Housing remains a critical personal and governmental problem in virtually every country of the world. Housing is expensive of resources. A vast number of people live in dwellings considered inadequate by most if not all observers.

Sherman J. Maisel, 1967

CHAPTER I

HOUSING NEEDS AND PROBLEMS

THE NEED

The greater part of the wealth of our country is in its cities, and an overwhelming part of that wealth consists of residential units and related utilities. One fifth of our yearly capital expenditure goes into new housing construction, yet new housing in any given year is only three per cent of all housing.1

These formidable statistics demonstrate only that housing is among the most important commodities to which we allocate economic resources; they do not prove that the supply is as efficiently produced as it might be, or that it meets requirements of people for adequate shelter. 

Substandard Housing

When early settlers came to our country they often spent their first winters in conditions of hardship that astonish us today. The colonist's first home was often no more than a cave dug into the slope of a hill, roofed over with whatever materials—branches, grass, mud—that nature provided in readily usable form. 'It is not surprising that deaths from exposure and "fevers" of various sort were common. Even at that time such makeshift shelters were abandoned as soon as possible, and more conventional and healthful

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dwellings built above the ground with better provisions for exclusion of wind and rain.

Today, it is generally accepted that adequate structural condition and complete plumbing facilities are the two primary criteria for evaluating housing as adequate. By these standards, approximately one fifth of the non-farm dwellings inside metropolitan areas are substandard.3

Trends

The dominant pattern of addition to the country's housing inventory in recent years, a pattern reshaping American cities, has been the high volume of suburban building "... directed largely by market forces and constrained by the most tenuous of planning controls."4 This housing has been constructed for those who, with or without mortgage guarantees provided by the Federal Housing Administration and the Veteran's Administration,

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4Grigsby, op. cit., p. 5.
could be expected to pay for it. Households unable to meet that criterion were, for the most part, ignored. A national program for urban renewal exists; but benefits from this program are often not felt by lower income families left behind in the movement to the suburbs. Rather, the urban renewal projects that cities strive for are those that promise to return middle- and high-income families from the suburbs, or those that promise location of clean industry and revival of downtown areas.5

In spite of substantial government participation in the area of housing in recent years, the outlook for households occupying substandard housing is not bright:

Substantial numbers of American citizens are destined to spend the rest of their lives living in slums and blighted areas. As things now stand, generations of children will be born, will live and die in portions of cities or neighborhoods that are dreary to look at and indecent to live in.6

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5"Most cities have no renewal projects at all designed to help the low income population . . . . In fact, a neutral observer might conclude that the real effort has been to rid cities of slum families, not slum housing." Ibid., p. 324.

6Blucher, op. cit., p. xix.
HOUSING COSTS

Housing, like all improved urban real property, is expensive. When compared either to personal income of the owners or to the annual returns from the property when in operation, the capital requirements for development or investment in urban land are relatively large. Home buyers are faced with an expenditure of two to three times annual income. Land and buildings are durable, and in our economic system, the return on such property is adjusted to a long productive life, and is small relative to the amount of initial investment.7

Factors Underlying High Cost—
Form Utility Production

Complexity of the Product

The costs of housing are high—and have been rising relative to income and to prices of other

manufactured goods. Why should this be so? Maisel sums the problem up in this manner:

Houses are large, complicated, durable, and consequently expensive. No simple, cheap method has been found to house people in our complex developed societies. As a result the amount of capital or resources embodied in a house is very large compared with its daily output of shelter.

The difficulty of building sufficient units is compounded by growing urbanization, with its requirements for public services, streets, sewers and corresponding increases in land values.

The pioneer settlers of our country depended chiefly on their own efforts and those of their neighbors, if any existed, for the labor required to dig or build their dwellings. This is not normally

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8 Since World War II, housing costs have risen at a significantly faster rate than costs of other goods. The relative rise since 1960 has been even more striking. For further analysis see Martin Meyerson, Barbara Terrett, and William L. C. Wheaton, Housing, People, and Cities (New York: McGraw-Hill Company, 1962), pp. 26-27, 64-65.

the case today. Building codes and regulations that prevail when people live in close proximity to one another effectively keep a typical household from attempting to construct its own shelter. There is a trend, in any society, as it becomes more sophisticated and wealthy, for professional builders to do more of the building construction. The structures put up by such professional builders have not changed radically over the past 2000 years. The houses of today are similar in many respects to those of the wealthy Romans. 10,11


11 "The Technological Lag. For most of the world's people, there have been no major changes in housebuilding since Neolithic man produced his first flint ax. His lake dwelling, 750 square feet in area, with a fireplace, porch, pitched roof, and walls plastered with clay, was owner-built, and was in many ways superior to most houses of contemporary urban man. In fact, occupied caves near Rawalpindi, Pakistan, the handiwork of nature, are better shelters than most squater's makeshifts in Manila, Algeria, Venezuela, or Hong Kong; their roofs, though massive, are waterproof, while their egress to the open fields is a happy contrast to many a dungeon like tenement." Charles Abrams, Man's Struggle for Shelter in an Urbanizing World (Cambridge: M.I.T. Press, 1964), p. 164.
An Old Industry

Recent increases in costs of housing may be due partially to improved space and quality, the antiquity of the technology involved, however, must be considered a factor. The theory of progress curves, often referred to as "the learning curve" or cost-quantity curve, predicts rapid reduction in costs of manufactured items as early units are fabricated and experience is gained in techniques of fabrication. With housing technology dating back to the Roman Empire, it is not surprising that recent increases in quantities constructed do not seem to be accompanied, in the aggregate, by significant reductions in unit cost.

12When the word "quality" is applied to housing, it is probably best to restrict the meaning to refer to the current flow of services. This would include location, neighborhood, and style, but, contrary to popular usage, would exclude durability, an element of economic life. William G. Grigsby, "Home Finance and Housing Quality in Aging Neighborhoods," Nevitt, op. cit., p. 109.


14Stone, op. cit., p. 2.
Producers of privately owned housing are likely to operate on a very small scale. This scale of operation has tended to foster labor practices which, although protecting the position of workers in a seasonal trade, have resulted in production inefficiencies, with few firms introducing technological advances into their operations.

Lack of Mechanization

The building industry is an assembly industry, putting together component parts manufactured by other industries. Assembly does not lend itself to use of powered plant as manufacturing does; and hand labor continues to be prominent in building.


16. "There is considerable irony in the fact that the very protective devices which surround the production and marketing of housing inhibit rationalization. As the risk goes down, so does competition, and competition is one of the essential ingredients for successful production and merchandising in America. Piece by piece, the whole setting for housing tends to magnify the inability of private enterprise to merchandise housing in the extraordinary way that the American economy merchandises its soap and soup, aspirin and automobiles." Blucher, Dyckman, *op. cit.*, p. xii.
Materials are handled many times, and the total weight of material handled for even a small job is high. 17

The rising cost of home ownership increased by approximately 28 per cent between 1960 and 1968, contrasting with a corresponding rise of less than 8 per cent in consumer durables. One point of view maintains that such rises have a pronounced depressing effect on consumer's effective demand for housing.

The marked negative price elasticity of demand for housing indicates that technological changes that lower the cost of housing will tend to increase housing consumption appreciably. Consumers respond to reduced prices by buying or renting housing of higher quality. On the other hand, housing improvement tends to be checked by monopolistic practices of labor unions and of sellers of building materials and by building codes that impose unnecessary costs or limit the extent to which technological change reduces the cost of housing. 18

17"It has been estimated that the average traditional house contains nearly 150 tons of materials, some of which has to be handled several times." Stone, op. cit., p. 98.

This increase is no doubt a factor in increased consumer interest in the products of mobile home manufacturers.\textsuperscript{19}

Durability of product implies high cost of production. Although deliberate attempts to design cheap short-life houses have not been outstandingly successful, the typical new single family dwelling in the United States apparently lies somewhat closer to that objective than corresponding European construction. As a comparison of American versus European housing:

The average one-family house . . . is typically of light construction designed to last for a considerably shorter period than is usual in Europe . . . Rather than being regarded as a long-term capital asset, a house is commonly viewed as a consumption article of limited life.\textsuperscript{20}

\textsuperscript{19}"Due largely to the critical need for low-cost housing, some 340,000 mobile homes are expected to be produced in 1969, about 19 per cent more than in 1968 . . . Mobile homes in 1969 will account for nearly 80 per cent of new single-family dwellings valued up to $15,000." "The Outlook," Wall Street Journal, 13 January 1969, p. 1.

\textsuperscript{20}J. B. Cullingworth, "Housing and the State," Nevitt, \textit{op. cit.}, p. 28.
This decline in durability is not universally viewed as a boon, however, and, as pointed out earlier, studies have shown that housing costs have risen over recent years, relative to other manufactured goods and in absolute dollars, in spite of this declining durability. Changes in equipment incorporated into the dwelling unit appear to be a factor in this cost increase. The portion of a structure most often called to mind by the word "house"—that is, the shell—typically accounts for less than half the total cost of a complete dwelling unit. Some 19 per cent of materials and 40 per

21"Low-cost home builders are creating in America today one of the most gigantic slums ever seen on the face of the earth, and in the process are involving millions of Americans in oppressive debt for houses that are lower in quality than they are in cost, and subject to quick deterioration." Robert Tebbel, The Slum Makers (New York: The Dial Press, 1963).

22"As long as the advantages of industrial methods apply only to the shell of the house, as is true of most of present-day prefabrication, there is a limit to potential economies. In a typical case the cost of the house package is less than 40 per cent of the final price paid by the consumer." Richard U. Ratcliff, Real Estate Analysis (New York: McGraw-Hill Company, 1961), pp. 296-297.
cent of labor cost is required in the fabricating the mechanical "core" of a modern, single family house. In the case of the core, as well as the shell, comparisons of material cost, labor cost, and total cost call attention to the high labor cost arising from on-site assembly of components.

Opposition to Change

Writers suggest that innovations in housing and community design, and creation of new financial


24 "... homes of good design are nearly impossible to build in the low-cost range at today's prices for labor and materials... It is certainly remarkable, in the Space Age, that housing is the only major commodity still produced for the most part by hand labor. What if this were the case with automobiles, household appliances, or almost any other large item? If we were forced to pay for hand-made cars or refrigerators, the ice man would still be with us and most of us would be walking to the office." Tebbel, op. cit., pp. 176-177.

25 "Homebuilding is a fragmented industry and almost unbelievably inefficient and overcostly; it uses virtually none of the available tools of automation, standardization, or systems analysis." "A New Kind of Housing Market?" Forbes (October 15, 1969), p. 27.
arrangements must be accompanied by advances in construction technology and laws permitting their use. It is not difficult, however, to visualize the resistance that might be engendered by real advances in construction technology among craft unions, manufacturers, and established builders, as well as owners and lenders with an interest in conventionally constructed housing units. One authority pinpoints as a factor the basic tendency of a mobile, and therefore insecure, people to resist the unconventional.

Nowhere is this more apparent than in shelter. A home is the most costly possession of most Americans and one of their basic symbols of status. The building industry and financial institutions, partly because of these tendencies and partly because of their own conservatism, develop an inertia against innovation.

26"These laws are written by city councils under the political influences in those cities," explains William D. Eberle, president of American Standard and once majority leader of the Idaho legislative assembly. "They're the pressure groups--the trade unions, the people who put lead into cast pipe, the people who put tile on walls, the manufacturers--the political forces of all sides." Ibid.

Such opposition to any meaningful advances has been predicted:

In general, it is important that research come to the aid of innovation. There are always powerful vested interests in things as they are--no matter how bad they may be for the great majority of the people. On the urban scene, where patterns evolve out of the decisions of very many persons and groups, there is no vested interest in the new and the better future. Research with an innovation motive is needed in our cities today to create lively interest in a better future.28

Cost of Used Dwelling Units

If new dwelling units can only be constructed at a cost which puts them out of reach of low-income groups, these groups must then wait for used housing to "filter" down to them. Different concepts of filtering exist, dwellings filtering down, people filtering up, and so forth, but the basic idea is

simply that housing becomes less valued by the market, and thus eventually becomes available for less money because of physical deterioration or obsolescence of style, technology, site (small yards, lack of off-street parking, etc.) or location (shifting employment locations, shifting composition of local population, etc.).\textsuperscript{29} Filtering has not proven to be an adequate supplier of cheap housing, however.

Mobility in the housing market is likely to be greater among households with higher income levels, so the filtering process may be expected to begin when high-income or middle-income groups release their present housing in order to occupy new construction. Theoretically then, vacancy rates should alter prices, and the housing units should pass slowly downward from one income group to another. However, the more mobile, higher-income groups are small, and the supply of houses they vacate is small relative to the need existing below them. The resulting price decrease is therefore small.\textsuperscript{30} Explanations for the

\begin{footnotesize}
\begin{enumerate}
\item Grigsby, \textit{op. cit.}, p. 100.
\item Cullingworth, \textit{op. cit.}, p. 35.
\end{enumerate}
\end{footnotesize}
existence of slums stress factors which increase the supply of poor quality housing (once again—age and obsolescence and encroachment of hostile land uses). These factors imply that slum housing should be especially cheap. In actual practice, slum housing has been found to be expensive in relation to its quality.31

Summary

Housing is the most expensive service that consumers commonly require. No significant progress seems to have been made in lowering this cost, relative to costs of other goods and services; and the supply of used dwelling units does not appear able to provide adequate housing service at a price significantly below costs for new units. A pronounced need exists for a greater supply of cheaper housing.

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URBAN PROBLEMS

In view of the volume of material that has been written concerning the plight of our cities and the unwholesome living conditions often found there, the question could reasonably be asked: Why have people chosen to live in cities? Why do migrants of all economic classes continue to flock to already crowded urban areas? The answer is simply put: "Cities develop primarily because of the jobs they offer."32 The city may be viewed as a society of people, seeking opportunities, so that the industrial establishment appears as a place to work—and the city's location judged good or bad based on convenience to the worker. The city may be viewed, on the other hand, as a society of industries, attempting to serve their own functional requirements. In this case people are still considered of importance, but only as factors of production (labor) or as consumers of the industrial product (the market). The first case views people as subjects and industrial concerns as objects. The second sees industrial enterprises

as subjects and people as objects. In either case, the subject is faced with a pronounced degree of immobility on the part of its object—"and each tries to use the other, i.e., locate the other to his own advantage." Accessibility to job opportunities pulls people to the metropolitan areas. "The unique commodity that the city offers to location seekers is accessibility." The "pull" exerted by big cities is felt by business, industry, and individuals; the process of aggregation continues and there is a constantly rising burden for public services.


34Melvin M. Webber, "The Urban Place and the Nonplace Urban Realm," Ibid., p. 85.

35A discussion of urban ecology, the processes by which man adapts to his urban environment, is found in: F. Stuart Chapin, Jr., *Urban Land Use Planning* (Urbana: University of Illinois Press, 1965), Chapter 1.

36Dykeman, *op. cit.*, p. 45.
Urban Blight

Although inadequate housing is a rural problem also, factors such as concentration of people and neighborhood effects appear to make the blighted urban area particularly destructive of lives of those living there and therefore a self feeding mechanism of economic decline.

Slums are sometimes thought of simply as old houses in a late stage of filtering—a segment of the market exhibiting an equilibrium condition similar to suburban and other markets patronized by higher income groups. It appears, however, that such a view overlooks two important causes of urban blight: (1) neighborhood effects, and (2) private responses to externalities.38

37"There is a peculiar bias in existing programs that focus federal efforts on improving housing for the urban poor. At least half the substandard housing is rural, and no more than a fourth is located in large cities," Ira S. Lowry, "Housing," Cities in Trouble: An Agenda for Urban Research, Anthony H. Pascal, ed. (Santa Monica: The Rand Corporation, 1968), p. 12.

Economic Incentives to Neglect Maintenance

Research has demonstrated that a property owner in an area susceptible to blight has an economic incentive to let his particular property be undermaintained at the same time others are maintaining their property well. This motive cannot be realized, of course, and the result is that all properties involved will be undermaintained. This outcome is even less satisfactory to all owners than the only other realistic outcome, high maintenance for all. This second condition, uniformly high maintenance, cannot be achieved by individualistic behavior, since each individual owner will want to avoid high maintenance; but it is an outcome that all could agree to, if all other property owners would conform.\(^{39}\)

Slums are profitable to produce, but all property owners do not necessarily benefit. Rewards are available to "innovators" and once the decline begins, it pays other property owners to follow, even if against their personal preferences.

\(^{39}\)Rothenberg, op. cit., p. 40.
Homeowners who might be prompted by pride of ownership or other personal factors to keep maintenance at a high level are likely to have low incomes. Depreciation of their old houses often calls for major repairs, and loans of that magnitude are usually not available through conventional channels. When money is available, it is likely to require a high interest rate, and is more likely to be available to enterprising absentee owners seeking quick returns. 40

Other factors contribute to low expenditures for maintenance. Rules governing liability for federal income and capital gains taxes play an important part, as do local property taxes. Owners may hesitate to improve a property, not only because of

higher taxes reflecting the value of the property, but because improvements often call the assessor's attention to the fact that the property was undervalued for tax purposes all along.  

Federal income tax depreciation schedules encourage turnover of slum properties, as an owner takes advantage of large deductions for 10 to 12 years, and then sells the property (paying capital gains rates on book profit) to a new owner who runs the depreciation process all over on his investment. Meanwhile "... the former owner uses the sales proceeds to buy another property and start the depreciation process there. This, too, makes for minimum upkeep outlays rather than substantial efforts to upgrade the property for long-haul holding."  

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41 "Slum properties in many cities are assessed at a low figure in relation to their actual earnings; the assessment may be based on the shoddy appearance of the buildings or the deteriorating neighborhood, rather than on the income reduced. The tax man may decide to raise the assessed value of the original property at the same time he adds on the value of the improvement." Alan L. Otten, "Upside-Down Taxes," Wall Street Journal, April 9, 1969, p. 20.

42 Ibid.
Owners, in cases where they are faced with maintenance requirement on older structures, instead of raising rents, may choose to make up higher cost of accelerated physical depreciation by not maintaining the property up to legal standards. A neighborhood can slide downhill easily, but be impossible to raise back up by ordinary market forces.

Conversion to slum use often increases revenues without increasing costs and may even actually decrease costs. It is not at all unusual for property to be run down profitably to a state where the cost of bringing the structure up to the legally required minimum level exceeds the value of the property.\textsuperscript{43}

\textbf{Municipal Regulation}

Inadequate enforcement of municipal regulations regarding overcrowding, sanitation, and health is an integral part of slum-creation. Red tape hampers enforcement of these codes in many communities. In

\textsuperscript{43}Rothenberg, \textit{op. cit.}
one city, there are 13 kinds of water complaints and each complaint must go to the proper department, of four possible choices. Rusty water complaints go to the Building Department, while complaints concerning contaminated (but not rusty) water go to the Health Department. Similarly, a report of a rat crawling over the floor must go to the Building Department; however, if a rat is seen actually biting a child, this must be reported to the Health Department. It is not surprising that poorly educated, discouraged inhabitants are no match for clever landlords when the machinery of local government is uncooperative to this extent. It could also be argued that traditional public regulation of urban patterns, even when enforced, is inadequate for the task. Emphasis, traditionally, has been on the physical city, since the visual qualities of the city are so apparent to the city's users, and have been stressed by architecturally oriented metropolitan planners. Coupled with a demonstrated tendency on the part of public governing bodies to attempt to avoid
controversial decisions, and to shift responsibility elsewhere, this orientation creates a less than optimum setting for urban planning. Traditional approaches to zoning have proven to be inadequate substitutes for municipal planning.45

44 As a consequence . . . large numbers of urgently needed decisions are put off indefinitely. Major highway decisions in almost every metropolitan area may take as long as ten years to resolve, where local groups come into conflict with local, county, or state highway officials in controversies about the alignment of such facilities. The acquisition of sites for future schools and parks is frequently deferred until it is too late to buy such sites at reasonable prices." Melvin M. Webber, "The Urban Place and the Nonplace Urban Realm," Explorations Into Urban Structure (Philadelphia: University of Pennsylvania Press, 1964), p. 177.

45 Daniel R. Mandelker, Controlling Planned Residential Developments (Chicago: American Society of Planning Officials, 1966), p. 3-5. See also: William I. Goodman and Jerome L. Kaufman, City Planning in the Sixties (Urbana: Bureau of Community Planning, University of Illinois, 1965), p. 34. On community planning: "Concern for the public environment has been weak, with the result that communities have shunned planning until very recently in our history. The reluctance to plan stemmed, in part, from the American's vague feeling, reinforced by individualism that the workings of a laissez-faire economic system would provide everything needed for the good life and that things would work out all right in the end. Most economists who support the market economy have long realized, of course, that while it performs admirably as a regulator of production and distribution, it cannot design communities. But many of us have half believed that it can." Edmund K. Faltermayer, Redoing America (New York, Evanston, and London: Harper and Row, 1968), pp. 15-16.
Traditional Housing Preferences

From the new stone age on, farmers have tended to cluster together in villages. In Europe, for example, farmers built their dwellings close together and journeyed to their fields to work each day. This pattern was broken when the North American continent was settled. The American farmer has always preferred to live in isolation. Not only rural life, but "rural-urban relationships" as well have differed considerably from patterns prevailing elsewhere. Probably the most significant difference between urban life in continental Europe and in the United States is "the phenomenon of the one-family home," which appears to exist for personal reasons in addition to simple availability of space. These facts suggest that the post-World War II expansion of residential suburbs in urban areas might have been predicted on the basis of a national

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characteristic, and was less dependent on government policy—FHA and VA financing—than usually conceded.

The suburb is the product of long-established American activities and aspirations, the continuation of traditional values, and the logical progression of American history—the most natural, expected, predictable occurrence which can be imagined.47

Alternatives

The urban problems mentioned here will certainly become more serious with the passage of time. This condition is becoming more widely recognized.

At the end of this century—in less than 40 years—urban population will double, city land will double, and we will have to build in our cities as much as all that we have built since the first colonist arrived on these shores. It is as if we had to rebuild the entire urban United States.48


There is recognition not only of present urban problems but of the spectre of possible future compounded problems, resulting from added urban growth before present inadequacies in housing and public facilities are corrected. The "solutions" for these problems popular at any one time seem to be as much result of fashion and fad, as research.

The fashionably influential ideas of desirable urban form and structure have shifted from one extreme of romantic rebellion to another within the past few years: from the Garden City idolum; reacting against the horrors of the nineteenth-century Big City, to the opposite world of ACTION, 'Saving the central city' by glorifying its virtues and scorn ing or ignoring all the forces that favor some form of decentralization.49

49C. B. Wurster, writing in Explorations Into Urban Structure, op. cit., p. 13. A review of government programs in this area is contained in Chapter 2 of this paper. For two interesting views of decentralization, one imaginative and the other more prosaic but yet favorable, the following are recommended: Frank Lloyd Wright, The Living City (New York: Horizon Press, 1958), New Towns: A New Dimension of Urbanism (Chicago: The International City Managers' Association, 1966).
Summary

Cities offer the best employment opportunities in our economy, and therefore continue to attract more and more inhabitants. Low income groups often find housing to be available only in slums—areas which are not just collections of old, cheap houses—but which are areas locked in a vicious circle of deterioration caused by market effects and faulty government regulation. Problems of particular groups, that serve to degrade further the quality of housing available to them, are considered in the section that follows.

PARTICULAR PROBLEMS OF MINORITY GROUPS

Some discussion of urban blight has been given. It may be of value to answer the question: "Who has, historically, occupied slums?" Although there are certainly, at the present time, second- and third-generation slum dwellers, the long run tendency has been for slums to be occupied by poor, recent migrants to the city, uninformed about housing alternatives and too
poor to seek such information. They have tended to be self-conscious about their differences and therefore anxious to live close to their own groups. Such people have been largely ignorant of their civil rights, rights as tenants, and of housing codes. Such groups would naturally have poor "economic leverage" on landowning groups. The additional effects of race, which has effectively closed large areas of the city to Negro occupants, even if able to pay, has compounded the problem for these groups. A strong, uninformed, highly inelastic demand has been created for low quality housing in congested areas—a demand landlords could profitably meet through overcrowding.

**Movement of Negroes To and Within Cities**

For the greater part of the three hundred years that Negroes have constituted a significant part of our population, most have lived in the country. As recently as 1900, 80 per cent of all American Negroes lived in rural areas, mostly in the South. However,

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50 Rothenberg, *op. cit.*, pp. 45-46.
by 1950, 63 per cent lived in cities; and, of Northern Negroes, 90 per cent, by that time, had moved to the cities in search of jobs.

This urbanization has been complicated by concentration of Negroes in the central city and migration of young white families to the suburbs. This selective migration has produced cities black at the core and white at the edges.

The pattern is the same everywhere. Centers of our great cities are filled to overflowing with Negro residents. Ranged around each core--like petals on a daisy--are suburban communities, built white and kept white by an intricate and devious interplay of governmental and private practices and policies.51

Economic Forces

Economic factors played a part in this selective suburban migration. At the end of World War II there

was a great shortage of housing and little land left for home building in the central cities. Farmland outside of urban centers was converted, by private enterprise, into housing, built for sale and not for rent. Federal mortgage guarantee programs were shaped to benefit young families. These factors worked together to exclude Negroes from the new suburbs—since most Negroes simply did not have money or projected future incomes sufficient to buy homes. The limited amount of public housing that was built was within the urban core, and was more often than not taken up by Negroes. To these economic factors that encouraged segregated housing patterns was added racial discrimination, as described below.

**Government Encouragement of Discrimination**

Prior to 1948 the Federal Housing Administration encouraged segregation in the construction and occupation of new residential housing. The FHA favored racially homogeneous neighborhoods, discouraged lending on houses in mixed neighborhoods, and even provided a model racial covenant which is
recommended for inclusion in property deeds. Due to Supreme Court action, federal policies have changed since 1948, but a pattern of discrimination was encouraged prior to that time—a pattern which most white people had long before looked upon as the norm.

Motives for Encouraging Segregated Housing Patterns

Lenders

It has long been believed that mixed neighborhoods soon become colored neighborhoods, and that colored neighborhoods lead inevitably to lower property values. Although recent studies have indicated that this is not always true, it is a fact that urban blight and Negro dominance of neighborhoods have been associated with each other in the past—whatever the cause/effect relationship. Lending institutions are understandably anxious to protect the value of real estate on which they loan money. As a result, bankers, savings and loan

associations, and insurance companies have used their power to approve or deny loans to support racial discrimination in the real property market. Even in the absence of any commitment to keep a neighborhood segregated, when evaluating individual loan applications, lenders have tended to look with disfavor on loans to Negroes and "... tend to classify Negroes as a 'group risk' rather than on individual merits which, in many cases, are exceedingly high."53

Real Estate Brokers and Speculators

Assuming the existence of a marked reluctance on the part of a white owner to sell his house in a segregated neighborhood to a non-white buyer, there have been powerful incentives for the real estate industry to tacitly agree to discriminate in attempts to sell residential property. Until recently, the real estate broker encouraged the notion that he was a neutral party who used his professional skill to bring buyer and seller together. This trend has been reversed in recent years with the increase in public law outlawing discrimination in public

business. Brokers as a group are fearful that white sellers will not list their property with brokers if a seller is likely to have to pay a broker's commission for the opportunity not to sell his property, but simply to refuse to sell his property, in the event that the broker presents a willing Negro buyer.

Usually the buyer's first offer is not in the precise amount and on the exact terms requested by the owner in his listing. He can therefore reject it without risking the possibility of owing a commission to the broker who has brought the buyer. But... the seller cannot escape liability to the broker if the offer matches the demand exactly (unless, of course, the buyer's cash or credit is in fact not adequate to support the offer). This is a powerful inducement to the seller to accept the buyer's offer. If non-white brokers had access to listings, offers by Negro buyers on listed terms might be quite common. The broker's commission would then become the price the owner would have to pay to practice discrimination. Fear of this undoubtedly explains why non-white brokers have had little success in obtaining membership in multiple listing associations.

Today, few non-white brokers are members of any of the multiple listing services, but this cannot long continue. Multiple listing is the major marketing practice in sales of used residential housing, and hence multiple-listing associations are
subject to anti-trust laws which will inevitably require that membership be opened to non-white brokers. 54

It is not surprising then, as careful surveys have proven, that white brokers are usually reluctant to do business with most non-white people, and with Negroes in particular, except for the unscrupulous who deal in "block-busting." This condition demonstrates the accuracy of the saying: "The dollar in a dark hand does not have the same purchasing power as a dollar in a white hand." 55

Probably the great majority of individuals who make their living in the real estate field are either usually ethical in their conduct, or at least do not habitually rely on exploitation of their neighbor as a means of making money. However, segregated housing conditions, as they exist, have often created a climate in which the "smart" operator could reap big profits.


at the expense of both white property owners and non-white buyers. For example, suppose that a community contains Area C for colored (or crowded) people and Area W for white people. No one in Area W wants to be the first to sell his house to a Negro buyer because he knows his former neighbors would look upon him as a traitor who not only forced them to live next to colored people, but who profited at their expense—since they would be sure that initial Negro movement into their area would be followed by panic selling, a rapid influx of Negroes into the neighborhood, and drastic decline of property values.

Across the boundary, in Area C, Negro fathers are attempting to stretch lower than average incomes to cover higher than average housing costs. Discrimination keeps Negro families bottled up in their "own" neighborhoods, where landlords (white or black) can charge high prices simply because there is no place else to go. This "rigged" market is ripe for the speculative buyer who can "break a block," induce panic selling (to the speculator or his cohorts) and then charge too-high purchase prices and take in usurious financing charges from desperate Negro buyers.
By adroitly holding back the Negro market, and permitting its housing needs to be satisfied only on a 'waiting line' basis, reputable bankers and members of the building and real estate industries have contributed to the conditions under which their not-so-scrupulous colleagues can flourish.⁵⁶

Buying cheap from panic-stricken white sellers and selling high to space-starved Negroes is not the only method of exploiting the racial imperfections of the housing market. Negroes, being often uneducated and inarticulate, can easily lose their way—as can an educated, articulate white person—when trying to interest local government in the inadequacies of their rental quarters which violate local codes governing health and safety. In one instance, an organization of alert, educated Chicago residents vigorously and relentlessly petitioned municipal enforcement agencies concerning the repeated code violations of one slum landlord. At the end of a running battle which took one full year, and involved repeated court appearances by protesting committee members, the slum landlord had collected $13,000 in rents on the property over the year-long period, paid

⁵⁶Grier, op. cit., p. 35.
$65 in fines for 13 violations of city codes and had not corrected any of the unlawful conditions.\textsuperscript{57}

Even proposed urban renewal projects can open new vistas of opportunity for the exploiter. In Chicago, for example:

Experience had shown speculators that slum operations were especially profitable in renewal areas where they could overcrowd, raise rents, and spend nothing on maintenance for the two or three year interim between the designation of the area for renewal and the actual purchase of the property by the city. Then they could expect to get inflated prices based on the blown-up profit and loss statements they could present.\textsuperscript{58}

Residents

The motives of white residents faced with new Negro neighbors undoubtedly vary from individual to individual. Attempts to integrate neighborhoods can bring about reactions ranging from friendly cooperation,

\begin{itemize}
  \item \textsuperscript{57}Philip M. Stern and George de Vincent, \textit{The Shame of A Nation} (New York: Ivan Obolensky, Incorporated, 1965), p. 103.
\end{itemize}
through studied indifference, to hostile, violent opposition. One writer, however, suggests that economic motives have been the cause of such expressions of hostility.

It must be noted, however, that violence would not have occurred if the initial Negro entrant had been viewed as an individual home seeker rather than as the precursor of an invasion. 59

It has been suggested that what sometimes is viewed as race prejudice is in reality class prejudice. 60 Although this may be true, as long as color is the criterion of judgment—for whatever underlying reason—barriers will continue to exist. The fact that some studies have indicated that integration is not always accompanied by decline in

59Grier, op. cit., p. 38.

60"Much of what passes for 'race prejudice' today may be nothing more than class prejudice with race used as a rough indicator of approximate social class." James Wilson, "The Urban Unease: Community Vs. City," Public Interest (Summer, 1968), p. 31.
property value does not change the widespread feeling among white property owners, that it will—or alter the distinct fact that it may; and does nothing to remove what seems to be a common human fear: being surrounded by people who are "different."

Summary

Segregation has contributed to the existence of a situation where certain groups have been confined to extremely low quality housing. An important factor in segregation, as mentioned in the historical background of home building after World War II, is economic—the low income of Negro families in general. Although a limited number of Negroes have attained income levels that would permit them to buy very good housing in a free market, the majority could not, even with complete lack of racial discrimination, afford to buy good quality middle class housing and


continuation of the barriers discussed above will continue the existence of a captive market for substandard housing.

FACTORS MAKING TRANSFER AND FINANCING OF REAL ESTATE A UNIQUE PROBLEM

High Cost

It has been pointed out that the high capital cost of new houses, in terms of wages, necessitates long-term credit and annual costs likely to be undesirably high for average-income families, and prohibitive for low-income households. The durability of housing, small scale production, and emphasis on hand labor all receive a share of the blame for this high cost. But there are factors not associated with creation of form utility which should not be ignored.

Inefficiencies in Transfer

Although attempts were made to adapt land transfer practices derived from English law to a more

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63 Cullingworth, op. cit., p. 29.
fluid American society, the bulk and complexity of public records and difficulty in determination of claims to rights in real property make transfer of real property a complex process. Laborious title investigation is necessary each time a property is sold, which requires careful checking of a chain of transactions which may extend backward fifty or sixty years. The possible existence of easements, dower rights, unpaid liens or taxes, unexpired leases, or unfavorable zoning rules must be investigated. Transfer of property is slow, cumbersome, and is never completely free from an element of risk.64

While this system has provided a living for a legion of attorneys, abstractors, and title insurers, it is less satisfactory to the sellers

64"... the ancient methods generally continue in force; and the risk, the cost, and the loss of time imposed by them exert a special influence on the financing of real property. Real estate financing becomes a process requiring special knowledge and judgment and it is kept apart from the general stream of capital operations... it is also kept at a frequent disadvantage with other funds." Miles J. Colean, The Impact of Government on Real Estate Finance in the United States (New York: National Bureau of Economic Research, 1950), p. 5.
and buyers of real estate. It has been estimated that the cost of such services as appraisal, survey, title search, title insurance, legal counsel, recording and filing, notary, and so forth, will average from 2 to 3 per cent of the price of a typical residential property and, proportionately, the cost is heaviest on small transactions.\textsuperscript{65}

A promising approach to reduce the legal tangle of real property transfer—the Torrens System—is similar to methods used in Central Europe, Australia, New Zealand, and Canada. Unfortunately, this system, although used in several places in the United States, "... seems to be losing out rather than gaining in importance.\textsuperscript{66}

\textbf{Construction Loans}

The original conception of a mortgage is of a lien on an existing property. The use made by the borrower—purchase or personal convenience—does not

\textsuperscript{65}Ibid., p. 4.

affect the legal concepts involved. This concept of a mortgage ignores the need for credit for land development, and for construction of improvements. In this instance there is little presently in existence, of value, on which to base the loan. The probability of completion on schedule, of value when completed, and even of the ability of the eventual owner to carry the loan can only be estimated. In spite of these facts, the mortgage loan is the principal device used to secure construction funds. The property, not as it is, but more or less as it is to be, provides the security for the loan.

Traditionally, property owners arranged the financing and made progress payments to the builder. The builder could then operate with very little capital, since he had only to carry himself from progress payment to progress payment. Since this custom has allowed builders to operate with little or no capital, it has encouraged the development of an industry characterized by lack of internal financing ability.

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67 Ibid., p. 48.
Such arrangements have continued to prevail, in spite of the increasing importance of the merchant builder, who constructs houses based upon the expectation of future sales. The merchant builder is best characterized as a manufacturer, producing for the market, rather than as a builder working for purchasers already contracted for. Mortgage financing for the manufacturing operation is often cumbersome and expensive. Land to be built on may, for example, be covered with a blanket mortgage which is subject to release clauses. The lender may release the land a portion at a time under a new mortgage contract, to provide money required for construction. The buyer of a completed house requires yet a third financial transaction to secure mortgage money. An alternate method is to arrange separate, individual mortgages on each unbuilt house. The lender then makes advances to the builder as work progresses. These mortgages are then assigned to house buyers, or others arranged, when the finished units are sold. Lenders typically are reluctant to extend money, in either case, for more than a few units at a time.
Whatever the method used, the finished product is a paramount consideration in the transaction. The situation is much as if, in automobile manufacture, each car, or group of cars, either had to be sold to individual purchasers or had purchaser-financing provided for before the first item had been placed on the assembly line. Such a fusion of producer and consumer credit would be an impossibility in the mass production industries. It is undoubtedly one of the influences retarding the industrialization of housebuilding.68

Dependence on Public Policy

Residential investment, particularly in rental housing, has for some time been dependent on government policies. It would appear that federal action to standardize and streamline mortgage financing and provide guarantee programs could accomplish a great deal in the task of stimulating a larger flow of money into the mortgage market. Writers in the area have suggested a requirement for new financial instruments and a mortgage fund clearing house, perhaps a central mortgage bank created for the purpose.

68ibid., p. 50.
Summary

It is apparent that cumbersome transfer and financing practices not only increase cost in themselves, but act to retard the rationalization of form utility creation.

CHAPTER SUMMARY

Chapter I has briefly described the need that exists for an increased supply of decent housing available to low-income households, and has attempted to furnish an overall view of the principal factors that have operated to prevent the creation and availability of better housing. The housing problem, a lack of availability to both low- and moderate-income groups, is widespread. The following chapter briefly describes attempts on the part of government to improve the situation.
As a consequence (of the extreme durability and high capital cost of housing) government action is commonly required to ensure an adequate supply of housing, to maintain socially acceptable standards, and to provide financial assistance to families unable to pay market price... If the state imposes standards which involve costs greater than can be borne by lower income groups it forces upon itself the further responsibility for ensuring that these costs are met in some other way.

J. B. Cullingworth, University of Glasgow, 1967

CHAPTER II

GOVERNMENT APPROACHES TO HOUSING PROBLEMS

Among the material commodities that should be made available to households in adequate amounts through reasonable allocation and efficient combination of economic resources, housing appears to have a special place in man's thinking, as evidenced in the statement by Disraeli that prefaced this study. Is housing
considered to be more important than other needs? More important than other basic needs? In our country, food is abundant in a macro sense. Distribution problems remain—but food commodities are available or can be produced—if society can bring itself to act to put them within reach of the poor. Clothing, the other basic need, is relatively cheap in our society.\(^1\) Of the basic needs, only housing remains prohibitively priced in our society.

Is provision of better housing for poor households simply one means to attempt to eliminate poverty? If so, is it a particularly effective way to fight poverty? Writers may take exception.\(^2\) The key to the importance of housing lies in the facts that (1) ill effects of poor housing affect basic needs, and (2) ill effects derive not just from the low quality of a single dwelling, but from the heavy clustering of

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\(^2\)"What special leverage is there in attacking poverty through housing? It is not at all clear." Rothenberg, *op. cit.*, p. 66.
a poor population in poor housing—a concentration that creates danger from fire, accident, and violence; crime; and personality difficulties.

Concern by government for housing standards is not new. Widespread attention to codes governing sanitation, for example, was evident in the 19th century. Other standards receive emphasis at the present time. All such legislated improvements increase the capital cost of housing. Imposition of government standards for housing suggests an obligation on the part of government to increase the availability of housing, as indicated by the statement that introduced this chapter.

If the state imposes standards which involve costs greater than can be borne by lower-income groups, it forces upon itself the further responsibility for ensuring that these costs are met in some other way.³

Better housing for lower income households is an urgent need. And, the size of housing costs compared to other expenditures made by middle income groups

³Cullingworth, op. cit., p. 30
suggests that development of meaningful economies in housing could significantly improve the material welfare here too, and therefore of a majority of the households in our society. Chiefly through concern for housing as a special need, government concern with housing has increased in recent years.

APPROACHES IN OTHER COUNTRIES

England

Review of Wendt's study of government housing in the United Kingdom reveals that concern with housing in that country is not new. A recognized housing problem similar to some troubling our cities today existed during the Elizabethan period, as evidenced by concern of Queen Elizabeth I in 1593: "Great mischiefs daily grow and increase by reason of pestering the houses with divers families, harbouring of inmates, and

4It should be noted here that the summarized background information given in this section concerning public housing policies in Western Europe is based for the most part on Paul F. Wendt, Housing Policy - The Search for Solutions (Berkeley and Los Angeles: University of California Press, 1963), pp. 13-144.
converting great houses into several tenements, and the erection of new buildings in London and Westminster.  

In the first four decades of the 19th century there was a pronounced movement of population from country to city and housebuilding in English cities expanded greatly. The next sixty years, which saw the Industrial Revolution sweep Great Britain, also saw rapidly worsening housing conditions in the cities. Public concern mounted and the following laws were passed to attempt to improve living conditions in these areas.

The Shaftesbury Act of 1851--to encourage local authorities to provide working class housing.

The Torrens Act of 1868--concerned with improvement and demolition of unfit houses.

The Cross Act of 1875--provision of new housing by local authorities.

These laws made it possible for local sanitary authorities to deal with slum conditions, but did not

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provide financial means to do so. It was not until after World War I, in fact, that the central government first took an aggressive stance toward housing problems. Drastic postwar housing shortages led to passage of the Housing and Town Planning Act of 1919, which marked the beginning of an assumption of responsibility, by local government units, to provide working-class housing. Wartime rent controls were extended and the national government, until 1922, attempted to make up differences between economic costs and rents. This act was repealed because it was found to encourage local communities to build large housing projects which carried low rents but required large subsidies from the federal government.

Local authorities were re-established in the housing field in 1924, however, and their powers and responsibilities have been enlarged consistently from that time until the present.

After World War II a severe housing shortage due to wartime destruction and inability to build during the war was complicated by a high postwar rate of family
formation. The central government assumed a large share of the responsibility for increasing the supply of housing. Reliance was placed on publicly owned rental housing managed by local housing authorities, low-interest-rate loans to local authorities, and control of rents and sales prices of houses. During this period, the proportion of income spent for rent by the average working class family declined, from an estimated 12 per cent before the war, to 8--9 per cent by 1950.

The labor government particularly tended to control housing—licenses to build, rent controls, planning of new towns, development charges—rather completely, with a marked degree of overlap and conflict in jurisdiction among government departments. The problem of building an adequate number of housing units was complicated further by a three hundred per cent price increase in housing construction costs between 1939 and 1947. Although general inflation was a contributor to this condition, important contributors included declines in worker productivity, dislocations in materials and supplies, organizational ineffectiveness,
technical backwardness, and monopolistic practices. A British study group found, for example, that the typical American construction worker worked no harder than the British builder, but produced 50 per cent more in an hour's time.

The conservative government, beginning in 1951, attempted to shift more of the burden of supplying housing to public enterprise, including building of housing for owner occupancy. Annual housing production approximately doubled thereafter, partially due to eased material and man power shortages, but partially due also to encouragement of privately owned housing which resulted in a consistent rise in private housing production after the conservatives came to power.

The volume of production never reached the level of postwar years. "Maintenance of rents below the level of current costs and the centralization of responsibility for initiating housing programs in the local authorities resulted in a substantial drag upon the revival of the private house building industry." 6

6Wendt, *op. cit.*, p. 52.
Sweden

A trend toward government domination of the housing market began in Sweden in World War I. Since World War II, housing subsidies originally initiated for low-income and other special groups have been extended to cover almost the entire housing market. The central government has "... gradually assumed control over the planning, financing, and construction of Swedish housing." The national government, along with local governments, has developed an elaborate system of subsidies: income, mortgage financing, and building. It has encouraged the development of cooperative and other nonprofit institutions specializing in residential investment and construction.

The Rent Control Act of 1942, intended as a one-year emergency measure, has been extended year to year and is still in effect. Mobility within the present housing inventory is low. Occupancy rates are

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7The discussion of development of Swedish housing policies is based on the comprehensive treatment by Wendt, Ibid., pp. 62-110.
high, and a landlord cannot remove a tenant without first finding him another apartment at approximately the same location and price—and securing permission of a rent court.

Building costs in Sweden have risen steadily over the last twenty five years; subsidies to builders, intended to keep rents down, have not risen proportionately. As a consequence, rents have risen consistently also. Analysis of limited information by Wendt showed an annual increase in the neighborhood of 5 per cent computed on a square foot basis. Swedish rent control policy favors households who had space in rental housing in 1942, or who "inherit" tenancy rights in such buildings from relatives. Others must pay higher rents in newer units with a waiting period, or pay even higher rent in a privately financed unit. A subletting black market of uncertain extent appears to exist, although denied by authorities. Control of rents by rent courts has proven to be exercised in such a way that private landlords, with no financial incentive to improve property, are often "completely indifferent" to needs of tenants.
Financing of new building is normally handled by an assortment of official, semiofficial, cooperative and private lending institutions. The Royal Housing Board has been able to control dwelling characteristics, rents, and interest rates by private lenders on dwellings through its control of the third mortgage loans it grants on these dwellings. Preference is given to city governments and nonprofit builders.

The single-family housebuilding industry is greatly retarded due to emphasis of apartment building, and the dominance of public authorities and nonprofit societies.\(^8\)

**West Germany**

Although ventures into public support for low-income housing occurred in Germany as early as the late 1800's, it was government assistance to housing between the world wars and government regulation due to the post World War II housing emergency that established the present pattern of government policies.

\(^{8}\text{Ibid.}\)
in West Germany, policies which are markedly different from those of England and the Scandinavian countries. The basic ingredients of West Germany's housing policy since World War II have been (1) tax and loan subsidies to encourage private investment in social housing (housing for lower income groups), (2) encouragement of owner-occupied housing construction through tax and loan subsidies, and (3) gradual elimination of government control over housing and rent.9

Typical sources of financing of housing in West Germany would often be as follows:

First Mortgage--private financial institution

Second Mortgage--commercial bank, employer, other private source

Some Capital--personal capital

Remainder--public funds from the federal government

Other interesting characteristics and results of West German public policy:

Government grants to aid in construction of housing for bombed-out households and refugees were financed by special taxes paid by those whose property was not damaged.

9Ibid., pp. 121-144.
- Half of the federal loan funds in West Germany were reserved for financing of owner occupied homes.

- Even in social-housing (housing for low-income households) there has been emphasis on the promotion of home ownership through construction of low priced owner-occupied houses.

- West Germany has shown the most rapid recovery in housing investment of any European nation, resulting in a pronounced drop in density of housing occupancy since 1950, in spite of a rapid population growth.\(^\text{10}\)

A primary objective of government policy has been to keep interest charges on housing finance money low. Credit institutions have been forced to channel a set percentage of their funds to housing construction at a maximum 6 per cent interest rate. To encourage flow of investment into housing, interest on bonds issued by mortgage banks was declared to be tax free if 90 per cent of the lending capacity provided was used under the social-housing program. Government tax concessions have been an important factor in an expansion of mortgage funds made available through private financial institutions.

\(^\text{10}\)Ibid.
In summary, West Germany has relied primarily on the encouragement of private investment in housing through the granting of low interest loans and tax incentives, and has been more successful than either Sweden, the United States, or the United Kingdom in controlling inflationary pressures during the postwar period.11

Summary

A highly visible housing problem appears to exist in all developed, urbanized nations. The most highly developed, large nations of Western Europe have evolved government policies to deal with this problem, the more successful being those of West Germany, which have emphasized the encouragement of private investment in privately managed construction activities.

11Ibid., p. 144.
GOVERNMENT POLICIES IN THE UNITED STATES

Beginnings

Federal housing policies in the United States have often been responsive to critical situations, not always directly related to housing, that existed at the time. The National Housing Act of 1934, for example, was promoted as a device to promote home ownership. As a matter of fact it was intended to stimulate a depressed economy through stimulation of the residential construction industry. Similar rationalization was applied to the United States Housing Act of 1937. The housing legislation of the depression period was ostensibly directed toward removing slums and improving housing conditions, particularly of low-income groups; but no real attempt was made to develop a cohesive policy for the nation. This was depression inspired legislation. Without the depression it would not have been passed. 12

United States housing legislation can be grouped by time period for introductory purposes, and then related, where necessary, to the specific areas of housing the legislation attempted to improve.

**Before 1930**

Prior to World War I, government concern with housing was almost entirely limited to city or state tenement house codes, and was often based on the New York Tenement House Law, passed in 1867 and amended in 1901. During the war year 1917, construction was curtailed and housing shortages developed in areas that were affected by labor needs for war production. State rent control legislation resulted.

In 1918 Congress authorized direct loans for construction of housing for ship builders and their households. The United States Housing Corporation, in the Department of Labor, built and operated single family and project housing. This housing was sold to private owners following the war.
A 1920 Senate committee reported that private business initiative was superior to direct government intervention as a means of solving the housing shortage. It also made recommendations directed toward improving the availability of mortgage funds. These recommendations appeared to influence federal housing legislation passed in later years.

During this period after World War I, bills were introduced into Congress, but not passed, to establish a central mortgage bank. (Years later, however, the Federal Land Bank System was to establish precedent by using federal funds directly to aid privately owned mortgage lending institutions.)

Depression Policies

Much of the government policy of the depression era had its origin in recommendations of the President Hoover's Conference on Home Building and Home Ownership in 1930. Recommendations which had pronounced later effect were:

(1) Replacement of the short-term mortgage by the long-term amortized mortgage.

(2) Provisions for lower interest costs.
(3) Government aid to solve housing problems of low-income households in blighted areas.

(4) Cost reduction in housebuilding by encouraging large scale production.

The housing boom of the 1920's collapsed at the end of the decade, and the federal government moved into the housing field as an ideal area in which to attack the economy's unemployment problem.

The Federal Home Loan Bank System, developed from recommendations of the 1931 commission, was established in 1932. As the depression-fed foreclosure trend worsened, the Home Owners' Loan Corporation, the Federal Farm Mortgage Corporation, and the Reconstruction Finance Corporation Mortgage Company were created in 1933 and 1934 to combat the rush of foreclosures. The National Housing Act of 1934 set up the Federal Housing Administration to stimulate new mortgage lending.

The uncertain effect of permissive programs designed to stimulate economic activity was demonstrated when the Public Works Administration attempted to stimulate construction by offering to grant 35 year, 4 per cent loans for 85 per cent of value to limited dividend corporations. In one year's time, only seven
projects were started. The permissive approach was abandoned, and the PWA began an active building program where it bought land and kept title to the property. In three and one half years--1934 to 1937--forty-nine developments had been started.

Housebuilding as a depression cure was the primary objective. The United States Housing Authority—under the authority of the United States Housing Act of 1937—later acquired the functions of the Housing Division of the PWA. Construction and ownership of public housing properties were placed under the jurisdiction of local housing authorities.

The depression-born structure of laws has been the basis of federal activity since.

The present structure of Federal agencies and policies in the housing field was virtually complete by 1937. World War II and its postwar period were to witness a broadening of the Federal government's powers and an extension of its activities within this basic framework established during the depression years.¹³

¹³Wendt, op. cit., p. 151.
Wartime and Postwar Periods

Three principal developments occurred during the World War II emergency: (1) Federal housing agencies were brought together under the Federal Housing Agency, (2) the federal government constructed war housing on a large scale, and (3) national rent controls were established.

A substantial housing shortage existed by the end of the war. Official predictions, at that time, of a more severe shortage expected to develop with demobilization failed, however, to foresee the full magnitude of the shortage that ensued. In response to the housing emergency which developed, a government-sponsored Veterans Emergency Housing Program was established, which was intended to rely extensively on (1) government-sponsored expansion of materials production, (2) federally assisted expansion of prefabrication, (3) federal funds for conversion of war housing, (4) continuation of rent controls, (5) control over nonessential construction, and (6) FHA mortgage insurance of home mortgages on a large scale.
Housing production failed to expand sufficiently under this program and the National Housing Agency was reorganized in 1947 as the Housing and Home Finance Agency. In 1949, President Truman emphasized the encouragement of private enterprise to fill as much of the need as possible. This appears to have fallen more in line with a trend toward the encouragement of homeownership through improving the availability of long-term mortgage funds at low interest rates which "... has been the foundation of United States housing policy since the 1920's."14 The objectives of this policy, which emphasized availability of funds for home mortgages, can be summarized as follows:

(1) Stability in the flow of residential mortgage funds.

(2) Longer loan terms.

14 Ibid., p. 171.
(3) Higher loan-value ratios.

(4) Lower interest rates.

Four agencies implemented government loan programs directed toward these objectives.

(1) The Federal Home Loan Bank System (FHLB) established in 1932 to provide a source of reserve credit for institutions (principally savings and loan associations) investing in residential mortgages.

(2) The Federal Housing Administration (FHA) established in 1934 to ensure residential loans made by private lenders.

(3) The Veteran's Administration (VA), set up by the Serviceman's Readjustment Act of 1944 to guarantee private lender housing loans to veterans of World War II.


A survey of Wendt of the studies of effects of these government housing policies in effect after the war lead to the conclusion that while a minor rise in
construction costs and prices may have resulted, the principal effect was a pronounced stimulation of housing production.\(^15\)

**Government Policies Regarding Manufacturing**

A popular expectation developed toward the close of World War II that the post war era would launch a new age of machine-produced houses.\(^16\) A severe housing shortage existed and the federal government did indicate an intention to promote the production of prefabricated units. Unfortunately, this effort became involved with the rigid controls over housing materials exercised by President Truman's housing expeditor; and was abandoned in 1947, when Expeditor Wilson Wyatt lost a bitter bureaucratic battle with George Allen, Mr. Truman's poker playing friend and head of the Reconstruction Finance Corporation,\(^17\) before the potential of the program could be determined on objective grounds.

\(^{15}\)Ibid., pp. 187-190. Also Winnick, op. cit., pp. 238-239.

\(^{16}\)Winnick, op. cit., p. 265.

Although housing construction as practiced in our economy is for the most part a small, local type of business similar to agriculture—an industry that has received substantial aid through government research—the government has given little support to basic technical research to improve the housing industry. The Department of Commerce made a small beginning in this area in the 1920's by means of programs intended to simplify the variety of manufacturing processes and products, building codes, and planning and zoning laws. Even though potential gain was great, these conservatively financed programs were cut back drastically in 1933, just at the time the federal government began to assume a great deal of the risk and direction of home mortgage activity.18 Subsequently, although lacking in funds, the Department of Agriculture has conducted construction oriented research, principally regarding development and use of plywood, while the National Bureau of Standards has carried on limited programs in construction standards and testing. In recent years the Forest Products Laboratory of the Department of

18 Colean, op. cit., pp. 145-146.
Agriculture, operated in cooperation with the University of Wisconsin, has designed low-cost rural homes stressing economy of design and has also developed, in a separate research program, a technique of construction called "Nu-Frame," which "... should cut 10 to 15 per cent compared to conventional construction." During the World War II emergency, federal funds were allocated to the War Production Board and the National Housing Agency, but a consistent policy and sense of direction, as well as adequate funding in this area, have been lacking. This is a particularly unfortunate fact in view of the historical cost trends presented in Chapter I, and projections such as the following:

It appears that the historical forces making for an increase in the relative price of construction have been so strong and persistent, and the signals of change in this trend so weak, that the increase is likely to continue. Among the complex factors acting to increase the cost of construction are: the relative increase in building materials...
materials prices, especially lumber, the large share of wages in total cost, and the slower advances in productivity in residential building operations as compared with the rest of the economy. The prospects for drastic changes in these trends are not encouraging. Upon a sober appraisal, no revolutionary materials seem to be in the offing.20

Large scale production of housing has been developed in limited areas in recent years in other countries. Encouraged by government policies favoring large scale apartment projects, Swedish builders have developed mass-building techniques offering limited economies in that particular environment. The Soviet Union has developed certain factory production techniques, the extent and nature of the economies of which cannot be determined with certainty.21 Success of such methods depends to a large extent on standardization, since industrialized building methods can achieve economic significance only if the number of

20Winnick, op. cit., pp. 278-279.

systems is kept low, effectiveness depending on sizable demands for a limited number of components.\textsuperscript{22}

Prefabrication is no longer a word signifying "cheapness," as many home building firms have adopted the precut and "modular" homes in their business. And prefabrication of conventional materials has not led to price breakthroughs. It would appear that the area of new and different materials has not received sufficient practical attention.\textsuperscript{23}

\ldots traditional building has been altering in most countries. A gradual evolution has occurred \ldots the possibility always exists that a sudden breakthrough could move the industry to a new and much lower cost curve. Some drastic change could make production much cheaper.\textsuperscript{24}

An innovative concept available to the housing field, that does not fall into the well known "prefab" preoccupation with simply making the shell cheaper, is

\begin{itemize}
  \item \textsuperscript{22}Cullingworth, \textit{op. cit.}, p. 33.
  \item \textsuperscript{23}Appendix F contains information on one current unorthodox approach.
  \item \textsuperscript{24}Maisel, "Introduction," Nevitt, \textit{op. cit.}.
\end{itemize}
use of the modular unit. Although other instances of experimental application of this concept exist, the most immediately promising backlog of experience in this area appears to exist in the mobile home manufacturing industry. One of the larger manufacturers in that field presently devotes 15 per cent of production to modules—one piece cubes, each constituting a bedroom, a bathroom, a kitchen, etc. In view of the conventional housing cost shares presently allocated to interior finishes and particularly to mechanical equipment, it would appear that this development may be particularly promising. This technique is applicable to housing other than small, single units. Guerdan Corporation, a mobile home manufacturer, has constructed two story town houses made of stacked modules, in several small cities.

The Housing and Urban Development Act of 1968 charges the Secretary of Housing and Urban Development with the responsibility "... to encourage the use of

new housing technology in providing decent, safe, and sanitary housing for lower income families—" and provides for a program to encourage new types of construction where local laws permit. However, the 1961 Act also paid homage to the ideal of new technology as related to farm construction with little apparent impact on spiraling building costs.

Obstruction of New Methods

Local government regulation is a major roadblock in the way of more widespread adoption of low cost building technology. The Director of the Office of Urban Technology and Research of HUD gives government policies prominent place in a list of factors restraining the introduction of new techniques:

26 Public Law 90-448, 90th Congress, S.3497, August 1, 1968, p. 20.


28 A report with realistic appraisal of cost achievements concerning twelve experimental housing projects (11 of them under HUD auspices) may be found in: U.S., Department of Housing and Urban Development, An Analysis of Twelve Experimental Housing Projects (December, 1968).
Zoning Ordinances, codes, labor rules, financial policies, city administrative practices, lack of well developed mechanisms for dissemination and implementation of new ideas... 29

A Specific Hindrance: Building Codes

Estimates of savings ranging up to 50 per cent have been made for new technology. 30 New rules to permit its application are required however, specifically, direct federal action to simplify and improve the present tangle of outmoded building codes. 31 These codes present a problem because of: (1) the great number of codes in use around the country "... four model codes, endless variations of the model codes, and thousands of other codes."


30 Ibid.

31 "Says the vice president of research at one of the world's largest research laboratories, 'The insults that you get to science and technology in these building codes are sort of infinite. Plastic pipe, for instance, is less expensive and as serviceable as cast iron pipe. It is used in most rural areas, in most foreign countries, but it isn't allowed by the building codes of most of our biggest cities.'" "A New Kind of Housing Market?," Forbes (October 15, 1969), p. 27.
(2) the fact that all codes are specification codes rather than performance codes.\textsuperscript{32,33}

Specification codes tend to make the manufacturer of a new product less concerned with price and cost effectiveness than with the question "How much trouble will it be to get it past code inspectors?" New materials and technology are only reluctantly approved, if approved at all.\textsuperscript{34} Similarly, manufacturers outside the housing field, such as large firms presently operating in the aerospace field, are prevented from

\textsuperscript{32}"Releasing . . .", \textit{op. cit.}

\textsuperscript{33}A specification code tells how to build a structure. It may dictate, for example, that a wall be made of 2 x 4 inch uprights spaced 16 inches apart. A performance code, however, states the objective of the structure. It would simply provide that a wall withstand specified vertical and wind loads, and possess a desired insulating level. As long as the wall met these performance standards, it could be built of any material, using any method of construction. The builder would be free to innovate.

\textsuperscript{34}The marketing plans of one creator of new technology are based on an admission that structures developed by the enterprise cannot be used as dwelling units because of local codes. As a result, what appears to be a promising low-cost application of modern technology, will be restricted to use in dairy barns and chicken coops. (See Appendix F)
possible entry into low cost housing utilizing large scale fabrication and new methods and materials.\textsuperscript{35}

A complete performance code would be based on scientifically determined performance data with standard tests that building inspectors could use to determine that structures met a required standard. Within the National Bureau of Standards, only a limited amount of work is proceeding toward this objective. Manufacturers of traditional building products and trade unions both are able to exert considerable pressure in blocking Congressional adoption of either a federal (mandatory) code to replace all existing codes throughout the country or national (voluntary) code for nationwide use.

\textsuperscript{35}Codes, themselves, along with various localized legal requirements (the complexities of real estate transfer and finance add complexity) including zoning, appear to be more than many large manufacturing organizations presently operating outside the housing field care to tackle. One student of the field points out that big concerns will not want to build new towns because "they must have approval for so many aspects of the operation from so many agencies of government." Gillies, \textit{op. cit.}, p. 146.
Piecemeal circumvention of local codes has been successful in limited instances. After exhaustive structural tests were made by HUD to prove safety of building components, the city of Detroit reluctantly agreed to permit use of a new construction method—a system of columns, beams, and planks precast from low-density foamed concrete—in an experimental project in that city. If funds are available, the next two years may see several thousand experimental other housing units, utilizing various technologies, constructed under HUD auspices in several cities.36

Public Housing

Public housing in the United States began with the passage of the Housing Act of 1937. Following enactment of the federal law, all but five states passed laws allowing city governments to build and operate federally aided projects. This rapid response by state governments was due to their fiscal difficulties and their acceptance of the public housing program as an employment stimulus.37

36"Releasing . . .", op. cit.
37Wendt, op. cit., p. 190.
The law provided for federal loans up to 90 per cent of construction cost and annual subsidies to local authorities to fill the gap between rents low-income families could pay and economic rents to cover costs. The local authority was to contribute 10 per cent of construction cost, and 20 per cent of the subsidy (which could be in the form of tax exemption). Construction cost limits were raised by law in 1949 and 1957. Local authorities are responsible for setting income limits and selecting tenants for projects. Typically, income limits are set which roughly correspond to the poverty level, although variation occurs between localities.

Construction volume of public housing reached its maximum in the early war years, when many units were built in communities affected by war needs. The biggest post war year was 1951 when 71,000 units were started. The program has not had significant impact on the backlog of need. The fact that the federal low-rent public housing program has failed to make a significant contribution to the nation's housing supply can be attributed to two factors:
(1) Opposition by many people, including influential construction and real estate groups, to the principle of direct federal subsidies for housing.

(2) Opponents view the program as a failure—and even supporters are acutely aware of its shortcomings.

There appears to be some confusion about the objectives of public housing. On one hand is the federal objective of service to the needy and indigent. On the other is a demonstrated tendency on the part of local housing authorities to select public housing tenants "... much as a private landlord would, seeking the most stable, happily married, educated wage earners who will minimize management problems." 

Resistance to direct public construction meets continuing resistance, in some cases not so much the concept of public housing, but the physical form.

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39 *Dyckman*, *op. cit.*, p. 207.
it has taken—the concept of keeping humans "stored alive" in isolated layers removed from person to person contact.\textsuperscript{40}

Human and physical objectives to public housing as it exists are well summarized, in turn by the following:

Life in the usual public housing project just is not the way most American families want to live. Nor does it reflect our accepted values as to the way people should live . . . Their density makes them seem much more institutional . . . any charity stigma that attaches to subsidized housing is thus reinforced. Each project proclaims visually that it serves the 'lowest income group.'\textsuperscript{41}


The program, to date, has apparently failed to achieve even a temporary solution to the housing problems of the majority of the low-income group, let alone a lasting solution.42

The most direct alternative to public housing, provision of rent subsidies to low-income families, does not appear to be a solution in itself.

Without corresponding direction of the production and marketing of housing, however, there is danger that such subsidies might be exploited simply to raise the price of existing units.43

Urban Renewal

In addition to the forces peculiar to blight susceptible areas that operate to discourage maintenance, there are additional conditions contributing to creation of slums. There are: (1) serious financial condition of cities and their reliance on property taxes, (2) "cumulative obsolescence" which has taken place with


regard to streets, schools, public transportation, and other facilities, (3) a dispersion of commercial and industrial activity, and (4) the housing shortage prevalent in American cities for almost a half century which has allowed landlords to receive continuous incomes from substandard properties.  

Attempts to reverse the process of blight are not only complex but the objectives of such attempts vary with the viewpoint of groups concerned. One school of thought sees slums as substandard residential areas that must be replaced by decent public housing. Downtown commercial interests, however, are likely to view urban renewal as a means of pulling people--buyers of their merchandise--back to the city core. Investors are more likely to see it as a means to boost property values (and are likely to oppose public housing). Building and real estate groups are likely to have still other views.  

44Wendt, op. cit., p. 197.

How do urban renewal projects originate? Who pays for them? The following steps can be looked upon as the "ABC's" of urban renewal approval procedure:

(1) The local government (city council) draws up a workable program for community improvement, health codes, building codes and redevelopment.

(2) This workable program is submitted to the Renewal Assistance Administration (RAA) of the U.S. Department of Housing and Urban Development (HUD).

(3) RAA certifies the Workable Program.

(4) A local urban renewal agency—the Local Public Agency (LPA)—is designated. This may be a special group designated by the local government, or the local governing body as a whole.

(5) The Local Public Agency asks the Renewal Assistance Administration to approve:
   (a) Preliminary surveys.
   (b) Preliminary plans for specific projects.
   (c) Final plans for these projects.

(6) The Renewal Assistance Administration makes the project eligible for federal aid.
(7) The Local Public Agency officially states that the blighted area in question is a "redevelopment area."

(8) The Local Public Authority buys all property in that area by negotiation or condemnation.

(9) The Local Public Authority must relocate affected families in "decent, safe, and sanitary" housing elsewhere. (In fact, the LPA must have previously made a plan for this relocation as a prerequisite for federal approval of its development plan.)

(10) The Local Public Authority clears the site and provides public services.

(11) The LPA sells, or sometimes leases, land to private developers.

(12) Typically, the developer makes a drastic change in land use. High rise housing for upper-middle or upper income groups often replaces low-income housing. A recent trend favors modern commercial centers.
Just what is it then, that the federal government does to make urban renewal a reality? Its activities can be summarized as follows:

(1) It looks at the advance planning for a project.

(2) It loans money for planning, surveying, and for buying land.

(3) It pays moving costs for displaced households and businesses.

(4) It pays up to two thirds of the LPA's "net project cost"--that is--the Local Public Authority's total expense on the project, less whatever developers pay for the cleared land.

Massive correction of self-destructive, cumulative trends toward blight forms the basis for the current concept of urban renewal. Urban renewal has changed the use and appearance of urban areas where it has been applied. It has not, however, always provided new housing to replace the substandard units destroyed.46

46The principal barrier to a solution of the housing problem is "... the housing act of 1949 itself which, because of a loophole in its provisions, has permitted the subversion of its own national housing goals by local communities." Grigsby, op.cit., p. 323. This comprehensive work furnished the foundation for much of the discussion of urban renewal on these pages.
As a matter of fact, the goal of a decent home and suitable living environment for every American family tends to be ignored at the municipal level where the initiative lies and where renewal planning is done. A basic conflict exists between these national goals and the natural goals of a city—return of middle and high income families from the suburbs, downtown commercial revival, and clean, tax-paying industry. "Cities have been able to use the act to pursue their own purposes, not those set forth by Congress."47 Under the "write-down" provisions of the Act of 1949, the federal government bears two thirds or one fourth of the loss involved in condemning, clearing, and reselling land to the developer. With an exception of 20 per cent or 30 per cent land must be residential either before or after development. In practice, it has worked out that the greater part of renewal land has been

47Ibid.
residential before development, only about half after development; and most of the new structures built in the early years of the urban renewal program have been for upper income families. 48

Cities tend to view the movement of population to suburban areas as undesirable and a desire to arrest this trend affects their renewal plans. From the viewpoint of our society as a whole, the outward movement has produced a higher standard of housing than would have otherwise been possible. This suggests that the market forces producing the movement to the suburbs should be stimulated, hastening the rejection of the worst housing areas and setting the stage for a

48 "Most cities have no renewal project at all designed to help the low-income population. In fact, a neutral observer might conclude that the real effort has been to rid cities of slum families, not slum housing." Ibid., p. 324.
later, voluntary return to the central city, based on its capacity to provide housing, guided, not hindered by public policy.\(^{49,50}\)

The past practices of urban renewal do not appear to fully consider the needs of the low-income families that need residential renewal--problems of unemployment, below-minimum wage earnings, lack of educational opportunities, and unusually high medical expenses. Attempts on these basic social problems have not been comprehensive.

The high cost of urban renewal, which may run as much as twenty times the cost of rehabilitating a basically sound area of the same size,\(^{51}\) helps to explain the minor impact of urban renewal. "Enormous expenditures of energy and attention . . ." have affected less than 5 per cent of all building and

\(^{49}\)Ibid., p. 333.

\(^{50}\)"Eliminating units at the lower end of the housing stock and replacing less than 100 per cent of them (as is usually the case) at a much higher quality level can mean a serious misallocation of resources. Through the effects on the relative composition of the stock, this can also have a regressive impact on income distribution." Rothenberg, op. cit., p. 14.

\(^{51}\)Dyckman, op. cit., p. 81.
"... a scarcely measurable fraction of all areas developed." Some writers in the field go so far as to downgrade accepted theories of blight and indicate that urban renewal is an attack on symptoms, and does little for the basic condition, poverty.

Government Policies Affecting Financing of Housing

As pointed out in Chapter I, ancient methods of property transfer complicate and make more expensive

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52 Grigsby, op. cit., p. 5.

53 "The results of my analysis clearly imply that slums are mainly the result of poverty. In the data I analyzed, housing quality is consistently and strongly responsive to the incomes of its inhabitants. Quality, however, appears to be of little importance in affecting the location of households by income. In addition I find virtually no evidence for supply-side theories of slums. A clear policy implication of my analysis is that urban renewal programmes will do little or nothing to alleviate the slum problem in the long-run since they do nothing to alleviate poverty. The widespread popular and scholarly support for urban renewal programmes results, I believe, from theories of the causes of slums which have little empirical validity." Muth, op. cit., p. 19.
the acquisition of capital for housing. The large amount of money required for housing, in comparison with other goods and services used by consumers, lends great importance to any market imperfections that raise the cost of capital. Intervention of the federal government into the capital market for housing has been necessary in all West European countries, the character of the actions of various governments varying over a wide range, from direct public provision of housing, to tax concessions for lenders and special-purpose taxes on employers. In the United States attention has been directed toward alteration of terms and costs of mortgage loans. U.S. government loan guarantee programs have served to standardize, to some degree, mortgage instruments; and to thereby

54 "The risk, the cost, and the loss of time imposed . . . exert a special influence on the financing of real property. Real estate financing becomes a process requiring special knowledge and judgement and it is kept apart from the general stream of capital operations . . . it is also kept at a frequent disadvantage with other forms of activity in its competition for investment funds." Colean, op. cit., p. 5.

55 Cullingworth, op. cit., pp. 32-33.
attract additional capital into the field. " . . . U. S. federal programs in the residential mortgage field have persistently sought to reduce contract interest rates, lengthen contract terms to maturity, and increase loan to value ratios."56

Manipulation of the Interest Rate

The belief that housing is an urgent need of society, such that added government effort is justified to drastically lower interest rates for this purpose, has received increased support in this country in recent years.

Our first concern ought to be to work out a banking system which can quote a rate of interest which will take the business. If that rate happens to be a nominal one for something that isn't going to make a profit, then that is the rate to quote. If it happens to be . . . a 1-1/2--or 2 per cent rate for middle class or lower middle class housing which is not being built by anybody today, then quote that rate.57

56 Winnick, op. cit., p. 257.

A gradual change in the government's attitude toward credit seems to have been linked with a shifting attitude regarding the nature of capital. Classical economic thought viewed capital accumulation as necessary for production and as a result of not-spending, from postponement of enjoyment that would otherwise have come from consuming. The interest rate was the price or reward for not-spending, and the rationing mechanism that directed money to different uses.

A newer attitude seems to view a highly industrialized economy as a surplus economy, that can produce more than enough consumption goods to satisfy effective demand. If this point of surplus is reached, there is no point in rewarding anyone for not consuming, and the prime mover in the investment process is no longer the incentive to the saver, but the need for capital funds. According to this theory, if a particular investment need required a low rate of interest—as stated by Mr. Berle above—it should pay only that rate. The nature of the investment should set the interest rate, not the requirements of the investor. This theory has not been explicitly stated
in legislation, but has been implicit in federal credit laws since World War I. It became more apparent in post World War II efforts to manipulate interest rates on government loans. "In the process a new realm of conflict and inconsistency has been created. A financial system based upon, and apparently to a large extent still motivated by, one concept of the investment process is overlaid by demands arising from a wholly contradictory point of view."  

Obligation of Federal Resources

The depression of the nineteen thirties had a pronounced impact on relationships between government, lending institutions, and the public. As the economic crisis grew worse, public pressure for relief mounted. During 1933 and 1934, twenty seven states enacted mortgage moratoria in an effort to protect the mortgagor. Farm and residential property was covered in most cases, and occasionally even commercial property. These laws generally prohibited foreclosure during the period

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58 Colean, op. cit., pp. 84-86.
59 Ibid., p. 86.
they were in force. In extreme cases, courts required only a fair rent on property, even though this might be less than interest charges previously agreed to during prosperous times. These moratoria were extended as long as public sentiment dictated, but generally were abandoned as more prosperous times returned as World War II approached. 60

These trying years saw the first appearance of outright subsidy in federal credit policies. 61 The Emergency Farm Mortgage Act of 1933 provided for reduction of the interest rate on land bank loans to a minimum of 3.5 per cent—the treasury paying the difference between the statutory rate and contract rate to the land banks and suspension of requirements for payment of principal was provided for. Provision was also made for direct federal farm mortgage loans to refinance indebtedness and redeem foreclosed property.

60 "The effect of state action was, at best, only temporary and partially alleviative; its deeper import was negative and aggravating, for the balance of the law, now so strongly tipped in the debtor's favor, threatened to block recovery." Colean, op. cit., p. 94.

61 Ibid.
A broader law, the Federal Farm Mortgage Corporation Act of 1934, provided for additional financing of the land banks by means of an exchange of $2 billion in government guaranteed bonds.

Similar attention was given to urban home financing. The Home Owners' Loan Corporation, directed by the Home Loan Bank Board was set up and capitalized by the federal government in 1933, with the function of taking over or financing mortgages on family housing (1--4 unit dwellings) that were delinquent or owned by frozen financial institutions. Actions were also taken to restore confidence in commercial banks and savings and loan associations. By doing so the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation helped provide for new lending activity.

The National Housing Act of 1934 set up the Federal Housing Administration in an effort to increase new lending by insuring private lending institutions against repair loans and first mortgages. The provision for repair loans in particular was intended to stimulate the economy to some degree; however, this
purpose was forgotten with the passage of time and insurance on repair loans became a permanent activity.

What was new about the FHA? Loan guarantee companies had existed, and failed, previously. The new element was use of the resources of the federal government to guarantee debentures issued as payment for claims, and establishment of a secondary market for insured mortgages. These mortgages were purchased by the Reconstruction Finance Corporation Mortgage Company and later by the Federal National Mortgage Association ("Fanny May"). The FNMA has purchased government-insured and government-guaranteed mortgages bearing fixed interest rates. Funds to finance this secondary market activity came from (1) lenders who, in order to sell mortgages to FNMA, must purchase stock in the association equal to 2 per cent of the unpaid principal of mortgages involved, and (2) obligations issued by FNMA to private holders. Although these obligations may be issued to the Secretary of the Treasury, they are not guaranteed
by the United States Government. However, funds borrowed from the U.S. Treasury have also been important to operations.62,63

Expansion of Federal Intervention in Financing

Before the 1920's, roughly half the expenditures for housing, both construction and land cost, in this country were accounted for by equity funds. During the boom of the twenties this share declined. It increased proportionately during the thirties when money was extremely hard to find, and then declined to a new low, about 25 per cent, during World War II. The period since has seen this figure vary between 25 and 30 per cent. A cyclical pattern is apparent in these swings, but a long term trend seems to exist

62 Wendt, op. cit., pp. 185-186.

63 "In effect, the operations of FNMA have been a form of direct lending of public funds to maintain a par market for FHA-insured and VA-guaranteed mortgages. Private investors have found it profitable to turn over their holdings of such loans to FNMA whenever the fixed interest rate has been less than the comparable return available from other investments. In this way, the borrowers on FHA-insured and VA-guaranteed mortgages have been subsidized to the extent of the difference." Commission on Organization of the Executive Branch of the Government, Task Force Report on Lending Agencies (Washington, D.C.: Government Printing Office, 1955), p. 34.
favoring an increase in the proportion of borrowed funds. With this long term trend, any given volume of construction then creates a larger demand for borrowed funds.64

The Federal Housing Administration became an important factor in home finance soon after its birth. In the period 1938-1941, for example, slightly more than one third of recorded loans on new dwellings were FHA insured. Since World War II the proportion has been in the one fourth to one third range. This program appears to have exerted a marked effect on loan terms. Before the establishment of the FHA, loan typically covered approximately 50 per cent of the value of a house, with repayment periods ranging from 3--6 years (bank and insurance company loans) to twelve years (savings and loan companies and mutual savings banks), at 6 to 8 per cent. During the post-war years, interest rates generally declined to 5 to 6 per cent (rising however in the 1965-1968 period)

64 Winnick, op. cit., p. 186.
with a marked trend to long term, amortized loans with low down payment or none at all.\textsuperscript{65}

The second significant federal program encouraging the trend toward liberalization of terms was that provided under Title III of the Serviceman's Readjustment Act of 1944. No down payment loans have often been possible under this VA loan guarantee program. Interest rates, initially set at 4 per cent have risen over the years to a maximum interest rate of 6 3/4 per cent in 1968\textsuperscript{66} and 7 1/2 per cent early in 1969. Repayment periods of, at first, twenty five years, and later thirty years have been the rule.\textsuperscript{67}

\textsuperscript{65}"It is clear that FHA policies have encouraged the granting of liberal terms on long-term mortgages in the postwar housing markets and facilitated the major expansion in homeownership which has occurred. It is also evident that liberal terms have not resulted in any major wave of foreclosures, even during the relatively severe recession of 1958." Wendt, \textit{op. cit.}, pp. 175-177, 180.

\textsuperscript{66}Recently quoted terms in Dayton, Ohio (December, 1968) did, of course, abide by the official 6 3/4 per cent rates; however, lending agencies contacted required a payment of six points on loans made at this rate.

\textsuperscript{67}"The Veterans Administration home loan program has been of broad significance to the postwar housing market. Not only have a large number of veteran home buyers taken advantage of the program to acquire homes,
These significant programs of the FHA and the VA have operated in the medium price field, with emphasis on the lower range of the field. The effect of the insurance and guarantee programs has been to create, particularly in the price class most affected, a debt instrument that can be shifted from lender to lender. Development of a secondary market has tended to increase the mobility of capital available for real estate investment.

**Effects of Federal Credit Policies**

Federal policy since the thirties can be summarized as follows:

- Recognition of housing as a concern of the federal government.
- Acceptance of the idea of individual homeownership as a major goal of federal housing policy.
- Emphasis on mortgage finance terms and lending institutions as variables to be manipulated toward achieving this goal.

but the generous mortgage credit terms available through this program have been transmitted to the home market generally through resale of homes by veterans, the new purchaser carrying the existing loan on the property."


• Acceptance of slum clearance as a joint federal-local venture.

• Provision of public housing for low-income groups as an aid in slum clearance and as a stimulus to employment. 69

There is mixed opinion concerning the effects of federal policies on the supply and nature of housing available to middle class buyers. It has been concluded that a marked improvement in housing quality took place in the early 1950's. 70

It is . . . dubious whether in the absence of the FHA and VA as many households could have used credit for the acquisition of houses as actually did, or whether the amount of mortgage funds for new rental housing would have been as high as it was. Moreover, public funds used by the Federal National Mortgage Association during the postwar years for purchase of FHA and VA loans have directly supplemented the large private funds that were invested in residential mortgages during this period. 71

69 Wendt, op. cit., pp. 151-152.


71 Winnick, op. cit., pp. 238-239.
Some writers have argued, however, that construction might have been greater, based on trends in population and family formation, and that the primary effect of the government's successful campaign to liberalize credit terms was to cause a rapid rise in construction costs and prices. It would appear that effective demand was certainly increased by these programs, and—based on a consideration of supply-demand equilibrium as expounded in any elementary economics text—this increased demand must certainly have led to establishment of some new equilibrium point above and to the right of the original, with an increase both in price and quantity supplied, the precise effect on each being impossible to determine with certainty.

It should be pointed out here, as noted in the section devoted to public housing, that direct federal lending has been utilized to encourage the production

of public housing. Federal legislation in this area provides for federal loans up to 90 per cent of construction costs, and for annual subsidies to make up the difference between economic rent based on costs and rents that low-income households can pay. Families must live in substandard housing to be eligible, with families of veterans and those displaced by urban renewal receiving preference. Currently, approximately 866,860 households are housed in 5,655 projects operated by local housing authorities. (This represents slightly under 2 million persons.)

Writers have recommended a variety of alternative solutions to the much criticized public housing program, including tax subsidies, family income subsidies, and increased local programs for renovating existing housing.

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74 Wendt, *op. cit.*, p. 196.
In this area, as in all areas of government intervention in the production of housing, the greatest impact appears to be made where private institutions are effectively used, and the smallest impact where existing institutions and the price system are not effectively used.75

Summary

United States federal housing policy developed chiefly from efforts to stimulate the economy during the depression years. Based on these beginnings, a federal program that concentrated on availability of mortgage funds stimulated private home building for middle-income households in the years following World War II. However, federal efforts in the areas of public housing and urban renewal have not had a similarly beneficial effect on the amount of housing

75"At this particular period in the development of the United States economy a necessary condition for success of housing policies is that they be designed so that they operate in conjunction with existing private institutions and are concerned with the allocation of resources through the price system." Gillies, op. cit., p. 143.
available to low-income households. Past reluctance on the part of the federal government to finance research that might lead to more efficient production of housing has been coupled with a reluctance to take the initiative in simplifying the tangled maze of existing building codes which many authorities believe has discouraged private industry from large scale innovations and cost reduction. Lack of rationalization of production has undoubtedly contributed to higher housing costs, particularly when combined with increased demand arising from more liberal mortgage terms. Limited, tentative steps are currently being taken by the federal government in the areas of research and a uniform code, but past governmental performance in these two areas does not logically lead to optimism.
The pressing need for providing safe, decent, and sanitary housing on a large scale basis for low- and moderate-income families has long been recognized by Congress. Each year there is an increasing demand for such housing and the problem of satisfying this need becomes greater and greater. Congress has made it possible for nonprofit sponsors . . . to provide competent and continuing management . . . If nonprofit sponsors accept this role and actively respond to the opportunity provided under Section 221(d)(3) of the National Housing Act, the objectives of the low-income housing program will be realized and dwelling units in a significant quantity will be made available to needy families within a reasonable period of time.


CHAPTER III

ENACTMENT AND NATIONWIDE IMPACT OF THE 221(d)(3) PROGRAM FOR LOW- AND MODERATE-INCOME HOUSING

ESTABLISHMENT OF THE PROGRAM

The Federal Housing Administration, which had functioned chiefly to insure mortgages on single homes
and rental housing was given a new area of responsibility by Congress in 1961. A new program of mortgage insurance was established by amendment to the 1934 Housing Act and known by the numerical designation of that amendment, Section 221(d)(3). This action by Congress authorized both a market-rate and a below-market-rate program to aid groups who needed financing to build housing for low-income groups. FHA officials predicted in 1962 that the Below Market Interest Rate provided by (d)(3) could produce as many as 60,000 housing units per year.

The Below Market Interest Rate (BMIR) program was to provide means whereby nonprofit organizations, cooperatives, or public agencies could borrow money

1The 1934 law had set up basic mortgage insurance in two areas, home purchase (Section 203) and rental housing (Section 207). This legislation specified that the FHA would, in fact, insure only economically sound loans. In the 1961 extension of FHA activity under 221(d)(3), however, a social objective was established, the relocation of low-income households in adequate housing. "Acceptable" risk became the criteria for evaluating loans, and, as indicated by the statement that introduced this chapter, great expectations were held for this new approach to providing accommodations for families that would otherwise have no alternative to substandard housing except that provided by inadequate numbers of public housing projects.

from commercial sources at interest rates below those prevailing in the market, if this money were used to plan and build apartment developments for households of low- and moderate-income.

The 221(d)(3) Program can reasonably be viewed as an attempt to remedy demonstrated deficiencies of both the private marketplace and public housing programs in filling the need for low- and moderate-income housing. Past performances of the private marketplace could well have been improved upon in two areas: (1) lack of sufficient incentive to produce low- and moderate-income housing, and (2) lack of ability to significantly lower final cost to the user. Based on experience in building public housing, it might have been hoped on the other hand that the new program would provide improvement over that experience in possessing: (1) freedom from community opposition to new projects, and (2) the ability to plan, approve, and build new projects in a timely manner.

It is not clear why a program was conceived which would provide housing loans to cooperatives,
nonprofit associations, limited dividend corporations, and local housing authorities. It may be that a belief existed that greater involvement of elements of society other than government was required for aggressive provision of needed housing units, at the same time a reluctance existed to make profit motivated entities the primary sponsors. This is only a speculation that cannot be verified. A distinct possibility exists that planners wanted more public housing, believed that further appropriations for that controversial program would not be approved, and believed that nonprofit-sponsored housing offered the best available alternative. Under the 221(d)(3) loan program, sponsors were to be free of any financial liability under the terms of the note and mortgage in the event of any default or foreclosure action affecting the

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project;\(^4\) and, because of the below-market interest (3 per cent) which led to FNMA purchase of mortgages, the basic foundation of the program was, in fact, utilization of public funds for provision of housing for needy households.

Whether or not the 221(d)(3) program was conceived as an "end run" around political opposition to additional spending for public housing, it is apparent from provisions of the legislation that it was directed toward rectification of the two deficiencies of the private marketplace, noted above. The incentive for provision of low-income housing apparently was assumed to exist among nonprofit groups; and it was further assumed that this incentive could be brought into play through government's provision for the sponsor's freedom from financial liability.\(^5\) As for lowering


\(^5\)The use of federal funds in this manner was not without opposition, as shown by the minority report of the Senate Banking and Currency Committee when it reported the omnibus housing bill in May, 1961. Senator Robertson of Virginia called it an "extravagant and inflationary" bill financed by "backdoor spending," Senator Javits termed it "a major step forward" but took issue with the long-term, no-equity, below-market-rate loan program, feeling that the precedent of using FHA loan insurances only for commercial, market-rate
the cost to the final user, use of government funds at very low interest rates through FNMA mortgage purchase could provide a meaningful total cost reduction, and result in lower rents to the tenant.6

It is less clear that creation of the 221(d)(3) program adequately considered the difficulties (aside from lack of funds) previously encountered in getting loans should not be changed. He recommended instead the creation of a Federal Limited Profit Mortgage Corporation, which would borrow money through sales of stock and then lend it to builders of moderate-income housing at 4 to 6 per cent. And, during debate on the housing bill, Senator Wallace Bennett (R-Utah) indicated a belief that the FHA insurance provision to stimulate long term, no-equity loans at a below-market rate for moderate income housing by nonprofit organizations was "... really no more than a disguised program of public housing for middle income persons." "Administration ... " op. cit., p. 193.

6Initially, the interest rate for the BMIR program was established within the 3 7/8 to 4 per cent range. In 1965 the federally subsidized rate was set at 3 per cent. With rises in market interest rates in the 1960's, BMIR financing could produce savings of approximately 40 per cent in mortgage debt service compared with regular FHA financing terms for rental housing, and reductions of approximately 25 per cent in required rents. Nathaniel Keith, Housing America's Low- and Moderate-Income Families (Washington, D.C.: The National Commission on Urban Problems, 1968), p. 7.
public housing projects built, particularly lengthy initiation, planning, and approval cycles. It may well have been assumed that sponsorship by local organizations not a part of the federal government would insure rapid, aggressive action to get housing units built, and that this same local sponsorship would reduce local opposition to a minimum. The Federal Housing Administration's brilliant post World War II record in insuring mortgages on medium income housing may have diverted attention from the fact that the social role forced upon FHA by the 221(d)(3) program was quite a different thing from its previous business-like mortgage underwriting responsibility.

The ultimate success of the new program depended, then, on the ability of the Federal Housing Administration to implement the 221(d)(3) program and on the ability of the nonprofit sponsor to plan and secure approval for a practical housing project.7

7An illustration showing the sequence of events for planning, initiation, and approval of a project by a nonprofit sponsor is shown in Appendix A.
USE OF 221(d)(3) AS A VEHICLE TO IMPLEMENT RENT SUPPLEMENTS

In practice, however, this BMIR program has been essentially a moderate-income program, rather than a low-income program, as indicated by the following annual income eligibility requirements:8

<table>
<thead>
<tr>
<th>No. of Persons in Household</th>
<th>New York City</th>
<th>Ft. Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6,150</td>
<td>4,600</td>
</tr>
<tr>
<td>2</td>
<td>7,450</td>
<td>5,550</td>
</tr>
<tr>
<td>3-4</td>
<td>8,750</td>
<td>6,550</td>
</tr>
<tr>
<td>5-6</td>
<td>10,500</td>
<td>7,550</td>
</tr>
<tr>
<td>7 or over</td>
<td>11,400</td>
<td>8,500</td>
</tr>
</tbody>
</table>

The most important provision for low-income households, as far as 221(d)(3) is concerned, is the rent supplements program which was authorized by Congress, after bitter controversy, in the Housing and Urban Development Act of 1965, and received initial, limited contract funds in 1966.9 At the time this


legislation was enacted, it was expected that it would encourage many private nonprofit groups to develop housing for low-income individuals who might otherwise seek public housing space.\(^{10}\) Production predictions for this program were for 40,000 units per year.\(^{11}\)

Under this program federal aid for rental payment can be made to low-income families who are either elderly, handicapped, displaced by government action, or occupants of substandard housing. The owner of the housing enters into a 40-year contract with the Department of Housing and Urban Development, which promises to pay federal rent supplements to eligible tenants. Such supplements make up the difference between the fair market rental and 25 per cent of the household income. Naturally, limits exist on the cost of the housing units that can qualify for this program.


\(^{11}\)"U.S. Low-Income Housing Efforts Stir Controversy," op. cit., p. 2135.
A summary of provisions of the 221(d)(3) BMIR and rent supplement program is given below.

Principal Provisions of 221(d)(3)

**The BMIR Program**

Interest Rate: Three per cent for permanent mortgages on these projects

Project Sponsors: Private nonprofit corporations (eligible for 40 year, 100 per cent loans)

Cooperatives (eligible for 40 year, 100 per cent loans)

Limited dividend corporations (eligible for 40 year, 90 per cent loans)

Loans may be for rehabilitation as well as new construction.

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**The Rent Supplement Program**

Who is eligible? Households able to meet the income limitations of public housing.

Who pays rent? The low-income family pays 25 per cent of income, FHA pays landlord enough to total fair rent.

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12 More detailed information concerning the various FHA housing programs and other HUD programs can be found in Appendixes D and E respectively, and a glossary of terms appropriate to 221(d)(3) in Appendix C.
What are mortgage terms? Market rate of interest (commercial sources of funds are used); money can be used for either rehabilitation or new construction; percentage depends on sponsor's status, as in the BMIR program, FHA insurance.

(A return of 6 per cent is allowed to a limited dividend corporation which sponsors a project.)

MODIFICATION OF THESE HOUSING POLICIES

Congressional action during the summer of 1968 established a new program of subsidies for rental housing for low-income families, which provided for a distinct departure from the practices previously established under 221(d)(3). This 1968 program (Section 236) provided for regular federal payments to nonprofit and limited dividend sponsors of rental and cooperative housing for low-income households to subsidize mortgage interest payments, to the extent of the difference between the amount that would be required on an imaginary one per cent interest rate mortgage, and the actual market rate mortgage. Under this program of interest subsidies, the households involved would pay to the landlord 25 per cent of their income for rent.
Title II of the 1968 law (Title I set up an interest rate subsidy home ownership assistance program for low-income families) was seen as providing a distinct improvement over 221(d)(3), which it was designed to replace.\textsuperscript{13} Wright Patman, Congressman from Texas, stated that the new program would permit rentals to be reduced, while increasing private sector participation in financing and assuring a greater impact for a given amount of federal resources. The new program intended to provide 450,000 units of housing over a three year period for $300 million in federal appropriations, a volume which Congressman Wylie of Ohio indicated would have cost between $5 and $6 billion under the 221(d)(3) program\textsuperscript{14} requiring FNMA purchase of project mortgages.

\begin{itemize}
  \item \textsuperscript{13}"House Passes Housing Bill to Aid Low-Income Families," \textit{Congressional Quarterly Weekly Report} (July 12, 1968), p. 1711.
  \item \textsuperscript{14}\textit{Ibid.}
\end{itemize}
From the beginning of the 221(d)(3) program through the Fiscal Year 1967, ending on 30 June 1967, 63,624 BMIR and rent supplement housing units were started, as shown in Table 1. Available figures indicate the pace of starts picked up subsequently; by the end of Calendar Year 1967 (halfway through Fiscal Year 1968), a total of approximately 74,000 units of BMIR housing had been started, an increment of some 10,000 units during the last six months of Calendar Year 1967.

Other recent HUD statistical data show a grand total of 110,471 units of BMIR housing on which construction had been started as of September, 1968. When this total is compared with the 63,624 units started

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16 U.S., Department of Housing and Urban Development, Title II, Section 221 Below Market Interest Rate Rental and Cooperative Project Operations, 1968. (An unpublished statistical report.)
started by the end of Fiscal Year 1967, it can be seen that 46,847 units were started in the subsequent 15 month period (Fiscal Year 1968 and the first three months of Fiscal Year 1969). A breakdown of the totals as of September, 1968, is shown in Table 2. The grand total of 110,471 BMIR units is supplemented by the 900 rent supplement units started in Fiscal Year 1967, and an uncertain number of rent supplement units started subsequently. This number would increase the total somewhat, although not by a large amount since, as of the end of Calendar Year 1967, only 51,400 rent supplement units were planned altogether.\textsuperscript{17}

\textsuperscript{17}HUD 3rd Annual Report, op. cit. These are figures for starts. Completions, in many cases, lag far behind. For example, Senator Brooke pointed out that, sixteen months after rent supplements were first funded in March, 1966, only 38 housing units had been built. "U.S. Low-Income Housing Efforts Stir Controversy," Weekly Reports, Congressional Quarterly, Incorporated (October 20, 1967), p. 2135. This in spite of the fact that, by December 30, 1966, HUD had committed a total of 10.5 million to rent supplement projects in 177 cities throughout the country (a total of 242 projects). "Restricted Rent Supplements Funded by Bare Margin." Congressional Quarterly Almanac (1966), p. 246.
TABLE 1

FEDERAL HOUSING PROGRAMS FOR LOW- AND MODERATE-INCOME FAMILIES
CONSTRUCTION AND REHABILITATION STARTS

<table>
<thead>
<tr>
<th></th>
<th>Units Fiscal 1962</th>
<th>Units Fiscal 1963</th>
<th>Units Fiscal 1964</th>
<th>Units Fiscal 1965</th>
<th>Units Fiscal 1966</th>
<th>Units Fiscal 1967</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low-rent public housing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New</td>
<td>27,811</td>
<td>20,802</td>
<td>25,841</td>
<td>31,899</td>
<td>30,367</td>
<td>26,800</td>
</tr>
<tr>
<td>Rehabilitated</td>
<td>575</td>
<td>458</td>
<td>158</td>
<td>1,432</td>
<td>582</td>
<td>1,900</td>
</tr>
<tr>
<td>Turnkey</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (leasing, acquisition)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>900</td>
<td>5,500</td>
</tr>
<tr>
<td><strong>Housing for Elderly</strong></td>
<td>1,224</td>
<td>2,098</td>
<td>3,059</td>
<td>4,476</td>
<td>4,104</td>
<td>8,000</td>
</tr>
<tr>
<td><strong>FHA-221(d)(3)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below-market interest rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New</td>
<td>656</td>
<td>4,581</td>
<td>11,325</td>
<td>14,414</td>
<td>13,510</td>
<td>13,200</td>
</tr>
<tr>
<td>Rehabilitated</td>
<td>563</td>
<td>1,177</td>
<td>1,207</td>
<td>963</td>
<td>628</td>
<td>500</td>
</tr>
<tr>
<td>Rent Supplements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>30,829</td>
<td>29,116</td>
<td>41,590</td>
<td>53,184</td>
<td>49,191</td>
<td>57,700</td>
</tr>
<tr>
<td><strong>CUMULATIVE TOTAL 221(d)(3)</strong></td>
<td>1,219</td>
<td>6,977</td>
<td>19,509</td>
<td>34,886</td>
<td>49,024</td>
<td>63,624</td>
</tr>
<tr>
<td>BMIR AND RENT SUPPLEMENT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TABLE 2

TOTAL 221(d)(3) BMIR UNITS, STARTED OR COMPLETED AS OF 30 SEPTEMBER 1968

<table>
<thead>
<tr>
<th>Status of Project</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance in force</td>
<td>107,364</td>
</tr>
<tr>
<td>Prepayment in full</td>
<td>979</td>
</tr>
<tr>
<td>Mortgages assigned to FHA (held)</td>
<td>1,614</td>
</tr>
<tr>
<td>Projects acquired by FHA (held)</td>
<td>470</td>
</tr>
<tr>
<td>Projects acquired by FHA (disposed of)</td>
<td>44</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>110,471</strong></td>
</tr>
</tbody>
</table>

Source: U.S., Department of Housing and Urban Development, Title II, Section 221 Below Market Interest Rate Rental and Cooperative Project Operations, 1968. (An unpublished statistical report.)
To the individual household for which one of these housing units has furnished a real alternative to substandard housing on the private market, the impact of this program no doubt appears significant. However, when compared with a housing deficit of some 11 million units, as evidenced by the counting of this number of substandard units during the 1960 census of housing, a BMIR and rent supplement output of, at the maximum, 161,871 units (assuming all rent supplement units planned were actually begun by September, 1968, which appears unlikely), the total of starts does not appear large.

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18 Broken down as follows:
Deteriorating (with all plumbing facilities) 4,577,584
Deteriorating (lacking only hot water) 341,975
Dilapidated or deteriorating and lacking other plumbing facilities 6,047,982
TOTAL 10,967,541

19 Such an assumption yields total starts equal to approximately 1.5 per cent (0.015) of the need. If it is assumed that only the 34,100 units approved in Calendar Year 1967 were built in the period under consideration (a slightly more conservative, but still optimistic assumption) a total of 144,571 units results, or 1.3 per cent of the need.
Sponsor Effectiveness

The Below Market Interest Rate Program was expected to create the opportunity for significant improvement in the low-income housing situation through involvement of nonprofit groups and limited dividend sponsors. It was not foreseen that approval procedures that would be set up by FHA to implement this program might be confusing and difficult for groups not familiar with financial and legal aspects of housing development. As noted earlier, the 1961 law forced a new role and a new concept of housing assistance on the Federal Housing Administration, a change that involved some risk, in view of the proven tendency of bureaucratic organizations to function in terms of "established routines" in spite of changed circumstances that may call for radically different actions.20 FHA's

20For an interesting example of this tendency (activity of the Navy at Pearl Harbor on December 5-6-7, 1941) see: Graham T. Allison, Conceptual Models and the Cuban Missile Crisis: Rational Policy, Organizational Process, and Bureaucratic Politics (Santa Monica: The Rand Corporation, 1968), p. 23.
previous activity had been directed toward approval of loans to be insured. An appearance of lack of care in this approval process could be expected to bring Congressional criticism. For example, on June 28, 1967, the Senate Permanent Investigation Subcommittee called on the Federal Housing Administration to stop taking what it termed "excessive risks." The McClellan Committee stated that substantial numbers of FHA mortgages on low-income housing were in difficulty or default and that insurance reserves for these projects were depleted to the point where a major recession could well exhaust them entirely, leaving the taxpayer to absorb the loss.

The McClellan Committee's report, while concerned primarily with financial difficulties encountered under an FHA insurance program for luxury housing (Section 220), also pointed out that more than 32 per cent of 221(d)(3) market rate
projects and 7 per cent of those insured at below market rates were either in financial difficulty or default.\(^{21,22}\)

\(^{21}\)"U.S. Low-Income . . .," \textit{op. cit.}, pp. 2134-2135.

\(^{22}\)Defaults were apparently concentrated in rental projects. Cooperative ventures have fared better, "There has not been a single default in any FHA-insured co-op mortgage in the below middle income program. The middle income co-ops have done nearly as well. They have suffered only 1.67 per cent defaults, and have a better repayment record than any other FHA market interest rate program." \textit{The Technical Service Organization: Key to Successful Cooperative Housing} (Washington: Foundation for Cooperative Housing, October, 1967). It would appear that cooperative housing has been an important BMIR program, but that its relative importance has declined since the early years of 221(d)(3). A report published by FCH indicates that 25 per cent of 221(d)(3) BMIR units built have been cooperative units. (\textit{Building for the Mass Market: A Developer's Guide to Presold Townhouse Cooperatives}, FCH Memo \#78 (Washington: FCH Services, Incorporated, January, 1969)). An approximate check on this figure can be obtained through analysis of HUD figures. As of September, 1968, "Insurance in Force" was indicated for projects containing a total of 112,352 units. Of these, 17,377 units, or approximately 15 per cent were in cooperative type projects. However, if these figures are adjusted by totaling and removing from the aggregate figures all units in Code 0, Code 1, and Code 2 projects (not started, started-no units completed, and not all units completed), the remaining units (those in Code 3 (all units ready)) and
The new program, however, as noted earlier, called for a more socially-oriented approach which critics insisted FHA had not adopted. In August, 1967, less than two months after sustaining the criticisms of the McClellan committee, FHA heard Senator Brooke roundly criticize the FHA "paperwork merry-go-round" and call for possible creation of a new low-income housing division within the Department of Housing and Urban Development.23,24

Code 4 (final endorsement) projects) are divided as follows:

- In completed cooperative type projects - 13,910 units
- In completed projects of other types - 42,402 units
- Units in completed cooperating type projects - 32.8 per cent

U.S., Department of Housing and Urban Development, Title II, Section 221, Below Market Interest Rate Rental and Cooperative Project Operations, September, 1968.

Note: The percentage of units completed that are cooperative (the FCH figure) need not match exactly a percentage of units that are cooperative which is based on the numbers of units located in projects that are in themselves complete.

23. Ibid.
24. Textbooks point out that where consequences of error are seen to be very serious, the decision maker will naturally tend to evade discretion and rely on objective tests (going by the book) particularly where performance appears to be assessed on the basis of
Senator Brooke, while pointing out that the FHA had performed "magnificently" in its more traditional roles, was "... not set up to handle social-purpose legislation." In contrast to predictions of FHA officials in 1962 that the BMIR program could produce 60,000 units a year, the Senator pointed out, only 40,000 units had been built during the six year history of the program. He also noted that sponsors were reluctant to undertake projects because of "red multiple, incompatible criteria (i.e., avoidance of projects avoiding risk on one hand and speedy approval of large numbers of housing projects on the other). John D. Thompson, Organizations In Action (New York: McGraw-Hill Book Company, 1967), p. 120.

tape," and that average processing time for processing a 221(d)(3) application was 18 months.\textsuperscript{26,27}

Further indication of the effectiveness of nonprofit sponsors in creation of this housing is gained through analysis of available aggregate data.

\textsuperscript{26} Brooke particularly emphasized the difficulty that a nonprofit group in Malden, Massachusetts, had experienced in the FHA processing of a 221(d)(3) application. Brooke said that even though the sponsor was a 'most responsible' religious group and the project was designed to house tenants recently displaced from an urban renewal project, the FHA had held the application for 27 months and still had not arrived at a decision. During this time, he added, construction costs had increased by 15 per cent--meaning that rents would have to be increased by $20 or more a month above the level originally contemplated. 'That increase,' Brooke concluded, 'represents the needless price that is being paid for FHA delay. How many Malvien's are there across the country in which FHA policy and procrastination force increases in project costs resulting in higher mortgages, higher rents, and worst of all, less housing under construction?" \textit{Ibid.}

\textsuperscript{27} During 1967, the Federal Housing Administration attempted to modify its own procedures to increase the supply of low-income housing. A significant element in this attempt to approve more projects faster was accelerated multifamily processing (AMP) which put early deadlines on moving the application through all FHA suboffices and encouraged sponsors to turn in better applications. \textit{"U.S. Low-Income . . ." \textit{op. cit.}
compiled internally by HUD. Results of this analysis, presented in Table 3, reveal that only 31 per cent of all BMIR housing units approved, as of the most recent tabulation, involved sponsorship by nonprofit organizations.

The promise offered by the 221(d)(3) BMIR program was great. But in spite of the potential for rent reduction offered by federally subsidized interest rates, the volume of production by mid-1968 (see Table 4) had not achieved substantial proportions either in relation to need or to the total production of multifamily housing.28 Among the problems that weakened the impact of 221(d)(3) nationwide were tight money, particularly affecting construction money, administrative restrictions slowing processing, inhibitions at the community level, and limitations on private participation.29

28Keith, op. cit.
29Ibid., pp. 13-16.
<table>
<thead>
<tr>
<th>Project Status</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages assigned to FHA (held)</td>
<td>766</td>
</tr>
<tr>
<td>Insurance in force</td>
<td>32,839</td>
</tr>
<tr>
<td>Minus units not started</td>
<td>1,037</td>
</tr>
<tr>
<td>Insurance in force</td>
<td>31,802</td>
</tr>
<tr>
<td>Commitments Issued (construction started)</td>
<td>1,525</td>
</tr>
<tr>
<td>34,093 ÷ 110,471 = 30.86% of total units started as of September 30, 1968</td>
<td></td>
</tr>
</tbody>
</table>

Source: U.S., Department of Housing and Urban Development, Title II, Section 221, Below Market Interest Rate Rental and Cooperative Project Operations, September, 1968.
<table>
<thead>
<tr>
<th>Category of Insurance</th>
<th>Projects</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Terminations of Insurance</td>
<td>14</td>
<td>$25,657,600</td>
</tr>
<tr>
<td>(2) Insurance in Force</td>
<td>875</td>
<td>$1,512,979,757</td>
</tr>
<tr>
<td>(3) Commitments Outstanding</td>
<td>261</td>
<td>$355,229,690</td>
</tr>
<tr>
<td>(4) Applications in Process</td>
<td>150</td>
<td>$317,069,970</td>
</tr>
<tr>
<td>(5) Feasibility Letters Outstanding</td>
<td>95</td>
<td>(not established)</td>
</tr>
<tr>
<td>(6) Requests in Process</td>
<td>203</td>
<td>(not established)</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>1,598</strong></td>
<td>($2,210,937,017)</td>
</tr>
</tbody>
</table>

Average per-unit cost, (1) through (4): $11,181

Source: U.S., Department of Housing and Urban Development, Title II, Section 221 Below Market Interest Rate Rental and Cooperative Project Operations, 1968. (An unpublished statistical report.)
SUMMARY

The Omnibus Housing Bill, passed in 1961 at the request of President Kennedy, was directed toward the goal of providing "decent housing for all of our people." The provision of low interest loans to nonprofit sponsors of housing for low- and moderate-income households was a part of that legislation.

This 221(d)(3) program was active for approximately seven years. Later, 221(d)(3) was used as a vehicle to implement rent supplements as authorized by the Housing and Urban Development Act of 1965. Still later, in 1968, it was replaced, for projects not yet initiated, by a program of interest subsidy, in preference to the 221(d)(3) combination of FHA insurance and FNMA purchase of project mortgages. The nationwide impact of the 221(d)(3) BMIR and rent supplement program was limited. Problems developed which included financing difficulties and significant administrative problems.

30 President Kennedy's Special Message to Congress on Housing and Community Development, March 9, 1961.
Believe me, you really have to be on top of this thing continually. You have to be absolutely determined to see it through and willing to devote practically all your time.

Member of a sponsoring church group

Yes, we're building a project, but we'll never do it again... The costs, were set by FHA, and we didn't close 'till a year later. The cost of labor, materials, and money had all gone up. The sponsor just simply eats the difference.

A successful private sponsor

What's wrong with the program? Red tape--thousands of miles of superfluous, needless red tape.

Another successful private sponsor

CHAPTER IV

EXAMINATION OF BMIR AND RENT SUPPLEMENT PROJECTS

IN THE SOUTHWEST OHIO REGION

THE RESEARCH PROJECT: A CASE STUDY APPROACH

This project was directed specifically toward provision of a better understanding of the conditions
surrounding successful 221(d)(3) BMIR and rent subsidy housing project sponsorship in the Southwest Ohio region supervised by the FHA regional office in Cincinnati. The case study approach used is a technique highly appropriate to this particular situation. In this area the presence of FHA records, sponsors, and agents involved in a limited number of projects made possible a more thoughtful look at the initiation of these housing projects.

Projects Studied

The housing projects investigated are presented in tabular form in Table 5.

At the time this research effort was undertaken, discussions with FHA revealed the existence of twelve proposed BMIR and rent supplement projects in Southwest Ohio which had made sufficient progress in attempts to meet requirements of this program to permit some indication of their ultimate success in reaching completion. The
<table>
<thead>
<tr>
<th>Name of Project</th>
<th>Project Type</th>
<th>Number of Units</th>
<th>Type of Sponsor</th>
<th>Was a Packager used?</th>
<th>First Contact with FHA</th>
</tr>
</thead>
<tbody>
<tr>
<td>PARKTOWN CO-OP</td>
<td>Coop-BMIR</td>
<td>323</td>
<td>Investor-Sponsor</td>
<td>Yes</td>
<td>NA&lt;sup&gt;C&lt;/sup&gt;</td>
</tr>
<tr>
<td>GARDEN HILLS (Part I)</td>
<td>Coop-BMIR</td>
<td>406</td>
<td>Investor-Sponsor</td>
<td>Yes</td>
<td>NA&lt;sup&gt;C&lt;/sup&gt;</td>
</tr>
<tr>
<td>LAKEVIEW ESTATES</td>
<td>Coop-BMIR</td>
<td>400</td>
<td>Management Type Cooperative</td>
<td>Yes</td>
<td>NA&lt;sup&gt;C&lt;/sup&gt;</td>
</tr>
<tr>
<td>WOODRIDGE PARK</td>
<td>R S</td>
<td>130</td>
<td>Investor-Sponsor</td>
<td>Yes</td>
<td>Jan 66</td>
</tr>
<tr>
<td>SHELTON GARDENS</td>
<td>R S</td>
<td>138</td>
<td>Nonprofit</td>
<td>Yes</td>
<td>June 66</td>
</tr>
<tr>
<td>HILLMONT GARDENS</td>
<td>R S</td>
<td>18</td>
<td>Limited Distribution Mortgagor</td>
<td>No</td>
<td>April 68</td>
</tr>
<tr>
<td>PARK PLACE</td>
<td>R S</td>
<td>16</td>
<td>Nonprofit</td>
<td>No</td>
<td>June 68</td>
</tr>
<tr>
<td>NEILAN PARK (Part I)</td>
<td>R S</td>
<td>96</td>
<td>Limited Distribution Mortgagor</td>
<td>No</td>
<td>Aug 66</td>
</tr>
<tr>
<td>Was a Package used?</td>
<td>First Contact with FHA</td>
<td>FHA Commitment</td>
<td>Construction Start</td>
<td>Present Status</td>
<td></td>
</tr>
<tr>
<td>---------------------</td>
<td>-------------------------</td>
<td>----------------</td>
<td>-------------------</td>
<td>---------------</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>NA&lt;sup&gt;c&lt;/sup&gt;</td>
<td>July 62&lt;sup&gt;b&lt;/sup&gt;</td>
<td>1960&lt;sup&gt;b&lt;/sup&gt;</td>
<td>Operating</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>NA&lt;sup&gt;c&lt;/sup&gt;</td>
<td>April 62</td>
<td>April 62</td>
<td>Operating</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>NA&lt;sup&gt;c&lt;/sup&gt;</td>
<td>Oct 65</td>
<td>May 66</td>
<td>Operating</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>Jan 66</td>
<td>Nov 66</td>
<td>Aug 68</td>
<td>Under Const.</td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>June 66</td>
<td>Feb 68</td>
<td>April 68</td>
<td>Operating</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>April 68</td>
<td>July 68</td>
<td>Oct 68</td>
<td>Under Const.</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>June 68</td>
<td>Nov 68</td>
<td>April 69</td>
<td>Under Const.</td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>Aug 66</td>
<td>Nov 67</td>
<td>Mar 68</td>
<td>Under Const.</td>
<td></td>
</tr>
<tr>
<td>Name of Project</td>
<td>Project Type</td>
<td>Number of Units</td>
<td>Type of Sponsor</td>
<td>Was a Packager used?</td>
<td>First Contact with FHA</td>
</tr>
<tr>
<td>-------------------------</td>
<td>--------------</td>
<td>-----------------</td>
<td>----------------------------------</td>
<td>----------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>RIDGEVIEW GARDENS</td>
<td>R S</td>
<td>27</td>
<td>Limited Distribution Mortgagor</td>
<td>No</td>
<td>Dec 66</td>
</tr>
<tr>
<td>KARSTEN TERRACE</td>
<td>R S</td>
<td>88</td>
<td>Nonprofit</td>
<td>No</td>
<td>Jan 68</td>
</tr>
<tr>
<td>PRINCE HALL APTS.</td>
<td>R S</td>
<td>100</td>
<td>Nonprofit</td>
<td>Yes</td>
<td>Sept 65</td>
</tr>
<tr>
<td>McMICKEN ARMS</td>
<td>R S</td>
<td>18</td>
<td>Limited Distribution Mortgagor</td>
<td>No</td>
<td>Nov 66</td>
</tr>
<tr>
<td>RIDGEVIEW APTS.</td>
<td>R S</td>
<td>44</td>
<td>Limited Distribution Mortgagor</td>
<td>No</td>
<td>Sept 66</td>
</tr>
<tr>
<td>122 Logan St. 455 W. McMicken</td>
<td>R S</td>
<td></td>
<td>Limited Distribution Mortgagor</td>
<td>No</td>
<td>Feb 68</td>
</tr>
<tr>
<td>McMICKEN COURT</td>
<td>R S</td>
<td></td>
<td>Limited Distribution Mortgagor</td>
<td>No</td>
<td>Jan 68</td>
</tr>
<tr>
<td>ADVENT I</td>
<td>R S</td>
<td>12</td>
<td>Nonprofit</td>
<td>No</td>
<td>Jan 68</td>
</tr>
</tbody>
</table>

(Projects in an earlier stage of processing that have progressed as far as preliminary commitment by FHA)

GLENBURN GREENS (Section I) Coop-BMIR 70 Management Type Yes Sept 67 Cooperative
<table>
<thead>
<tr>
<th>Was a Packager used?</th>
<th>First Contact with FHA</th>
<th>FHA Commitment</th>
<th>Construction Start</th>
<th>Present Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>Dec 66</td>
<td>Mar 68</td>
<td>NA</td>
<td>At Standstill</td>
</tr>
<tr>
<td>No</td>
<td>Jan 68</td>
<td>Dec 68</td>
<td>NA</td>
<td>Not Started</td>
</tr>
<tr>
<td>Yes</td>
<td>Sept 65</td>
<td>July 68</td>
<td>NA</td>
<td>Started (Now Renting)</td>
</tr>
<tr>
<td>No</td>
<td>Nov 66</td>
<td>Dec 67</td>
<td>April 69</td>
<td>Under Const.</td>
</tr>
<tr>
<td>No</td>
<td>Sept 66</td>
<td>Nov 67</td>
<td>NA</td>
<td>At Standstill</td>
</tr>
<tr>
<td>No</td>
<td>Feb 68</td>
<td>Jan 69</td>
<td>NA</td>
<td>Abandoned</td>
</tr>
<tr>
<td>No</td>
<td>Jan 68</td>
<td>Jan 68</td>
<td>Future unknown at this time</td>
<td>At Standstill</td>
</tr>
<tr>
<td>No</td>
<td>Jan 68</td>
<td>Nov 68</td>
<td>Feb 69</td>
<td>Under Const</td>
</tr>
<tr>
<td>Yes</td>
<td>Sept 67</td>
<td>In-Process</td>
<td>NA</td>
<td>Not Started</td>
</tr>
</tbody>
</table>
**TABLE 5--Continued**

<table>
<thead>
<tr>
<th>Name of Project</th>
<th>Project Type</th>
<th>Number of Units</th>
<th>Type of Sponsor</th>
<th>Was a Packager used?</th>
<th>First Contact with FHA</th>
</tr>
</thead>
<tbody>
<tr>
<td>GLENBURN GREENS</td>
<td>Coop-BMIR</td>
<td>62</td>
<td>Management Type</td>
<td>Yes</td>
<td>Sept 67</td>
</tr>
<tr>
<td>(Section II)</td>
<td></td>
<td></td>
<td>Cooperative</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KAMPE APTS.</td>
<td>BMIR</td>
<td>17</td>
<td>Limited Distribution</td>
<td>No</td>
<td>Dec 67</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mortgagor</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

*a* A packager was engaged in the late stages of the proposal. However, none was retained during the greater part of the project's history except for one interval. (See project history.)

*b* Conversion to 221(d)(3) after construction start.

*c* These dates not available.

Source: Interviews with sponsors and agents, inspection, and FHA data supplied by the Regional Office.
<table>
<thead>
<tr>
<th>Was a Packager used?</th>
<th>First Contact with FHA</th>
<th>FHA Commitment</th>
<th>Construction Start</th>
<th>Present Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>Sept 67</td>
<td>In-Process</td>
<td>NA</td>
<td>Not Started</td>
</tr>
<tr>
<td>No</td>
<td>Dec 67</td>
<td>June 68</td>
<td>NA</td>
<td>Reprocessing Commitment</td>
</tr>
</tbody>
</table>

*However,addChild except FHA data*
earliest in time was the Parktown Co-op in Cincinnati which was in the initiation process under an earlier market rate program at the time the BMIR program was created in 1961, and was subsequently converted to 221(d)(3) financing. This number included four completed projects, two projects on which construction had not yet started but which were expected to begin construction in the immediate future, and projects in earlier phases of the approval process. Further local investigation revealed still another project that should be included; and further research into information obtained from the Department of Housing and Urban Development and subsequent discussions with personnel in the regional office expanded this list of projects to nineteen, two of which appeared to be abandoned.

These nineteen projects, along with ten proposals in very preliminary stages of processing, made up a total of only 29 proposals for BMIR and
rent supplement projects recognized as promising during the eight year period since the inception of the BMIR program in 1961. If the two projects that appeared to be abandoned are disregarded, the remaining seventeen projects shown in Table 5 together contain plans for 1965 units, a modest total in light of estimated annual requirements for the city of Cincinnati alone, for production of 1,000 or more units of subsidized housing.¹

Method of Presentation of Study Results

The BMIR and rent supplement projects in this geographical area were examined from the following viewpoints:

(1) In view of the emphasis placed on the feature of the new law as passed in 1961 which provided for long-term, no equity, low-interest loans to "... nonprofit organizations and public agencies ..."²


it appeared useful to determine how many projects were sponsored by nonprofit groups such as churches or labor unions, as well as the type of such projects.

(2) All projects were studied in an attempt to determine which, if any, offered little immediate hope of completion and to determine the apparent primary reason for this condition whenever it was found to exist.

(3) Study of the projects listed in Table 5 made it possible to select three for more extensive presentation by means of case histories, in order to illustrate both sponsor characteristics that appeared to be conducive to success and many of the difficulties found to be involved in project sponsorship. Two projects are presented that appear almost certainly to be among those that ultimately will be completed. These are Woodridge Park, a cooperative, BMIR project in Hamilton, Ohio, and Karsten Terrace, a rent supplement project in
Xenia. The third project presented, Ridgeview Apartments, appears to be at a virtual standstill although completion at some future date is possible.

(4) A discussion is provided of sponsor type and other factors observed which appeared to affect project success. In this regard, one principal characteristic was emphasized in addition to sponsor type: the apparent complexity of governmental and legal requirements involved in project initiation,\(^3\) and the preliminary finding of the frequent presence of a "packager"\(^4\) who functioned to perform and/or

\(^3\) Even successful sponsors complained of what they believed to be excessive paperwork and the time and effort required for its completion: "... A pile of forms ... at least 25 pounds of paper ... so much needless stuff." (Interview with sponsor on 23 April 1969.)

\(^4\) A packager is an individual or firm that "knows the ropes" of housing sponsorship, one that can see that all legal and administrative requirements are met. This would include problems of financing, land options, construction agreements, zoning, and FHA requirements. A recent source defines the packager as "... a catalyst in bringing together the people who need better housing, the architects, the engineers, the contractors, the local and federal housing officials, and the lenders." A Procedural Guide for Cincinnati Area Non-Profit Housing Sponsors (Cincinnati: Better Housing League, April, 1969).
coordinate these requirements led to the consideration of packager utilization as an important sponsor characteristic which might appear to lead to project success.

For purposes of this analysis, projects were categorized and are presented in tables in terms of each of the following dichotomies: construction started--construction not started; project in progress--project stalled or abandoned; processing time greater than average--processing time shorter than average. The latter appeared particularly worthy of investigation in view of comments previously reported concerning long processing time for these projects.

**NONPROFIT SPONSORSHIP**

A striking suggestion is evident from the data, as presented in Table 5, that there may exist a limited ability and/or willingness on the part of potential nonprofit sponsors to initiate this type of housing project. A majority of the projects examined were initiated instead by profit motivated agents. Of 15 projects that are either completed or making satisfactory progress toward that goal, only three were initiated by church or fraternal organizations, the types of
organizations that would ordinarily be thought of as being in the nonprofit category. These three were:

<table>
<thead>
<tr>
<th>Project</th>
<th>Housing Type</th>
<th>Nonprofit Sponsor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shelton Gardens</td>
<td>Rent Supplement Housing for elderly persons</td>
<td>Zion Baptist Church</td>
</tr>
<tr>
<td>Karsten Terrace</td>
<td>Rent Supplement Housing for low-income households</td>
<td>Christian Social Relations Commission, Christ Episcopal Church, Xenia</td>
</tr>
<tr>
<td>Prince Hall Apts.</td>
<td>Rent Supplement Housing for low-income households</td>
<td>Prince Hall Lodge (Masonic Temple) Dayton</td>
</tr>
</tbody>
</table>

More recent months have seen the establishment in Cincinnati of another type of not-for-profit organization, the local group dedicated to improvement of housing in the community. A notable example of this type of organization is the Mt. Auburn Good Housing Association, Limited Distribution Corporation sponsor of the Park Place Apartments shown in Table 5. Officials of Cincinnati's Office of Community Development are of the opinion that the contribution of non-profit neighborhood groups to the housing supply, although commendable, will continue to be small. "The community groups will make a limited impact because of their limited experience and expertise." "The Housing Problem: Money Remains the Biggest Headache," Cincinnati Post and Times Star, January 21, 1969, p. 8.
All the above projects sponsored by nonprofit organizations are rent supplement projects. Of the four BMIR projects listed in Table 5, which will contain all the BMIR housing and 72 per cent of all units thus far under construction in this area under both the BMIR and rent supplement program, none was sponsored by a nonprofit group such as a church or union. This locally observed lack of involvement by nonprofit organizations in the BMIR program is even more striking than the limited involvement reported nationwide. As pointed out in Chapter 3, available data for the nation as a whole show only 31 per cent of BMIR projects sponsored by nonprofit groups.

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6U.S., Department of Housing and Urban Development, Title II, Section 221 Below Market Interest Rate Rental and Cooperative Project Operations, 1968. (An unpublished statistical report.)
UNPROMISING PROJECTS

Investigation of the four projects that were not achieving appreciable progress toward approval, that were, in fact, at a standstill, revealed the following causes:

<table>
<thead>
<tr>
<th>Name of Proposed Project</th>
<th>Type of Sponsor</th>
<th>Units</th>
<th>Obstacle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ridgeview Apartments</td>
<td>LDC</td>
<td>44</td>
<td>Opposition on the part of leaders of the neighborhood association where the project was to be placed.</td>
</tr>
</tbody>
</table>

7This project had satisfied feasibility criteria established by FHA, and was at the point where construction was imminent, when unforeseen obstacles in the form of neighborhood opposition appeared. According to the would-be sponsor: "It's absolutely incredible that this project isn't built by now." This circumstance revealed in a lengthy interview with the sponsor was verified by a newspaper account. (James Adams, "The Housing Problem: Latest Pitfall Jeopardizes Project," Cincinnati Post and Times Star, January 25, 1969, p. 4.) Attempts to interview the head of the neighborhood association were unsuccessful. A further discussion of this project appears later in this paper.
Name of Proposed Project | Type of Sponsor | Units | Obstacle
--- | --- | --- | ---
Ridgeview Gardens | LDC | 27 | Apparent neighborhood and cost problems
McMicken Court | LDC | 30 | Cost Problems
(No Name) Logan Street & W. McMicken | LDC | 18 | Cost Problems

8 This sponsor, although polite, declined to be interviewed, but did furnish limited information by mail. It is of interest that this project is in the same immediate neighborhood as Ridgeview Apartments, although sponsored by an entirely different and unrelated firm, and like the Ridgeview Apartments project, is in the process of acquiring a different sponsor, a local Negro church.

9 The Federal Housing Administration studies a potential rehabilitation project to determine the maximum allowable costs justified, but any subsequent delays in a period of rising costs for materials, labor, and money may leave the sponsor with a deficiency between approved mortgage amount and actual costs, including allowed cost for the old property. In the words of this property owner and sponsor: "My problem? Basically, the condition everybody has, government figures a year old and rising costs . . . Too many promises and not enough action, I spent six months with city planners to get a decision. During that time my contractor quit. But a council zoning change would have taken longer, maybe a year . . . Red tape, too many fringe areas where nobody wants to say yes or no." (It is interesting that these were problems with local government, not the Federal Housing Administration.) "FHA moved fairly fast, but cut some costs that hurt." (Interview with sponsor, 22 April 1969.)

10 The sponsor's stated opinion here was that the rehabilitation property owner is typically not allowed
Of these four proposed projects, all were relatively small and were sponsored by private individuals, or combinations of private individuals, who intended to administer the rehabilitated property as Limited Distribution Mortgagors. Two failed to complete the initiation process because of growing cost problems, both for construction and for money itself in the form of points and discounts, and two were apparently blocked by neighborhood opposition (with this stoppage leading also to growing cost difficulties).

---

11Property owners involved in rehabilitation consistently complained of high rehabilitation cost due to extensive mandatory use of hand labor and contractor reluctance to make what one owner characterized as "firm, bottom-dollar" bids because of cost uncertainties inherent in rehabilitation of old structures. This is apparently not solely a problem of the small-scale operator. Large corporations attempting rehabilitation work also report discouraging results--Armstrong Cork Company, for example, in a program of rehabilitation and resale of run-down houses, is reported to have experienced an average loss of $5,000 per unit. Lee Berton, "Slum Renovation: The Profit Is Elusive," Wall Street Journal, June 11, 1969, p. 18.
A more comprehensive picture of difficulties inhibiting sponsorship of projects can be gained through review of two of the project histories presented in the following section, those for Karsten Terrace and Ridgeview Apartments.

SELECTED PROJECT HISTORIES

An Example of A Successful Initiation Process: Woodridge Park

The Woodridge Park project in Middletown, Ohio, illustrates conditions found to be typical of a more successful project initiation process. Deficiencies commonly encountered by smaller sponsors in the areas of "seed money" and technical capability were avoided through use of funds and technical capability regularly available within sponsor's organizations. The Investor-Sponsor, builder Marvin C. Warner, Incorporated, a land developer, appeared to possess adequate planning, legal, architectural, and related talent to organize the project, along with operating capital required. The land was acquired and zoned with
little apparent difficulty. The packaging function was performed by the Foundation for Cooperative Housing Services, Incorporated (FCH), an organization which played a similar role in two other large projects in this Southwestern Ohio region.

"Woodridge Park East . . . grew out of conversations between representatives of the Marvin Warner Organization in Cincinnati and Mr. Rodger Wilcox, president of FCH Services' Research and Development Division. The Warner Organization had viewed the success of the Park Town program in Cincinnati; and as a developer interested in producing housing, saw in the Cooperative Purchase Plan, a way for his organization to reach the mass market of moderate-income families, that no other existing legislative tool had been able to reach."

FCH, with a backlog of experience in meeting Federal Housing Administration requirements, organized and successfully presented the project to FHA, handled sales of units, and organized the cooperative.

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12"In land, specifications, overhead, legal requirements - $100,000 can be tied up in a project within sixty days." Interview with a company official 18 April 1969.

13Correspondence from an official of FCH Services, Incorporated, dated May 15, 1969.
Warner's cooperative effort with FCH on Woodridge Park was a continuation of a relationship that began in 1962 when Warner became interested in a plot of urban renewal land in Kansas City. Having heard of FCH, the company contacted that organization to determine whether or not it would be interested in cooperating. At this time the pre-sale co-op program was new, and that particular project of 328 units was a pioneering effort. Since that time, Warner has worked with FCH in five states on a total of seven projects, all BMIR except one which was a market rate project. Other projects for the future are under consideration.14

In contrast to nonprofit sponsors contacted, this land developer apparently experienced little difficulty in acquiring the project site and in contrast with smaller sponsors, both nonprofit and private,

14"FCH is nonprofit— but its peoples are professionals. They know the law and have experience ... We assume they feel the same way about us—that we can get the job done too." (An official of Marvin C. Warner, Incorporated. Interview on April 18, 1969.)
it experienced few difficulties with zoning and community acceptance. This company, in the words of a company official, is "always looking for land" for many purposes, and when land is found for which this kind of project appears to be the best use, this land development firm contacts FCH. Warner favors this relationship with FCH on these projects because Warner can do its job (land development and construction), make its profit, and be free of any continuing responsibility for the project. After the project is sold and the cooperative organized, FCH typically receives an opportunity for continuing project management as the agent of the cooperative.16

15Ibid.

16The cooperative approach to BMIR housing may have a significant beneficial side effect, in addition to provision of adequate housing units at moderate cost. The manager of Garden Hills in Cincinnati (also the successful packager of that project during its initiation) expressed the belief that one of his primary functions as manager was to prepare "residents," (rather than "tenants," ) for the responsibilities of home ownership. This manager measures his own success not only in terms of efficient management in dollars and cents, but also in terms of the numbers of families that graduate each year from residence on his project to home ownership. (Interview on April 29, 1969.)
Although Woodridge Park is under construction by a large organization with experience in this particular field, the presence of delays in the initiation process is evidenced by the following list of milestones:

- Land Purchased: July 65
- Rezoning Completed: Dec 65
- 1st meeting with FHA: Jan 66
- Receipt of notice of allocation of funds: Nov 66
- Receipt of firm commitment for both sections of project: April 68
- Construction Start: August 68

Between November, 1966, and April, 1968, a period of 17 months, Warner submitted three revised applications.

17The Warner Company has, as a matter of practice, estimated the following times from decision to construction start of typically large construction projects:

- a conventional job (without government financing) - 120 to 180 days
- an FHA job - one to two years

However, Accelerated Multifamily Processing (AMP) has generally improved processing times. On a recent 221(d)(4) project in Kansas City, where AMP was being tested by FHA, this span was reduced to 90 days. "FCH is nonprofit . . .", (op. cit.).
necessitated by plan changes, coordination problems between city zoning authorities and FHA, other modifications in policy and cost changes.

With this type of project, the pre-sale cooperative, FHA is not obligated to insure the mortgage until 90 per cent of the units involved have been sold. However, for sales purposes, models are necessary; therefore the builder will typically ask for permission for "early start" at his own risk. In this instance winter was approaching and the builder felt that costs would rise in the months to follow, so that permission was asked for an expanded early start to include units to be sold as well as model units. By not waiting for the project to be 90 per cent sold before starting construction, the builder also appreciably reduced the time that purchasers of units would necessarily wait for occupancy, from six to eight months (during which many buyers could be expected to find alternatives and wish to withdraw) to 30 to 90 days. It is apparent from the brisk sales pace at Woodridge Park that a large unfilled demand exists for adequate housing units in the moderate price range.
Under an Early Start Agreement, construction began on models and underground work in December of 1968. Approximately ninety days hence the models were completed and the sales program began on the last week in March of 1969. During the last six weeks, from March to date, approximately 1500 families have gone through and viewed our model townhouses in Middletown. The first section is completely sold out and is presently awaiting the approval by FHA of the individual applicant cooperators in preparation for the initial endorsement or closing on Section 1. Section 2 is over fifty per cent sold out and we anticipate closing of that section within the next sixty days.

Those applicants approved by FHA will be moving into their new homes, barring any unforeseen delays, within the next sixty days. Within the next nine months it is hoped that all 130 families will have been moved into their new homes at Woodridge Park East.18

The Woodridge Park project appears here as an example of a successful endeavor carried out by a knowledgeable, capable sponsor. Even in the approval

18 Correspondence from an official of FCH Services, Incorporated, dated May 15, 1969.
process for this project, however, troublesome delays were encountered--delays that not only retarded the creation of badly needed housing, but created cost penalties for the ultimate occupants. It was originally planned that construction would start in September, 1966, more than a year before actual start. Construction is expected to begin in 1969 on the second section of Woodridge Park, pending FHA approval of an amended application necessitated by increased interest and construction costs. The probable significance of the above delays on the cost of units in the first section is illustrated by cost projections for this later section, which indicate that units will cost the purchaser $10--12 per month more than similar units in the first section put under construction approximately one year earlier.

A Successful But Problem-Plagued Project: Karsten Terrace

This rent supplement project, located in Xenia, Ohio, initiated by a church-related nonprofit group, illustrates the variety of problems that may be encountered by such an organization as it attempts to create low-income housing through this program.
A need for better housing for low-income groups in that community became apparent to the chairman of the Christian Social Relations Commission as a result of Christmastime delivery of food parcels to needy families in December, 1966. After seeing the interiors of dwellings in use, and observing boarded up windows, lack of plumbing, overcrowding, and the fact that certain of the households were living in shacks with mud floors, the chairman discussed these housing problems with the Minister of Christ Church, Reverend Karsten. The pastor asked the commission to investigate means of improving these conditions. The commission met, discussed the magnitude of the task, and formed a separate committee, the Xenia Area Housing Steering Committee, to attempt improvements. Federal officials were invited to the community to explain the Rent Supplement Program and the Public Housing Program. In addition to Housing Steering Committee members, these presentations were attended by local government figures such as County Commissioners and the City Manager. As a result, the committee decided that the rent supplement approach appeared
the most promising for Xenia for two reasons: (1) Xenia did not have a workable program as a pre-requisite for a public housing authority, and (2) the Rent Supplement Program appeared to offer more incentive to poor families in that they would not have to move out of apartments when their incomes reached a particular level. Approximately six weeks later, in June, 1967, the Xenia city commission gave its formal approval to have a rent supplement program in Xenia. This crucial step, approval by the local governing body, satisfied an important FHA requirement and cleared the way for further action by the steering committee, a decision as to whether or not to incorporate and attempt to sponsor a much needed project. Members were concerned about funds, what amount would be needed and where it might be obtained, as well as personal liability for debts that might be incurred. In July, 1967, the Xenia Area Housing Corporation was formed.

Both an architect and an attorney were found who agreed to work on the basis that they would be paid for their services if the project were finally built. If it were not, they would consider their time to be a donation to a worthy but unsuccessful community project.
A four month search for land resulted in options on two sites. The site suitable in size lay outside the city limits, and a decision to attempt to use this land led to a meeting with township trustees and a delay to await a re-zoning hearing.

During the interim the committee in January conducted a survey to determine the local need for this type of housing, utilizing volunteer help from nearby colleges and help from the Office of Economic Opportunity (OEO). This survey verified the existence of 220 eligible families in the county. A financial campaign in the local community was launched at this same time, and the committee organized its supporters for the coming zoning hearing. These included representatives from the County Commission, Health Department, Child Welfare, civic groups, and churches. Prior to the hearing the committee was armed with FHA assurance that rent supplement funds had been reserved for the project.

The zoning hearing uncovered a significant amount of resistance to the project. Subsequently, the
zoning board refused to approve a zoning change necessary for the project, and when the committee appealed to Township Trustees, recommended that the trustees refuse the request on the basis that the committee had not proven the need for the project and that, additionally, the project was morally detrimental. In March, 1968, the Township Trustees disapproved the proposed zoning change.

The committee then turned its attention to the other potential site. However, a third site was found, and the committee selected it as more suitable; then a fourth was found which appeared nearly perfect for the project. However, news that this last parcel of land would be the rent supplement project site appeared in the Xenia paper, and the owner subsequently refused to sell. The committee then selected the third site as the best available in June, 1968.

At this stage a contractor had been located to build the project and the committee authorized its architect to get an artist's rendering of the project and submitted a Project Mortgage Application through FHA. In July, 1968, a mortgage company (Galbreath
Mortgage Company) was engaged. At this time a new obstacle appeared, disagreement with terms established by the contractor's representative.

We now ran into trouble with our contractor's representative. He had obtained the option on the land in the contractor's name so he told us either we hire his friend as a packager or no deal. So rather than lose the project again, we agree to this blackmail. In August, we were ready to file our conditional commitment with FHA. There was filing fee of $1700 which was supposed to be paid by the Contractor. We get the run around from the Contractor's Rep. and the Packager (a packager is a person who is familiar with all FHA forms and procedures for putting together one of these housing programs and FHA allows a fee for doing this). After two weeks, Marshall Massie, our attorney, contacts the Contractor directly who says he has looked at the architect's plans and they are no longer interested in building because there is not enough profit. Marshall asks for the option on the land to be turned over to us and there went the panic button again. The options have run out.\textsuperscript{19}

\textsuperscript{19}A member of the Xenia Housing Steering Committee. (Interview on 18 April 1969).
A meeting was arranged with the owner of the land, and another option to buy was obtained with a purchase price increase of $1,000 per acre. The packager was dismissed.

At this point due to these delays the option on an adjacent property, purchase of which would be required for access to the project site, was due to expire. It was necessary to buy this property promptly to guarantee access. Adequate funds were not available. Four committee members signed personal notes to secure a loan from a lender in Yellow Springs (no Xenia Bank would make funds available) for purchase of the property. This obstacle had been overcome by September, 1968. At this point a second contractor had been located, and the committee was able to file conditional commitment. It received approval from FHA three weeks later. A flurry of activity then followed to meet unexpected problems as they occurred:

20 Committee members felt that the stormy zoning hearing of the previous Spring had severely damaged its fund-raising efforts. Ibid.
October 1968: The architect missed the deadline for drawings established by FHA. A one week extension was secured and final commitment filed.

November 1968: It was revealed in a meeting of the city commission that the architect had not submitted plans to the Planning Commission for approval. The committee did so.

November 1968: The Planning Commission insisted on several changes to the plans. Compromises were made, and preliminary closing was planned to occur on December 4, 1968.

November 1968: A call from the Federal Housing Administration office notified the committee that the packager employed for a time had not been approved by the Regional Office in Chicago. Other means had to be found to pay that cost. Preliminary closing was then scheduled for December 10, 1968.

Even though re-design of units, at the lender's insistence, to enlarge the bedrooms consumed
sufficient time that the FHA interest rate was raised to 7½ per cent, the committee found that it would be necessary to pay 2½ points for the loan. In February meetings were held between the committee, whose funds were exhausted, and professional people who had been involved in project planning. These individuals agreed to meet this expense of approximately $25,000 in order to keep the project alive. However, under FHA rules, this procedure would have been viewed as a "kickback," and this course proved to be no alternative at all. However, a legitimate possibility existed for the builder to meet this expense, if it were exceeded by cost savings in the construction which qualified for incentive payment.

The mortgage company at this point indicated an inability to locate construction funds, but promised to "look around." New York Life Insurance Company, the mortgagee to be, would not provide construction funds, and a local source was needed. Subsequently, the mortgage company indicated that money could be obtained at 9½ per cent (versus the 7½ per cent permitted under FHA procedures).
The committee, however, talked independently to other potential lenders, and found the First National, which had been involved in another successful rent supplement project in Cincinnati itself, expressed a desire to manage the project mortgage. This would require the Dayton mortgage company already involved to assign the mortgage commitment to the Cincinnati bank. However, the committee found that the mortgage company would demand payment for doing this. A total of $12,000 was needed for this unexpected expense, with no funds available.

At this stage, late April, 1969, the committee faced imminent loss of its land option within a period of weeks (and would then face a sale-price increase) and feared further increases in construction costs before any further progress could be made. A meeting was scheduled in late April to secure FHA permission to start. Initial closing by FHA was delayed until some time in May due to non-availability of the FHA attorney from Chicago who presided at these events.
At this point the committee listed the following liabilities that had been incurred by the committee and other participants in the project:

- **Attorney** - time and effort in excess of the $8,000 fee he will receive if the project succeeds.
- **Architect** - approximately $22,000 of effort in preparations of plans, sketches, etc.
- **Builder** - $10,000 (cash paid in fees)
- **The non-profit corporation** - debts of $3,000 for soil tests and $2,000 for title search.

In addition, as reported earlier, four committee members had signed personal notes to purchase an $8,000 property (an old house) to secure access to the site.

In spite of these difficulties, the committee believed that initial closing would be completed in May and the project completed. FHA personnel contacted appeared to believe also that the project would proceed. For these reasons, in spite of unresolved problems, this project is categorized as a successful project. However, even though ultimately successful, the
Karsten Terrace project illustrates the wide spectrum of problems to be faced by an unsophisticated nonprofit group attempting to operate in an environment made hazardous by neighborhood conflicts, resistance to integration, operations of professional "money-changers," vested interests in the community, and rigorous administrative requirements.  

A Project in Difficulty: Ridgeview Apartments

After passage of the Housing and Urban Development Act of 1965, which provided for rent supplements, the potential sponsor of this project, an independent real estate broker and rental project manager, became interested in the possibility of building one or more small rent supplement projects in core areas of Cincinnati. Crown Development Corporation was formed to plan and build this

21 The information concerning Karsten Terrace was obtained chiefly from recollection of committee members. Little documentation was available for this purpose.
project and to manage it under the rent supplement program as a Limited Distribution Mortgagor. An option to buy was obtained for a potential site on Ridgeway Avenue in Avondale, a predominately Negro neighborhood in Cincinnati, an area subsequently torn by riots in the Spring and Summer of 1967 and the Summer of 1968. The plot of land chosen for the project was withdrawn by its owners before purchase had been effected and the project developer elected to build instead on a site across the street from the originally proposed location. Preliminary plans for a building on the new site were then completed to FHA’s satisfaction, and buildings on the site removed in order to prepare for construction start in March, 1968. When the architect attempted to secure building permits from the city, however, he was refused. As stated in a later newspaper

22This same site was selected for the proposed Ridgeview Gardens, a rent supplement project sponsored by JAH Corporation as noted earlier. This project also has not been built, and is currently in the process of transferring sponsorship to a neighborhood church group. (Correspondence from JAH Corporation received 31 March 1969.)
account ". . . black militancy had come to Cincinnati." Leaders of the Avondale Community Council were adamant in their opposition to the project. Subsequent involvement of these leaders in discussions with the sponsor, FHA officials, agents of the lender, and others did not alter this opposition. In the face of community opposition

23"The Avondale Community Council had stopped the project in its tracks. ACC was obviously miffed that it had not been consulted at the beginning. The argument for public consumption was (that) the apartment would increase the density of an already-overcrowded block." James Adams, "Latest Pitfall . . .," op. cit.

24The sponsor's description of a large meeting of all concerned parties, called to attempt resolution of differences is extremely interesting:

"There were twenty five people in that room; twenty three who wanted the project to go ahead, and two who didn't--the men from the neighborhood association. We asked them to state their specific objections to the project. They objected on the grounds that children of project residents would overcrowd neighborhood schools. We pointed out that our planned 44 units would have only one or two bedrooms each, which would mean few children; and that nearby Columbia Public School was one of the few schools in the city that was not overcrowded anyway. Then the objection was made that the street was too narrow. There would be no room to park. We pointed out that plans called for off street parking for each unit. Then we were told that we were not meeting the housing need--there should be more bedrooms! What it all boiled down to was the leaders were telling us: 'We don't want you in our neighborhood. You came in here without consulting us.'" (Interview with the project sponsor on 24 April 1969.)
and recent manifestations of tension in the immediate neighborhood, the sponsor proceeded no further.

During the ensuing delay the market interest rate increased. By the time a neighborhood church had been found that would agree to sponsor the project and an all-black firm announced contracts to rehabilitate residences on the block and build the apartment building, the lender, Western-Southern Life Insurance Company, required four to five points, twenty to twenty-five thousand dollars, in order to make the project loan. William Jolley, assistant FHA director of the Cincinnati office, summarized this resulting financial problem:

"Our rules do allow us to give this kind of a discount as part of the mortgage. The church doesn't have that kind of money. So if they have to come up with cash, the deal is dead."  

25 "Realizing it was outflanked by the new move, the Avondale Community Council got on the bandwagon. C.W. (Jimmy) Vinegar, chairman of the council's Urban Renewal and Planning Committee, called a press conference. Armed with photographs and charts, Vinegar said the new project had the full backing of the council." Adams, "Latest Pitfall . . .," op. cit.

26 Ibid.
At the time information was gathered for this paper, the "Ridgeview Apartments" project, one of the first rent supplement projects to be proposed and granted FHA approval in Cincinnati, was still stalled. Construction had not been started. For this reason, and for the illustration it provides of a variety of problems facing potential projects, involving both costs and human relations, it is presented above. There is yet hope that the project will eventually be completed. In April, 1969, negotiations were complete as to the terms under which the new sponsor would assume rights to the project, with the expectation that intervening increases in the FHA approved interest rate would obviate requirements for

27 Involvement of this church group may be a hopeful sign for the project. Primarily, it may be a factor in negating community opposition. And, there seems to be some limited indication that involvement of a nonprofit sponsoring group may lend an added tenacity to the sponsoring process. As a knowledgeable officer in another sponsoring group described project failure versus temporary setbacks: "Most neighborhood groups don't quit, they keep plugging away. You may not be able to live long enough to find which are unsuccessful." (Interview with Dr. Scott Clark, Senior Research Associate in community planning on the University of Cincinnati faculty and an officer of the Mt. Auburn Good Housing Foundation, on 24 April 1969.)
points not coverable by the mortgage and the hope
that further obstacles would not develop. 28

INTERPRETATION OF FINDINGS REGARDING SPONSOR
CHARACTERISTICS AND PROJECT SUCCESS

It is extremely difficult to generalize from
the data that can be tabulated and presented in

28 The Bibleway Church, the new sponsor, agreed
to buy, and the former sponsor agreed to sell, pre­
liminary plans and all rights to site and project for
approximately $1500 in cash and $2,000 in assumptions
of certain bills owed by the developer, the agreement
to be void if the project were not eventually success­
fully launched. The probable willingness of individuals
familiar with this project to initiate any future pro­
jects should be evaluated in the light of the original
sponsor's tabulation of actual expenses incurred, as
follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>FHA fees</td>
<td>$1,283</td>
</tr>
<tr>
<td>Option on property</td>
<td>500</td>
</tr>
<tr>
<td>Interest on loan on property</td>
<td>562</td>
</tr>
<tr>
<td>Taxes and insurance</td>
<td>300</td>
</tr>
<tr>
<td>Option on property (the site was in two pieces)</td>
<td>50</td>
</tr>
<tr>
<td>Interest on property</td>
<td>750</td>
</tr>
<tr>
<td>Taxes and insurance</td>
<td>400</td>
</tr>
<tr>
<td>Survey</td>
<td>350</td>
</tr>
<tr>
<td>Soil test</td>
<td>520</td>
</tr>
<tr>
<td>Blueprints</td>
<td>62</td>
</tr>
<tr>
<td>Demolition</td>
<td>3,700</td>
</tr>
</tbody>
</table>

$7,927

These figures do not include implicit costs of the
sponsor (such as planning, meetings, etc.), and do not
include an unpaid charge of approximately $900 from the
architect for preliminary plans.
tables such as 6 through 11 hard and fast rules of thumb that might be employed to predict project success. It might appear from Table 7, for example, that profit-motivated sponsorship would be more likely to result in project abandonment than non-profit sponsorship but this might be an unwarranted assumption. The four failures tabulated included two small proposed projects which encountered cost difficulties and were promptly dropped by the property owners involved. These four projects appear as a group again in Table 10, as "no-packager" projects which were found to be completely stalled or abandoned.

Six relatively small projects accounted for a total of 149 units, as follows: Hillmont Gardens (18), Ridgeview Gardens (27), Micken Arms (18), Ridgeview Apartments (44), (not named) (12), McNicken (30). It may be that the presence of these six smaller projects in the profit-motivated category of these two tables--coupled with possible difficulties in project initiation due to size and "shoe-string"
### TABLE 6
CONSTRUCTION START VS. TYPE OF SPONSOR, NUMBER OF PROJECTS

<table>
<thead>
<tr>
<th>Type of Sponsor</th>
<th>Construction Started</th>
<th>Construction Not Started</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonprofit</td>
<td>4</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Profit-Motivated</td>
<td>7</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>11</strong></td>
<td><strong>8</strong></td>
<td><strong>19</strong></td>
</tr>
<tr>
<td>Type of Sponsor</td>
<td>Project Completely Stalled or Abandoned</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>-----------------------</td>
<td>----------------------------------------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>Nonprofita</td>
<td>5</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Profit-Motivated</td>
<td>10</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>15</td>
<td>19</td>
<td></td>
</tr>
</tbody>
</table>

*aIncludes all in Table 5 categorized as nonprofit. Does not include the investor-sponsor projects even though these might be said to directly involve a nonprofit group (FCH).*
<table>
<thead>
<tr>
<th></th>
<th>Time From First Contact with FHA to FHA Commitment</th>
<th>Time From First Contact with FHA to FHA Commitment</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$&lt;\frac{T}{T}$</td>
<td>$&gt;\frac{T}{T}$</td>
<td></td>
</tr>
<tr>
<td>Nonprofit $^b$</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Profit-Motivated</td>
<td>4</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>TOTAL</td>
<td>7</td>
<td>7</td>
<td>14</td>
</tr>
</tbody>
</table>

$^a$Omitting data on the first three projects listed in Table 5, which could not be determined, as well as for Glenburn Green (I and II) for which this figure was not applicable.

$^b$Includes all in Table 5 categorized as nonprofit. Does not include the investor-sponsor projects even though these might be said to directly involve a nonprofit group (FCH).

$^c$Average time value (approximately 12.8 months).
<table>
<thead>
<tr>
<th></th>
<th>Construction Start</th>
<th>Construction Not Started</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Packager</td>
<td>6</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>No Packager</td>
<td>5</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>TOTAL</td>
<td>11</td>
<td>8</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>Progress</td>
<td>Project Completely Stalled or Abandoned</td>
<td>Total</td>
</tr>
<tr>
<td>---------------</td>
<td>----------</td>
<td>----------------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Packager</td>
<td>8</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>No Packager</td>
<td>7</td>
<td>4</td>
<td>11</td>
</tr>
<tr>
<td>TOTAL</td>
<td>15</td>
<td>4</td>
<td>19</td>
</tr>
</tbody>
</table>
TABLE 11
PROCESSING TIME VS. USE OF PACKAGER, \(^a\)
NUMBER OF PROJECTS

<table>
<thead>
<tr>
<th></th>
<th>Time From First Contact with FHA to FHA Commitment</th>
<th>Time From First Contact with FHA to FHA Commitment</th>
<th>Total</th>
</tr>
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<td></td>
<td>(&lt; \bar{T})</td>
<td>(&gt; \bar{T})</td>
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<tr>
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<td>3</td>
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<td>6</td>
<td>11</td>
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<tr>
<td>TOTAL</td>
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<td>14</td>
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\(^a\)Omitting data on the first three projects listed in Table 5, which could not be determined, as well as for Glenburn Green (I and II) for which this figure was not applicable.

\(^b\)Average time value (approximately 12.8 months).
financing—gives a false impression of lack of effectiveness on the part of profit motivated sponsors. A review of the history of the Woodridge Park project, which alone will create almost as many units (130) as the combined total of these smaller projects, reveals that private sponsorship can be relatively effective in creation of housing units.

Within this group are the four lack-of-progress projects that stand out in Table 7 and Table 10. Rather than an assumption of any basic weakness in profit-motivated sponsorship, as such, this information might more logically suggest an inability on the part of these two housing programs to attract, in large part, any but an underfinanced fringe of real estate

29 But this again may be an oversimplification. Failure of two of these projects should probably be attributed primarily to other than financial factors, as discussed earlier.

30 This group also accounted for three of the four profit-motivated projects with longer than average processing times tabulated in Table 8.
development firms—with the notable exception of the cooperative projects in this region. 31

The apparent usefulness of a packager is indicated by the totals in Table 10 which show no projects involving a packager to be in the "completely stalled or abandoned" category. In addition, Table 5 shows that four of the five nonprofit sponsors chose to employ a packager before the initiation process was completed. The exception was a special case, being a demonstration concept studied by FHA on its own initiative, and adopted later by a nonprofit group. 32 This widespread utilization of the services of a packager suggests the existence of an involved approval process requiring a specialist in meeting these requirements.

31 Three of the four cooperative projects in this region involved a special purpose organization—FCH Services, Incorporated—which relieved the sponsor of much of the administrative burden of government requirements. The fourth involved a highly motivated packager with a background in cooperative housing able to perform a similar function.

32 "The FHA Director had his staff do one to develop procedures. Tried to sell it to the Cincinnati Homebuilders' Association to get them involved. They wouldn't take it, so he offered it to the Church of the Advent." (Interview with real estate professional on May 24, 1969.)
SUMMARY

It would appear that circumstances surrounding each individual project, including neighborhood attitudes and the motivation—and at times the persistence—of individuals involved in project sponsorship were fully as important as quantifiable factors such as those reflected in Tables 6 through 11. Insight into the nature of these individual conditions, as well as the characteristics of a typical successful sponsor is obtained from the examination of selected projects by means of the project histories presented in this chapter. Administrative requirements in the approval process, a requirement for funds to employ financial, architectural, and real estate professionals, the possibility of community opposition, rising costs, financing difficulties—all these represent hazards faced by the potential sponsor. Among the projects studied here that were found to be stalled or abandoned, cost difficulties and neighborhood opposition appeared to be the largest, but by no means
the only roadblocks to progress. Administrative requirements were a universal source of sponsor complaint, not only in the sense of project delay in itself but also because this delay, in a period of rapidly rising construction costs and rising interest rates, led to unplanned and troublesome increases in total project costs.
We as a nation have been failing to keep up with our annually increasing needs for more housing... We are actually falling behind... This is a trend we must reverse. It has been fed by severe increases in the cost of housing.

For some prospective homebuyers, these price increases are merely burdensome. But for millions, particularly at lower income levels, they are a disaster. Rising costs are pricing more and more families out of the home buying market... Of course government housing assistance programs can and should attempt to bridge the gap between what low-income families can afford to pay and what decent housing costs. But it is true that when housing costs rise, they rise for everyone--including government. And the increased cost of providing housing assistance for the poorest families greatly reduces the number of units government can subsidize.

From an Address by George Romney, Secretary of Housing and Urban Development, March 11, 1969

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

REVIEW OF NATIONAL AND LOCAL IMPACT OF 221(d)(3)--BMIR AND RENT SUPPLEMENT PROGRAM

Through September 30, 1968, only 117,593 units of BMIR housing had been placed under construction, with
61,565 of these units completed by that date. This performance contrasted with FHA forecasts, made in 1962, of 60,000 units per year. By August, 1968, 16 months after funding of the program by Congress, something over 900 units of rent supplement housing had been put under construction, but only 38 units had been completed. This contrasted with FHA forecasts calling for production of 40,000 rent supplement units per year. Reasons given for this performance have included tight money, administrative restrictions, community opposition, and limitations on profitable private participation.

In Southwest Ohio, BMIR and rent supplement projects have added 1,267 units to the metropolitan area of Cincinnati. Construction of another 290 units has been started. In addition, 188 units have been started or are due to be started in outlying areas. Difficulties reported as affecting the program nationwide have been observed locally. Investigation of proposed projects in this particular area suggests that the following factors have been significant deterrents to more satisfactory progress on proposed BMIR and rent supplement projects:
(1) Administrative requirements and red tape.
(2) Rising interest rates which created financing difficulties with the passage of time, as project proposals awaited resolution of legal and administrative problems.
(3) Rising construction costs, which similarly exacted their toll with each project delay.
(4) Neighborhood opposition to low- and moderate-income projects.
(5) The inability of sponsors who were not professionals in the real estate development field to cope both with the technical and financial complexities of real estate development, particularly when confronted with complex governmental requirements--both local and federal.

It is doubtful that the outlook for creation of truly significant quantities of low- and moderate-income housing can be considered bright without drastic improvement in (1) the financial and administrative conditions creating these difficulties, and (2) local attitudes toward this much-needed housing.
Although the (d)(3) BMIR program nationally increased in vigor in 1967 when the FHA reduced processing time and when the spread between market interest rate and the subsidized rate of three percent became even more significant, it is not possible to draw firm conclusions regarding the future from the activity observed in this area. All the BMIR housing in this region has been created by large builders in the form of cooperative housing. The recently established replacement program, interest subsidy under Section 236, can also be similarly used. If FHA processing can be further speeded or if the rate of inflation is slowed so that administrative delays become less costly in terms of final project and per unit cost, it would appear that this program should be similarly used by these large organizations, and may well offer, through participation by large organizations such as FCH and large builders, the best hope for quantity production of project housing under these interest subsidy programs.
The rent supplement program has resulted in a modest flurry of activity in this region and has resulted in a total of 15 projects either completed, started, or advanced in processing. Nonprofit groups, particularly neighborhood associations and churches in the Cincinnati metropolitan area, have shown increased interest in the rent supplement program. It is these groups that appear from this study best able to secure neighborhood acceptance and support of moderate size projects placed in areas of need. Unquestionably, they will keep trying. Newspaper accounts of the activities of would-be sponsors indicate a strong interest, as do future plans of the sponsors of Karsten Terrace and Shelton Gardens for added units. Nevertheless, the difficulties encountered by the smaller sponsors in this study, both nonprofit and LDC, in coping with the legal, technical, and administrative complexities involved in project initiation strongly suggest that future production from this source will be a limited quantity.
DIFFICULTIES IN SPONSORSHIP

Meeting Federal Requirements

The universal complaint voiced in various terms by all sponsors interviewed in this study was that of red tape. The feeling was sometimes expressed that local officials of the Federal Housing Administration were doing all they could but were hampered by official procedures. More often "the FHA," people and procedures, was viewed as an entity. On one occasion an individual involved insisted that local officials were not interested in housing creation, were universally reluctant to make decisions, and actually wanted sponsors to "go to Washington" for decisions. These comments, of course, conclusively prove nothing except that, for whatever reasons, sponsors consistently found it difficult to meet administrative requirements involved in the approval process.
An effort to lessen government's involvement in the housing creation process has been made in the field of public housing with the Turnkey program. The BMIR and rent supplement programs, of course, began with greater reliance on private initiative than possessed by traditional methods of creating public housing. Nevertheless, when, as related in Chapter IV, a sponsor describes his closing experience in words like these--

We started to close at 8A.M. At 5 o'clock I was still signing papers. I was required to carry out a pile of forms three or four feet high—at least 25 pounds of paper . . . So much needless stuff.

there is room for improvement. However, the Federal Housing Administration should not receive a disproportionate share of the blame. These programs as established by Congress are loan insurance programs. More desirable programs designed to avoid procedures set up to assure project economic soundness and rigorous control of government funds might perhaps have to be established by Congress on an entirely different basis. Then, too, although governmental
requirements can present substantial roadblocks, the examples of Ridgeview Apartments and Karsten Terrace demonstrate that local governmental units and local political activity may be the chief offenders in this respect.

The recurring difficulty encountered in the sponsor-government relationship lends support to Professor Gillies' statement made at a conference of the International Economic Association, in which he praised performance of postwar FHA and VA loan insurance plans associated with home ownership and roundly condemned government programs in the low-income housing and urban development area.

If the experience of the past is useful, it appears that solutions to future housing problems in the United States must be found through developing methods whereby existing private entrepreneurs within the private economy will find it profitable to operate within . . . welfare areas . . . it would remove the government from operating directly in the housing and urban development field in any way whatsoever.¹

The Cost of Money

In spite of government loan guarantees, this study turned up two instances of reluctance on the part of financial institutions to advance money to a non-profit sponsor. The sponsors of Karsten Terrace were forced to go to another community for seed money. The difficulty experienced later by that group in resizing bedrooms to meet the lender's objections suggests a reluctance to lend at official interest rates in a period of rising market rates. The lender's approval of the revised plans was not received until early 1969, when the official interest rate had been raised from 6 3/4 to 7 1/2 per cent. Lagging official interest rates, in a period of rising market rates, may needlessly delay housing programs dependent on government loan insurance. It is not known whether or not a government institution such as the Federal Limited Profit Mortgage Corporation proposed by Senator Javits in 1961 could successfully eliminate these problems without creating administrative bottlenecks of its own. This appears to be a fertile field for research by students of finance and organizational processes.
Construction Costs

The increasingly important effect of lagging technology on housing costs was discussed in Chapter 1. Adverse effect of rapidly rising costs during a period of inflation was found in this study. Cost estimates that soon became obsolete and builder's profit margins that disappeared due to rising costs were consistent themes of participants interviewed. Large increases in housing costs relative to manufactured goods such as consumer durables, for example, strongly suggest the need for economies in the construction process. It would appear, as discussed in Chapter II, that more vigorous government efforts in the area of a national building code could provide a significantly beneficial stimulus to the introduction of available lower cost building methods in the near future, particularly when coupled with the current trend to mass production of low cost housing modules by mobile home manufacturers. Additionally, the hope of still more significant cost reductions in the future would appear to be a possible result of strengthened federal research and development in housing technology.
A quantitative assessment of potential cost gains offered by available low cost techniques, as well as those offered by more advanced techniques such as the foamed-in-place single family structure, is recommended as an important research area to students who combine skills in cost estimating with an appropriate technical background.

**Unique Problems of Nonprofit Organizations**

The study revealed instances of extreme difficulty encountered by nonprofit groups who attempted to carry out the complex activities involved in sponsorship of low- and moderate-income housing under government assistance programs. The brief history of the Christian Social Relations Commission in Xenia provides an excellent view of the nature of these problems. Nevertheless, this study did not prove that encouragement of nonprofit sponsorship is not desirable.

However, it is possible, in view of the technical and legal complexities inherent in real estate transfer and development, the financial problems—and even the administrative load involved in these
projects— that many nonprofit groups might produce greater impact for the common good in areas of service other than housing. Perhaps housing is an area best left to professionals. One individual interviewed, quite active in nonprofit housing sponsorship, expressed the belief that a concerned church group, experiencing the frustrations that appear to be inherent in housing sponsorship, and experiencing defeat, might well lose all enthusiasm for community service, and refuse to attempt other worthwhile endeavors.

A careful exploration of attitude changes and future activities of individuals involved in nonprofit housing sponsorship might be a worthwhile field of research for students qualified in this area.

A RECOMMENDATION REGARDING THIS TYPE OF HOUSING PROGRAM

This study has revealed that sponsors have very often encountered substantial difficulty in meeting governmental administrative requirements. This has been especially true of nonprofit and small scale profit-motivated sponsors. Nevertheless, it has
shown that determined, concerned people can work within present government programs to increase the supply of low- and moderate-income housing. It has also shown that direct government involvement in the production process is not without penalties in terms of time, money, and frustration.

The obvious recommendation to be made is for increased federal exploration of means by which the federal government might reduce its participation in the detailed planning of these housing projects. The practicality of doing this, and the methods to make it possible are material for a separate study. Methods are needed whereby private enterprise can be given greater flexibility and freedom to move as fast as practical with project initiation.

RECOMMENDATIONS FOR FURTHER FEDERAL ACTION

Problems revealed in this study, other than those related to governmental administrative requirements have centered on rising construction costs, financing costs, legal complexities of real estate development, and community opposition. Leaving the last for local solution by concerned individuals and local groups, the
first three appear to be logical targets for expanded and redirected effort by the federal government. The background material of Chapters I and II strongly suggests that within the limits that our society has set for itself in terms of use of tax money for housing for the needy, no drastic increase in the supply will result until legal complexities and construction costs involved are drastically reduced.

Difficulties observed in this study, specifically those encountered by sponsors of Karsten Terrace and Ridgeview Apartments support this point of view. High and rising construction costs, financing difficulties, and complexities in real estate development were all observed as elements threatening project success.

Specific recommendations based on results of this study and on the background material can be made. It might be argued that government most often succeeds best in increasing the supply of certain needed goods and services available at reasonable cost when,
rather than attempting to replace elements of the market, it intelligently strengthens and modifies the functioning of the price system in socially beneficial ways. Examples range from the home ownership guarantee programs of the FHA and VA back to programs instituted much earlier in time, such as provisions for official weights and measures, the anti-trust laws, regulation of natural monopolies, and the Pure Food and Drug Act. Also of interest as an example of federal initiative in forcing provisions to satisfy an unfilled need is unemployment insurance which was instituted by the states after adequate notice that the federal government would act if the states did not.

In the area of technology, for example, federal and state governments have acted to support large scale research in agriculture, research which would have been impossible on the part of the small entities in the field. Resulting improvements in technology have had measurable impact on the productivity of that industry. In that instance, public monies funded
the research and demonstrated the techniques, and private initiative put the improved technology to work.

In this regard three specific recommendations are made for federal policy in the low- and moderate-income housing area. It is expected that present policies providing for interest subsidies and rent supplements will be continued. In addition, these areas should be attacked with greater vigor:

(1) The complexities involved in present real estate transfer practices indicate that government could make this area less the exclusive province of highly sophisticated specialists by encouraging the development of something akin to the Torrens system of land registration. Perhaps this could be done in a manner similar to that used by pioneering unemployment insurance legislation by means of federal action to encourage action by the states.

(2) In order to encourage development and application of new and more economical construction techniques, the federal government should develop and
Congress should enact a workable performance code, a national (compulsory) code as soon as possible.

(3) In addition to (2) above, which in itself can be expected to encourage privately financed innovation, the federal government should establish a high level, well funded, single purpose organization--either within HUD, the Department of Agriculture, or separately--with the responsibility of developing improved production techniques for use by all builders, public and private.

If these efforts can succeed in reducing the cost of housing units, the effectiveness of all other housing programs and the willingness of society to provide funds necessary to meet its responsibility to provide decent housing for all its citizens should both be significantly improved.
APPENDIX A

STEPS IN PROJECT SPONSORSHIP

Agent
Action
Required

Sponsor
Sees Need and Decides to Initiate Project

FHA and Sponsor
Pre-application Conferences

Sponsor
Assembles a Quantity of Required Information

205
Sponsor's Attorney
Determines Legal Suitability of Land: Title Quality, Zoning, Other Problems

Sponsor
Secures Option On Land

Sponsor
Locates a Mortgagee Willing and Able to Process the Loan for the Project

Sponsor
Selects An Architect Familiar with FHA's Minimum Property Standards and Basic Procedures

Sponsor
(If Urban Renewal Land is Used) Executes Land Disposition Agreement With L.P.A.
Sponsor submits to FHA Background Information and Request for Pre-application Analysis, with Required Exhibits

FHA Review

Sponsor (Recommended) Locates a Professional Real Estate Mgt. Firm To Manage Completed Project

Sponsor Submits Application for Project Mortgage Insurance

The "First Phase" of FHA Processing

Sponsor Raises Funds for studies, Legal Fees, and Other Expenses It Will Face Before Loan Can Be Closed
FHA Approval, Followed by Notice of Preliminary Determination of Mortgage Amount

Based on FHA's Determination of Mortgage Amount, Sponsor Must Decide To Go Ahead With Project

*Arranges with: Mortgagee, Builder, Title Company, City Officials, Bonding Company, FHA, Architect, and other parties involved.

Prepares for Initial Closing*

Establishes Mortgagor Corporation To Be The Actual Owner of the Project

ALL Initial Closing
Builder
Begins Construction

Builder
Submits Requisitions for Advance Payments

Sponsor
Requests Advances From Mortgagee

Mortgagee
Makes Advances, Subject to Ten Percent Holdback

FHA
Inspections
Builder Completes Construction

FHA Certifies Project Complete

FHA Approves Rent Schedule and Grants Permission To Occupy

Sponsor Screens Tenants For Income Qualifications

Builder Submits Certificate of Actual Cost

Sponsor Submits Rent Schedule to FHA
Sponsor
Also Submits Certificate of Actual Cost

FHA
Approves Cost Certificates

FHA
Notifies Sponsor of Exact Amount It Will Approve For Mortgage

ALL
Final Closing: FHA Endorses Secured Note For Mortgage Amount
APPENDIX B

LIST OF FORMS REQUIRED FOR 221(d)(3) PROJECTS

<table>
<thead>
<tr>
<th>TITLE</th>
<th>FORM NO.</th>
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<td>Pre-Application</td>
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<td>Request for Pre-Application Analysis of</td>
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<td>Equal Employment Opportunity Certification</td>
<td>No. 2010</td>
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<td>Request for Preliminary Determination of Eligibility as Nonprofit</td>
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<td>Sponsor or mortgagor</td>
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<td>Previous Multifamily Participation Certificate</td>
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<td>Report on Pre-Application Review</td>
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<td>Rental Housing Appraisal Data and Project Information</td>
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<td>Valuation of Land</td>
<td>No. 2401-LV</td>
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<td>Architectural Report</td>
<td>No. 2411</td>
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<td>Report of Cost Estimation</td>
<td>No. 2412</td>
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<td>Breakdown of Reserve for Replacements</td>
<td>No. 2419</td>
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<tr>
<td>Project Income Analysis and Appraisal</td>
<td>No. 2264</td>
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<td>Rent Formula</td>
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<td>Supplement to Project Income Analysis and Appraisal Multifamily Housing</td>
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Pre-Commitment Processing

| Report of Review Committee and Chief Underwriter                     | No. 2438|
| Commitment for Insurance of Advances                                 | No. 2432|

Pre-Initial Closing

| Certificate of Relationships and Nonprofit Motives                   | No. 3434|
| Certification                                                        | No. 3435|
| Financial Requirements for Closing                                   | No. 2283|

Initial Closing

<p>| FHA Legal Requirements for Closing                                   | No. 3618-UR|
| Guide Form of Certificate of Incorporation                           | No. 1732|</p>
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<td>Surveyor's Report.</td>
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<td>Secured Note</td>
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<td>Deed of Trust.</td>
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<td>Building-Loan Agreement.</td>
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<td>FHA Supplementary General Conditions</td>
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<td>Contract Bond--Dual Obligee.</td>
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<td>Subcontractor's Certification.</td>
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<td>Application for Insurance of Advance of Mortgage Proceeds (No. 1)</td>
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<tr>
<td>Construction Through Final Closing</td>
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<td>Project Inspection Report (No. 1)</td>
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<td>Contractor's Requisition</td>
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<td>Contractor's Prevailing Wage Certificate</td>
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<td>Rental Schedule and Information on Rental Project</td>
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<td>Permission to Occupy</td>
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This information is taken from a publication which "... illustrates the complexity and detailed nature of the information that must be assembled and analyzed during the various phases of processing a typical multifamily housing project under FHA procedures." As the source explains, this compilation includes "... only the more important FHA administrative and legal forms ... (and) does not cover in a definitive manner all the forms, documents, and other material normally required by FHA. Numerous forms prepared by FHA for internal use have been excluded since they would be of little value to a sponsor. Other self-explanatory documents normally furnished by the title company, architect, attorney, contractor, lending institution, bonding company, and others involved in the development of a housing project have also been excluded." John R. Gallagher, III, and John J. O'Donnel, Jr., Non-Profit Housing 221(d)(3) (Washington, D.C., Urban America, Incorporated, 1966), pp. 4-7.
APPENDIX C

AN EXPLANATION OF THE VARIOUS TYPES OF MORTGAGORS ELIGIBLE TO PARTICIPATE IN THE 221(d)(3) PROGRAM

Nonprofit Mortgagor

A corporation or association organized for purposes other than making a profit, either for itself or any person associated with it. The Federal Housing Administration must find it to be in no manner controlled by or under the direction of persons attempting to derive profit from it.

Cooperative Mortgagor

A nonprofit cooperative ownership housing corporation approved by the Federal Housing Administration. Permanent occupants of the housing must be members. Membership eligibility and transfer is subject to FHA controls.

Public Mortgagor

May be any one of the following:

- A Federal Instrumentality
- A state or its political subdivision
An instrumentality of a state or its political subdivision
(Each must certify that it is not receiving financial assistance exclusively for public housing from the Federal Government; and each must be acceptable to the Federal Housing Administration.)

Limited Distribution Mortgagor
A corporation restricted as to distribution of income by one of the following:

- The laws of the state of incorporation
- The Federal Housing Administration

Or a trust, partnership, association, individual, or other entity formed exclusively for the purpose of providing housing. It must be regulated as to rents, charges, rate of return, and operating methods in a manner satisfactory to the FHA. It too will be restricted by law or the FHA as to distribution of income.
**Builder-Seller Mortgagor**

A special type of limited distribution mortgagor organized to build or rehabilitate a project and sell it, at completion, to a private nonprofit organization at the certified cost of the project.

**Investor-Sponsor Mortgagor**

A special type of limited distribution mortgagor organized to build or rehabilitate a project and transfer it to a cooperative. If the project is not sold to a cooperative within two years after completion, the investor sponsor will then operate it as a limited distribution corporation, for the purposes authorized by FHA.

APPENDIX D

A SUMMARY OF FHA PROGRAMS

Regular Homeownership Housing (Section 203)

FHA insures mortgages for insurance of 1-4 family homes. Maximum amount - $35,000 ($12,500 in outlying areas).

Serviceman's Housing (Section 222)

Servicemen can obtain insured mortgages under the terms of Section 203, but the mortgage insurance premium is paid by the Department of Defense.

Low- and Moderate-Income Housing (Section 221)

Mortgage financing for low-cost homes for families displaced from their homes through government action (for example, urban renewal), and for families of low- and moderate-income are insured under more liberal terms. Maximum amount - $12,500 ($15,000 in high cost areas). The ratio of the loan to property value can be 100 per cent for an owner occupant. Mortgage term - 30 years, 40 years for displaced families.
Home Ownership for Low-Income Families (Section 221(h) and Section 2351)

The Rehabilitation Sales Housing Program, Section 221(h), was authorized by the 1966 Demonstration Cities and Metropolitan Development Act. It covered homeownership for low-income families with the assistance of FHA mortgage insurance. FHA insures mortgages executed by nonprofit organization to finance the purchase and rehabilitation of deteriorating or substandard housing. Mortgages are also insured to finance resale of the housing to households having income below the maximum permitted for those eligible for rent supplements under the rent supplement program.

The mortgage of the nonprofit organization may be equal to property purchase price plus estimated cost of the proposed rehabilitation. FHA determines maturity. The mortgage of the home purchaser can be equal to 100 per cent of the purchase-plus-rehabilitation cost that can be allocated to the particular unit involved. Terms:

Maturity - up to 25 years

Down Payment - $200
Interest Rate - 3 per cent, as long as the property is owned by the original purchaser, or another household that can qualify under these income restrictions.

Section 101 of the Housing and Urban Development Act of 1968 established a new program, Section 235(j) of the National Housing Act to complement and extend the existing 221(h) program. Section 235(j) provides for both project mortgages and mortgages for individual purchasers.

The major differences in the two programs are as follows:

1. Section 235(j) mortgages bear the market rate of interest; 221(h) mortgages bear a special below market interest rate which can be as low as one per cent in the case of individual mortgages.

2. The 235(j) subsidy is in the form of direct federal assistance payments to lenders in behalf of the mortgagors; 221(h) provides assistance through below market interest rates made possible by Government National Mortgage Association (GNMA) purchase of the mortgages.
3. Section 235(j) project mortgages may be used for ordinary housing in good condition; 221(h) project mortgages may be used only for purchase and rehabilitation of substandard or deteriorating housing.

4. There is no provision under 221(h) for lowering the mortgage interest rate; under 235(j) mortgage payments will be decreased and assistance payments proportionately increased if the mortgagor's income decreases.

Home Ownership for Lower Income Families (Sections 235(b), 235(i), and 237)

Whereas Sections 235(j) and 221(h) were concerned specifically with housing acquired by nonprofit groups for resale to lower income families, Sections 235(b), 235(i), and 237 is intended to stimulate the production of more homes in addition to enabling lower income households to become homeowners experiencing the pride of possession that accompanies homeownership. Assistance payments are made under 235(b). Mortgages are insured under 235(i) and (in the case of marginal credit) 237.
Assistance will vary according to the income of each homeowner, and will take the form of a monthly payment by HUD to the mortgagee, on a market rate mortgage, in an amount sufficient to reduce the effective rate of interest (to the borrower) to as low as one per cent if the homeowner cannot meet the mortgage payment with 20 per cent of his income.

Low- and Moderate-Income Rental Housing (Section 221(d)(3) B.M.I.R.)

Under this program for low- and moderate-income families FHA insures mortgages for new and rehabilitated housing. Mortgages bear interest at 6 per cent until construction is completed, and then at 3 per cent. There is no FHA insurance premium for these Below Market Interest Rate (BMIR) loans. Only public agencies, cooperatives, private nonprofit associations, are builder-seller and limited distribution mortgagors are eligible for this program.

Note: Housing is also provided under Section 221(d)(3) at market rates of interest. Any mortgagor approved by the commissioner can be eligible.
Rent Supplement Program (Section 221(d)(3))

The Housing and Urban Development Act of 1965 assigned to FHA the responsibility for the rent supplement program. Under this program the following people are eligible for participation: Low-income families or individuals who are either -

- elderly
- handicapped
- displaced by government action
- occupants of substandard housing
- or, former occupants of housing destroyed by natural disaster

The housing owner (with a market rate insured loan) who rents to these households enters into a contract with the Secretary of Housing and Urban Development for rent supplement payments. These payments cannot exceed the amount by which the fair market rental for the unit exceeds one fourth of the tenants income. Five per cent of the funds appropriated for rent supplements could be used, on an experimental basis, for housing financed with FHA insurance carrying the below-market interest rate (3 per cent).
Rental Housing for Lower Income Families (Section 236)

Section 236 is, in effect, an extension of 221(d)(3) and, should the 221(d)(3) program (as is expected) not be further funded, will replace it. A new Section 236 of the National Housing Act was established by Section 201 of the Housing and Urban Development Act of 1968. This program provides an assistance program for rental and cooperative housing for lower income families. The assistance is provided in the form of monthly payments to the mortgagee to reduce cost to the occupant by paying a part of the interest on a market rate project mortgage insured by FHA. Interest reduction payments may also be made on units in a rental or cooperative housing project owned by a private nonprofit, limited dividend or cooperative entity which is financed under a state or local program providing assistance through loans, loan insurance, or tax abatements.

The objective of assistance payments will be to bring the monthly rental charges down to a level which lower income families can afford. The periodic assistance payments will reduce payments on the
project mortgage from an amount required for principal, interest, and mortgage insurance premium on a market rate mortgage to an amount that would be required for principal and interest if the mortgage bore an interest rate of 1 per cent.

**Regular Rental Housing (Section 207)**

Under this regular rental housing program, FHA insures mortgages for building or rehabilitation. The interest is statute limited (example: 5½ per cent in 1967), and a ½ per cent mortgage insurance premium is charged by FHA.

**Urban Renewal (Section 220)**

Rental housing is provided under FHA's Section 220 urban renewal housing program for urban renewal areas. It can be either new or rehabilitated.

**Cooperative Housing (Section 213)**

This section permits FHA insurance of mortgages on cooperative housing projects owned by, and providing housing for members of a group. Projects must include five or more units, and may be either management-type or sales-type projects.
Nursing Homes (Section 232)

The Federal Housing Administration will insure mortgages on proprietary nursing homes as well as on nursing homes sponsored by private nonprofit corporations or associations. The loan involved may be for rehabilitation or proposed new construction. A supplementary grant by the Department of Health, Education, and Welfare is permitted.

Housing for the Elderly or Handicapped (Section 231)

This program covers both nonprofit and profit-motivated rental housing projects for the elderly or handicapped. Mortgage amounts vary with the type of borrower.

Condominiums (Section 234)

Blanket mortgages on multifamily projects intended for use as condominiums are covered under this section of the National Housing Act. Also covered are mortgages on units later sold to individual owners. For the blanket loans, terms of up to 80 years are possible. Loans on individual units are subject to the same limitations as those insured under the regular Section 203 home mortgage insurance program.
Experimental Housing (Section 233)

Under this program the FHA insures mortgages on individual and multiunit housing that is built using new or untried construction concepts aimed at reducing housing costs, raising living standards, and improving neighborhood design.

Home Improvement Loans (Section 203(k) and 220(h) and Title I)

These insured loans are for home repair. Section 203(k) and 220(h) have similar terms: 3-20 year amortization, interest rate fixed by statute, and payment of a mortgage insurance premium. 220(h) is for use in urban renewal areas only. Title I loans range up to $3,500 and terms up to seven years.

Land Development and New Communities (Title X)

FHA insures loans made for purchase of raw land and development of improved building sites as provided by the Housing and Urban Development Act of 1965. Mortgage limits are: $25 million, or 75 percent of value of the developed land, or 50 percent of land value before development plus 90 percent of
estimated development cost. Seven year loans are possible, or longer in circumstances approved by FHA. Sound land use patterns are required, with an emphasis on logical, efficient, planned development of new areas.

Group Medical Practice Facilities (Title XI)

Title XI was added to the National Housing Act in 1966. It authorizes FHA insurance of mortgages on group practice facilities of licensed professionals when uninsured financing is not available on similar terms.


U. S., Department of Housing and Urban Development, Homeownership Assistance for Purchase and Resale of Housing to Lower Income Families Under Sections 235(j) and 221(h), November, 1968, pp. 1-4.


U. S., Department of Housing and Urban Development, Rental Housing for Lower Income Families (Section 236), October, 1968, pp. 1-2.
APPENDIX E

HUD PROGRAMS NOT ADMINISTERED BY FHA, RELATED TO PROVISION OF BETTER HOUSING AND ENVIRONMENT

College Housing Program

A HUD program providing direct loans to colleges, universities, and teaching hospitals for construction housing and housing related facilities.

Community Service Programs

Cooperative programs with public and private national agencies such as HEW, OEO, and Boy Scouts to improve community services for residents of public housing, to help them increase their earnings and become self-dependent.

Land and Facilities Programs

These include programs to grant funds to finance (1) open space (three programs: undeveloped land, urban parks, and urban beautification), (2) open space demonstration programs, and (3) water
and sewer facilities. Also included are loans for public facilities, public works planning advances, and other activities in land and facilities development.

**Leased-Housing Program**

A HUD supported attempt to provide public housing to households, but not in "projects." Houses, many vacant and neglected, are rehabilitated and utilized for this purpose. The Local Housing Authority leases the houses from their private owners and pays the balance of the rental due over and above the amount paid by the tenant. This program not only provides decent housing (to only a limited number of households, however) but disperses the people involved more uniformly in a community.

**Model Cities**

HUD program which was launched in January 1967. The 63 communities to participate in the 1st round of model cities planning grants was made in November, 1967. Areas selected were characterized by poor housing, low income, and chronic unemployment. The
local communities prepared comprehensive plans for better housing, schooling, and jobs, and safer communities.

Kinds of federal help available to model cities are:

(1) Ordinary federal programs for housing, urban renewal, transportation, education, welfare, economic opportunity, and social improvement.

(2) Model cities planning grants to cover 80 per cent of the cost of planning a model cities program. (Grants have ranged from $66,000 to $284,000, depending on population and the amount of money needed for planning.

(3) Supplemental grants up to 80 per cent of the non-federal share of federal grant-in-aid programs used for the benefit of the model neighborhood. This money will normally be used for additional projects to benefit residents of model neighborhoods.

Modernization Program

An attempt to raise the quality of life of public housing tenants through rehabilitation of
public housing projects that are in the worst physical condition and most in need of improved management practices.

**Neighborhood Facilities Program**

A plan being carried out to fund neighborhood centers in ghetto areas across the country to serve the people living in these areas. Grants typically cover two-thirds of project development cost. The local community supplies the balance and assumes the burden of operations and maintenance.

**Senior Citizens Housing**

In addition to direct loan and loan insurance programs for housing for the elderly, other assistance is provided to local organizations and individuals by HUD. This assistance includes grants for development of multipurpose neighborhood facilities (such as senior citizen centers) and direct loans or grants to homeowners in urban renewal and code enforcement areas to improve their homes.
"Sweat Equity"

This is not a program in itself but is an element of the Turnkey III process that allows future tenants to help with construction of their future housing. The process is presently being used under a program pioneered by the Cherokee Nation which set up a Tribal Housing Authority which, in turn, entered into agreements with HUD and the turnkey developer in the area affected.

Turnkey Process

This is an experimental program, a new approach to provision of public housing, which allows a private developer to build on his own site to his own plans and specifications. The local housing authority then purchases the package. Results indicate (1) completion of construction in two to three years less time than needed for the traditional procedures of contracting for public housing, and (2) dollar savings of 10 to 15 per cent.

In spite of demonstrated improvements, traditional methods of contracting for public housing
involving a long series of steps by the Local Housing Authority continue in use. Turnkey II, a use of private management of public housing, is being investigated. Turnkey III is a program recently launched that provides for tenant ownership of public housing.

**Urban Planning Assistance**

HUD not only requires comprehensive planning through the workable program, areawide planning requirements, and as a prerequisite for HUD assistance for urban renewal, water and sewer facilities, transit, and open space; but also makes grants to local, regional, and state planning agencies to assist in their planning activities.

**Urban Transportation Programs**

These are programs administered by the office of Metropolitan Development of HUD. Grants are made for capital improvements and for research and technical studies to improve urban transportation systems.

APPENDIX F

AN EXAMPLE OF LOW-COST TECHNOLOGY

Insight into the potential for low-cost technology can be gained from this example of one new construction technique which proposes to continuously extrude the walls, roof, and partitions of a structure, rather than piece the structure together from components. The technique uses an epoxy resin material foamed in place from a mobile, truck-mounted erector system. The completed structure, rapidly foamed in place, would be permanent, resistant to damage, and unusually economical.

This concept requires only a limited amount of equipment. A five-ton truck, operated by a two man crew would carry to the site both the erector machine and all the material required for a one-family dwelling. The erector is an articulated boom, at the end of which is located a traveling mold featuring two parallel steel plates. These plates are cooled and serve to contain and form a dense skin on the liquid resin.
which has been fed out along the boom and caused, by heating, to react into rigid-cell foam. The plates are covered with endless belts of "mylar" which will not adhere to the foam. (These belts could be embossed to give the wall a suitable pattern).

As described in the New Scientist: "Filling the house with basic services such as water, plumbing, and, in America - air conditioning - can be accomplished quickly using factory built modules. One module
containing wiring, piping, and including the necessary entry and exit points, can be put in the floor as it is laid and be connected to other units - for ventilation and lighting - after the house is finished."


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241


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