The original documents are located in Box 65, folder “FY 1978 Director's Review - HUD (3)” of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

#11. OTHER ISSUES

Issue Paper
Department of Housing and Urban Development
1978 Budget
Issue #11: Other Issues

SUBISSUE A: Bicentennial Land Heritage Act

Statement of Issue

Should a 1977 supplemental for the Community Development Block Grant (CDBG) Program directed at urban parks be submitted to the Congress in the 1978 budget?

Analysis

The Administration's proposed Bicentennial Land Heritage Act was submitted to Congress in August 1976. The proposal included a $200 million request for the CDBG program, which would be allocated according to the CDBG formula and which the Secretary would urge be used for parks. It is unlikely that these funds would actually be used for urban parks:

(1) It would be inconsistent with the block grant concept for the Secretary to urge CDBG recipients to use their funds for any particular purpose.

(2) There is no mandate that the $200 million be used for parks, and because recipients usually spend only about 3 percent of their CDBG funds for recreation, it is unlikely that more than a small portion of this money will actually be used for parks.

(3) It is estimated that there will be about 4,000 recipients of CDBG funds in 1978. By the time $200 million is added on to $3.2 billion, worked through a formula, and distributed to 4,000 applicants, it will be unidentifiable and its impact unrecognizable.

HUD Request: Resubmit to the Congress a 1977 supplemental request for $200 million for the CDBG program, to be used for urban parks.

OMB Recommendation: Do not resubmit the supplemental request to the Congress.

SUBISSUE B: National Institute of Building Science

Statement of Issue

What should be the appropriation request for the National Institute of Building Sciences (NIBS)?

Background

The Housing and Community Development Act of 1974 authorized NIBS as a nonprofit, nongovernmental corporation run by a 15-21-member Board of Directors. The Board is appointed by the President, with a majority representing the public interest and the remainder representing the construction industry. After an 18-month delay, the President nominated the NIBS directors.

NIBS was initiated by the Government with the mandatory advice and assistance of the National Academy of Sciences -- National Academy of Engineering -- National Research Council (hereafter "academies").

With the advice of the academies, NIBS has established and will be assisted by a Consultative Council, with membership open to representatives of interested public and private groups. The Act authorized $5M each for fiscal years 1975 and 1976 for the Institute and the Council as initial capital; thereafter, the Institute and Council are supposed to become self-sustaining through grants, contracts, donations, and service charges. The 1976 HUD Authorization Act extended these unused authorizations to 1977 and 1978.

With the academies and Council assistance, the NIBS is authorized to develop and maintain nationally recognized performance criteria "for maintenance of life, safety, health, and public welfare." These criteria are to be used to test and evaluate building technology.

Alternatives

#1. Continue to fund NIBS from the HUD research account and have NIBS justify its request to HUD research officials (OMB recommendation).

#2. Request a $1M supplemental and a $5M 1978 appropriation and require self-sufficiency thereafter.

#3. Request appropriations for full authorizations: $5M in both 1977 and 1978 (NIBS request).

Analysis

Budget Authority/Outlays	1976		1977		1978		1979		1980		1981		1982	
($ in millions)	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Current policy														
Alt. #1 (OMB rec.)	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Change from current policy:														
Alt. #2	--	--	+1	+1	+5	+3	--	+2	--	--	--	--	--	--
Alt. #3 (NIBS req.)	--	--	+5	+2	+5	+5	--	+2	--	+1	--	--	--	--

A range of outlays in 1979 and thereafter would reflect the uncertainty of whether the Institute could ever become self-sufficient. Self-sufficiency has been assumed here.

The NIBS submission is weak analytically on the extent and seriousness of the problems addressed and its ability to properly address or assist in solving these problems. The organization seems to lack a clear sense of what its role is and how it will accomplish its work plans. The four missions it lists give little sense as to how it is going to function.

A $1M supplemental would completely provide start-up costs for the rest of 1977 and probably would yield some carryforward. A $5M request would completely use the 1978 authorization and allow some carryforward until self-sufficiency is attained.

Using the full $10M authorization would allow sufficient carryforward such that NIBS would not have to be self-sufficient until 1981, by their own estimates.

<u>NIBS Request</u>: Alternative #3. NIBS recommendation is that a $5M supplemental be requested in 1977 and a regular request of $5M also be made in the 1978 Budget. The carryforward balances would allow NIBS to have until 1981 to become self-sufficient.

<u>HVL Recommendation</u>: Alternative #1. We recommend continuing to fund NIBS activities from the HUD research program and letting HUD research managers set the support levels. If a decision is made to directly fund NIBS despite the lack of conclusive justification, we would favor Alternative #2 -- $1M in 1977 and $5M in 1978.

SUPPLEMENTARY MATERIALS

Department of Housing and Urban Development
1978 Budget
Supplementals and Legislative Program Items

	($ in millions)			Employment, end of period	
	Budget Authority	1977 Outlays	1978 Outlays	Full-time Permanent	Total
1977 supplementals requested:					
Housing Payments					
agency request................	212.3 1/	60.0	66.0	...	...
OMB recommendation............	212.3	60.0	66.0	...	...

OMB concurs with the request: more section 8 units have come under contract faster than anticipated; Congress has allocated less; and section 802 will be implemented.

	Budget Authority	1977 Outlays	1978 Outlays	Full-time Permanent	Total
Operating subsidies					
agency request................	35.4	15.0	20.4	...	...
OMB recommendation............	...	...	...	...	...

OMB recommends against changing the current Performance Funding System (PFS) formula and increasing the inflation adjustment until a joint evaluation of the entire PFS approach can be completed next year.

	Budget Authority	1977 Outlays	1978 Outlays	Full-time Permanent	Total
Community development grants					
agency request................	200.0	12.0	90.0	...	...
OMB recommendation............	...	...	...	...	...

OMB recommends against resubmitting this supplemental request to Congress. It's ability to achieve the goal of more urban parks is too remote to justify increasing the overall program level.

	Budget Authority	1977 Outlays	1978 Outlays	Full-time Permanent	Total
Energy standards performance program					
agency request................	12.4 2/	8.2 2/	4.2 2/	10	10
OMB recommendation............	...	...	...	...	...

1/ Estimated supplemental based on preliminary information.
2/ Includes $225,000 in staff costs that would be included in Salaries and Expenses, HUD.

	($ in millions)			Employment, end of period	
	Budget Authority	1977 Outlays	1978 Outlays	Full-time Permanent	Total

OMB recommends that development of these standards be funded from the ERDA research program.

	Budget Authority	1977 Outlays	1978 Outlays	Full-time Permanent	Total
Disaster Relief					
agency amended request........	150.0	107.7	42.3	...	...
OMB recommendation............	100.0	50.0	50.0	...	...

Recent disaster activity necessitates a supplemental to replenish the Disaster Relief Funds appropriated to the President. We believe FDAA is again over-estimating obligations from future unpredictable disasters. We recommend requesting a $100 million supplemental, rather than $150 million as requested.

	Budget Authority	1977 Outlays	1978 Outlays	Full-time Permanent	Total
Urban Homesteading					
agency request................	15.0	15.0	...	...	...
OMB recommendation............	15.0	15.0	...	...	...

In the last debate, the President indicated that HUD's Urban Homesteading Program was going to be accelerated. To support the President's statement, we recommend approving HUD's request that was made before the debate. An increased request may be forthcoming from the Department, but we have not heard of any being developed.

	Budget Authority	1977 Outlays	1978 Outlays	Full-time Permanent	Total
FHA Restoration of Losses					
agency request................	591.0	...	...	...	...
OMB recommendation............	591.0	...	...	...	...

In order to avoid congressional redistribution of budget authority requested for restoration of losses in 1978, a 1977 supplemental would be requested for this restoration.

	($ in millions)			Employment, end of period	
	Budget Authority	1977 Outlays	1978 Outlays	Full-time Permanent	Total
Legislative program items:					
Emergency Home Purchase Assistance authority, FY 1978					
Agency request................	...	...	...	...	...
OMB recommendation............	...	...	...	...	...

Neither HUD nor OMB is recommending extension of this authority beyond the October 1, 1977, expiration.

	Budget Authority	1977 Outlays	1978 Outlays	Full-time Permanent	Total
Emergency Homeowner's Relief Fund					
agency request................	...	...	...	...	...
OMB recommendation............	...	...	...	...	...

Neither HUD nor OMB is recommending extension of this authority beyond the October 1, 1977, expiration.

	Budget Authority	1977 Outlays	1978 Outlays	Full-time Permanent	Total
Title VIII civil enforcement authority					
agency request................	...	...	...	...	...
OMB recommendation............	...	...	...	...	...

HUD is proposing authority for HUD to bring civil suit in order to enforce Title VIII of the Civil Rights Act of 1968. Although no net increase in HUD staff would be required, additional lawyers would be needed at Justice.

	Budget Authority	1977 Outlays	1978 Outlays	Full-time Permanent	Total
Extension of Title VIII to cover sale or rental involving any advertising					
agency request................	N/A	N/A	N/A	N/A	N/A
OMB recommendation............	N/A	N/A	N/A	N/A	N/A

	($ in millions)			Employment, end of period	
	Budget Authority	1977 Outlays	1978 Outlays	Full-time Permanent	Total

HUD is proposing to extend Title VIII to sales and rentals involving any advertising as opposed to just discriminatory advertising. The proposed legislation would not affect budget or staff totals.

Community development grants					
agency request.................	...	...	...	...	...
OMB recommendation.............	...	...	...	...	...

HUD will propose major changes in the allocation formula and other program elements. However, OMB has not been given the final legislative submission.

Department of Housing and Urban Development
1978 Budget
Authorizing Legislation Required for 1979
(Under sec. 607(f), P.L. 93-344,
this legislation must be transmitted to Congress
no later than May 15, 1977

($ in millions)

		1979 Req.	1979 Recom.	1980 Req.	1980 Recom.	1981 Req.	1981 Recom.	1982 Req.	1982 Recom.
Existing programs for which authorization must be renewed in 1979:									
Comprehensive Planning Grants ("701")	BA	80	0	80	0	80	0	80	0
	O	77	13	80	0	80	0	80	0
Community Development Block Grants	BA	3,444	3,148	3,444	3,148	3,444	3,148	3,444	3,148
	O	3,277	3,077	3,422	3,148	3,444	3,148	3,444	3,148
Flood Insurance Studies	BA	139	139	146	146	145	145	115	115
	O	107	107	131	131	143	143	135	135
Annual contributions contracts	BA	24,144	5,636	26,875	5,636	28,107	5,636	28,395	5,636
	O	4,099	3,979	4,786	4,472	6,129	5,109	7,462	5,568
Public Housing Operating Subsidies	BA	848	639	990	755	1,116	855	1,230	940
	O	765	556	667	667	1,036	775	1,156	867
Section 8 - extension of subsidy period	BA	18,600	---	20,160	---	21,700	---	23,300	---
	O	---	---	---	---	---	---	---	---
Elderly housing (place on-budget)	BA	750	---	750	---	750	---	750	---
	O	778	212	660	-90	608	-119	591	-119
Emergency Home Purchase Assistance ("Tandem") Authority	BA	---	---	---	---	---	---	---	---
	O	---	---	---	---	---	---	---	---

		1979		1980		1981		1982	
		Req.	Recom.	Req.	Recom.	Req.	Recom.	Req.	Recom.
Mortgage Insurance Activities	BA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Asset Sales

Background

The sale of mortgage assets from HUD's FHA, Special Assistance Functions (SAF), and Management and Liquidating Functions (MLF) portfolios generates receipts that offset budget outlays. Mortgages purchased under the tandem plan and shown in the SAF Fund are intended to be resold in the year of purchase. Under current policy, HUD times the sale of these mortgages to take advantage of favorable market conditions and, thus, minimizes the loss to the SAF Fund. Other SAF mortgages and MLF mortgages are purchased for HUD's portfolio and are not intended to be sold, although there is no statutory barrier to sales. Mortgages assigned to FHA are managed in a way to minimize losses to the Fund, with sales to the private market as appropriate. In past years, OMB and HUD have considered the sale of mortgage assets, above and beyond the timely disposition of tandem mortgages, as a means of generating offsetting budget receipts.

Assets in HUD's Portfolios

The following table shows the estimated face and market values of HUD mortgage assets as of September 30, 1976 (in millions of dollars):

	Face Value	Price to Yield Market Rate 1/	Market Value
GNMA			
1. MLF Fund			
Under 5%	$ 155.0	67.40	$ 104.0
5% and over	171.0	79.95	137.0
2. SAF Fund			
Under 5%	1,985.0	54.45	1,081.0
5% to 6%	435.0	74.50	324.0
7% and over 2/	2,670.0	91.15	2,434.0

1/ Assumes a 9% market yield for single-family mortgages and a 9.5% market yield for multifamily mortgages.

2/ All SAF mortgages at 7% and over are tandem mortgages.

	Face Value	Price to Yield Market Rate 1/	Market Value
FHA Fund			
1. Assigned mortgages 2/	$2,985.0	47.80 3/	$1,427.0
2. Purchase money mortgages 2/	411.0	79.70	328.0
Total, HUD assets available for sale in 1977, 1978, and 1979...	$8,812.0	66.20	$5,833.0
HUD Request			
1977:			
Tandem sales	$ 755.0		$ 688.0
FHA sales	500.0		350.0
Total...............	$1,255.0		$1,038.0
1978:			
Tandem sales	-50.0		N/A
OMB Recommendation			
1977:			
Tandem sales	$ 755.0		$ 688.0
FHA sales (see Issue #4-C)	---		---
(Memo: Assets available for sale):			
(1977)	($8,057.0)		($4,795.0)
(1978)	(8,107.0)		(4,841.0)

1/ Assumes a 9% market yield for single-family mortgages and a 9.5% market yield for multifamily mortgages.
2/ An average 6% face rate is assumed for FHA mortgage assets.
3/ In addition to the price conversion from face rate to market yield, the face value of assigned mortgages is discounted 40% to reflect the quality of the property underlying the mortgage.

Discussion

The proposed SAF tandem sales in 1977 and 1978 are based on forecasts of mortgage market conditions in those years. The proposed sale of $500 million of assigned FHA multifamily mortgages is considered in Issue Paper #4-C.

The table above indicates that $8.1 billion in assets with an estimated market value of $4.8 billion could be considered for additional asset sales in 1978. The sale of any mortgages beyond the estimated $2 billion in potential tandem sales (market value: $1.8 billion) would create three difficulties:

- $934 million of the SAF and MLF mortgages are pooled to back participation certificates sold in 1968 and 1969 as part of the Participation Sales program. There is an unresolved legal question of whether these assets can even be sold. If that barrier were overcome, the sale of these mortgages would create a capital deficiency that would have to be made up with an appropriation in order to retire the outstanding participation certificates.

- Many of the MLF assets are seasoned, with remaining terms of less than 10 years. Additional discounts might be necessary to attract mortgage investors into such shorter-term investments.

- Most importantly, all of these mortgages are federally insured or guaranteed. Their sale at such large discounts would create a moral hazard. Mortgagees would have no incentive to forbear if a delinquency occurred. They would foreclose as soon as possible and would file a claim that would have to be honored at face value, resulting in large windfall gains to mortgagees. These claims would produce outlays that would offset the original sales receipts. In fact, it is possible that over 2 to 3 years these outlays would exceed the sales receipts.

Recommendation

On programmatic grounds, OMB recommends that no mortgage assets be sold beyond the regular tandem dispositions.

HOUSING CROSSCUT

1978 Budget

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Housing Crosscut

This crosscut will attempt to summarize the dimensions of the housing market in the mid-1970's, the outlook for housing activity, and the contributions Federal programs will make to this sector of the economy during FY 1978. Also included are two issue papers dealing with Federal housing policy:

- Issue #1 analyzes Secretary Hills' proposal for a Housing Assistance Block Grant Program.

- Issue #2 considers options for rationalizing Federal mortgage insurance programs.

Dimensions of the Housing Market

The Housing Stock

The annual survey conducted by the Bureau of Census for HUD provides much more timely and complete data on the housing market now than we have had in the past. The most recent data cover calendar year 1974, and are based on a sample of 78,000 housing units.

In 1974, the Nation's housing stock consisted of 77.6 million units, of which 75.9 million were available for year-round occupancy. At the time of the Census Bureau survey, 70.8 million units were occupied and 5.1 million (6.7 percent) were vacant. Of the former, nearly two-thirds or 45.8 million were owner-occupied.

Traditional measures of housing quality look to the availability of plumbing facilities and the number of persons per room. Using these measures, the improvement in the quality of the Nation's housing stock that has marked the entire postwar period continued into the 1970's. By 1974, the number of occupied units lacking complete plumbing facilities had fallen to 2,274,000--1.8 million fewer units than in 1970. The following table illustrates the downward trend since 1950:

	1950	1960	1970	1974
Occupied units lacking complete plumbing facilities (in millions)	15.3	9.0	4.1	2.3

So-called "crowded-housing"--units with more than one occupant per room--numbered 3,783,000 units in 1974. This was down from 5,061,000 units in 1970. The incidence of crowded housing declined from 8 percent to 5.3 percent of all occupied units over this time period. Approximately 350,000 of these units also lacked complete plumbing. An interesting side to the "problem" of crowded units: The incidence of crowding in new units (that is, units built since 1970) is almost the same (about 4.8 percent in 1974) as it is for the total housing stock.

The incidence of substandard or crowded housing continues to be higher outside metropolitan areas: Nearly two-thirds of all units lacking complete plumbing facilities and over one-third of all crowded units were located outside SMSAs in 1974. In contrast, less than 28 percent of the population lived outside SMSAs.

The Cost of Housing

During the last 12 months, the cost of housing has continued to rise. The median sales price of new homes sold increased 15 percent to $44,100 in September. The median price of existing homes sold rose to $38,700 in September, or 8 percent above the previous year.

Surprisingly, the median income of all owner-occupants in 1974 was almost identical to the median income for all families--$12,800.

A statistic frequently used to denote housing deprivation is the percentage of families paying more than 25 percent of their income for rent. In 1974, such families represented 42 percent of all renters (41 percent of renters occupying new units devoted more than 25 percent of their income to rent).

The Outlook for Housing Activities

The annual rate of housing starts in September exceeded 1.8 million for the first time since October 1973. This represents a major breakthrough, since 1.8 million is within the range of starts that HUD economists believe represents the equilibrium rate.

The table below indicates the current Troika staff forecasts for housing starts. The forecasts for 1977 appear conservative, especially in view of the most recent data on housing starts and alternative forecasts in the 1.7 to 1.9 million range. However, even this forecast reflects a significant improvement in housing construction since the 1.8 million annual starts forecast for 1978 exceed the annual rates of the past 10 years, except for the 1971-1973 boom. The data also indicate that single-family starts are leading the recovery, but this largely reflects the past overbuilding in multifamily dwellings and the continued high vacancy rates in that market. From these data, it is difficult to support the need for a major stimulus to new housing construction.

Actual and projected housing starts are shown in the following table:

Housing Starts
(Units in Thousands)

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Total.........	1,469	2,084	2,388	2,058	1,352	1,171	1,530	1,670	1,800
Single-family	813	1,151	1,309	1,132	888	892	1,165	1,250	1,290
Multifamily..	656	933	1,079	926	464	279	365	420	510

The Federal Role in the Housing Market

There is an overwhelming array of Federal activities or federally sponsored agency activities affecting housing market operations. Federal programs affect (1) the demand side of the housing market (e.g., HUD's section 8 rental subsidies and Treasury tax expenditures); (2) the supply side of the market (HUD's Public Housing and DOD family and bachelor housing); and (3) credit market operations in support of housing activities (FmHA and VA mortgage loan guarantees, FHA insurance, GNMA, and FHLMC secondary market operations). The types of Federal programs also range from very indirect assistance through support of secondary market operations to insure mortgage credit availability to the direct provision of housing services. The number of Federal departments and separate agencies affecting the housing market, whether federally owned or federally sponsored is also large.

1975 Federal Impact
(Millions of $)

	Total	HUD
Loans.....................	10,315	2,636
Loan Guarantees...........	8,763	824
Direct Housing Investments	807	508
Homeownership and Rental Subsidies.........	3,118	2,193
Tax Expenditures..........	10,950	---
Less: interactions.......	(-8,215)	N/A
Total Housing Aid Under Federal Auspeces......................	25,739	6,161
(Federal Outlays for Housing)..	(6,888)	
(Net Lending by Federally Supervized Lenders)..........	(20,927)	

The table above provides a very cursory view of the impact of Federal activities in the housing market in 1975, the latest year with complete data available. The data indicate that:

. Aid provided under Federal auspices exceeded $25 billion.

. Federal budget outlays accounted for less than 25 percent of this support.

. Federal tax expenditures, principally mortgage interest and property tax deductions, accounted for 33 to 40 percent of Federal housing aid.

. HUD accounted for about 70 percent of Federal aid provided through homeownership and rental subsidies.

. Federal mortgage credit assistance was a significant element of Federal housing assistance. As the table below indicates, these credit activities among the three major Federal agencies, HUD, VA, and FmHA, are projected to increase over the next few years.

	1976	1977	1978
Mortgages insured by HUD:			
Units	320,000	430,000	450,000
Dollars (millions)	$7,384	$9,900	$10,370
Loans Guaranteed by VA:			
Units	327,130	350,125	360,200
Dollars (millions)	$9,957	$10,482	$12,120
Direct Loans:			
VA:			
Units	2,782	2,650	2,630
Dollars (millions)	$55	$54	$56
FmHA:			
Units	122,000	176,000	176,000
Dollars (millions)	$2,524	$3,711	$3,711
Total Credit Assistance:			
Units	772,600	958,775	988,830
Dollars (millions)	$19,920	$24,147	$26,257

The remainder of this crosscut examines in greater detail one element of this array of Federal activities--Federal programs for subsidized housing. A major open issue is whether a coherent and consistent Federal housing policy exists within this array of Federal activities aimed at the housing market.

Federal Subsidized Housing Programs

In the HUD review, OMB recommended a reduction in subsidized housing activity in 1978. Decisions reached in the USDA Director's Review would provide for about a 4,000-unit decrease in subsidized rural housing. The following table summarizes the OMB-recommended levels for subsidized housing in 1976, 1977, and 1978 (in thousands of units):

	1976	1977	1978
HUD:			
Section 8	279,700	242,300	200,000
Public Housing	13,800	52,000	1,000
Section 235	15,500	100,000	100,000
Subtotal, HUD........	309,300	394,300	301,000
USDA...................	75,100	99,000	95,400
Total, subsidized housing..............	384,500	493,000	396,000

The table below compares the current Federal allocation of housing units between SMSA and non-SMSA areas with the distribution of substandard units, defined as those lacking complete plumbing facilities, in those areas. HUD units were assumed to be distributed between SMSA/non-SMSA areas based on the current minimum 80/20 split established by law. Clearly, Federal housing resources are not being allocated consistent with the distribution of poor housing as measured by substandard units. However, the trend is toward greater allocation to rural areas, assuming the OMB recommendations prevail. The adoption of an HABG might well reverse the trend, given the dominance of HUD in the housing market and the predominant HUD focus on urban problems, especially those of the "declining" cities.

Distribution of Substandard Units and Federal Housing Units
(in percentages)

	Substandard Unit Distribution	Federal Housing Distributions		
		1976	1977	1978
SMSA	33.3	64.4	63.9	60.8
Non-SMSA	66.7	35.6	36.1	39.2

HOUSING CROSSCUT ISSUE #1: Housing Assistance Block Grants

Background

The President's cabinet-level Committee on Urban Development and Neighborhood Revitalization, chaired by Secretary Hills, has proposed a housing assistance block grant (HABG) to consolidate a number of existing categorical housing assistance programs and thereby both reduce Federal restraints and encourage innovative local responses to specific local housing problems. The Committee's proposal would consolidate the following programs.

- Section 235 homeownership assistance
- Section 236 rental housing interest subsidies
- Section 202 direct loans for elderly housing
- Section 8 rental assistance
- Conventional public housing
- Section 101 rent supplements
- Section 312 rehabilitation loans
- Sections 501 and 515 interest subsidy programs of FmHA.

The Committee's proposal was based on a HUD staff paper describing a potential HABG which could be introduced as a 1978 legislative initiative for implementation in the 1979 HUD budget. HUD and OMB staff have discussed some of the program details, but a number of major policy issues and the structure of an HABG remain unresolved. The major policy issues are:

- Is an HABG necessary, particularly if a welfare reform initiative is to be undertaken in the near future?

- What should be included in an HABG if one is to be initiated?

SUBISSUE #1A: Need for an HABG

Statement of Issue

Should the Administration propose consolidation of subsidized housing programs into an HABG?

Alternatives

#1. Propose an HABG as a legislative initiative in 1978 for implementation in the 1979 budget (informal HUD request).

#2. Combine HABG and CDBG proposals and submit a single housing and community development block grant proposal with 1979 budget.

#3. Consolidate administratively some categorical housing assistance programs in 1978 (OMB recommendation).

Analysis

HUD and OMB staff agree that:

. The major impediment to securing adequate housing for low-income families is the lack of effective demand for housing due to their low level of income.

. The plethora of categorical housing programs is an inefficient approach to meeting low-income housing needs.

. Programs with a principal objective of meeting local needs can best meet those needs by allocating resources to responsible local officials and requiring them to make the hard choices among local priorities.

. Political pressures to provide some new construction assistance will be intense, with or without welfare reform.

There is less staff agreement regarding:

1) The need for an HABG to supplement a welfare reform initiative,

2) The need for a separate HABG and CDBG, and

3) The need for legislation to accomplish the objectives of HABG.

HABG and Welfare Reform

Although HUD and OMB agree welfare reform initiatives providing a general income transfer to low-income persons would be an efficient vehicle for overcoming the lack of effective demand for housing among low-income families, HUD believes that an HABG would be needed as a supplement to this general income transfer strategy because:

(a) The private market would be either unable or unwilling to provide an adequate supply response;

(b) The private market supply response would inadequately consider social costs and benefits associated with specific housing location and design decisions; and

(c) An HABG, with a local cost of housing parameter in its formula, could be used to mitigate a key welfare reform problem--the need to vary welfare payments to reflect local cost-of-living differentials.

HUD supports its argument about inadequate supply response by citing (1) problems large, low-income families are currently encountering under the section 8 program securing large rental units, and (2) the apparent failure of mere possession of a voucher to stimulate new construction for large, low-income families even in tight rental markets.

OMB maintains that while the question of supply responsiveness can only be resolved with empirical data, HUD's current evidence does not support its position.

. First, HUD places undue emphasis on new construction. A supply response need not take the form of newly constructed housing for low-income families, but can be indicated by improved services from existing housing through better maintenance, repair of substandard items, minor renovations, and other qualitative improvements. Since HUD evaluations of the section 8 program indicate considerable evidence of unit upgrading, there does appear to be a substantial supply response, albeit not necessarily in the form of new construction.

. Secondly, to the extent that the large family problem is due to landlord reluctance to rent to these families or to the artificial limitations imposed by local jurisdictional boundaries--factors cited in a HUD evaluation--these "imperfections" can be removed directly. A new construction program is an inefficient and costly means of offsetting these kinds of problems.

The HUD argument about the private market failure to reflect social costs is essentially the economic "externality" problem. The extent of the problem is unclear, although HUD cites the geographical concentration of low-income housing as evidence that the problem is severe and widespread. It is not clear, however, that an HABG is an effective response to this particular problem.

. First, if such concentrations are the result of explicit or even implicit discrimination, our first remedy ought to be a legal one.

. Second, if these practices reflect local preferences, it is not clear that a block grant approach, with greater discretion for local preferences and priorities, is an effective vehicle for changing local behavior.

An HABG is not an effective or equitable approach to mitigate the problem of local cost-of-living differentials. If cost-of-housing differentials are good proxies for local cost-of-living differentials, these data can be used directly to vary the level of welfare payments in local areas. A separate HABG would be superfluous.

Even if there were persuasive evidence that specific market imperfections would severely restrict supply response or ignore fundamental social costs, the need for an HABG to overcome these specific "categorical" problems is unclear. Unless set-asides are used, there is no guarantee that local priorities will coincide with Federal priorities to overcome the specific market imperfections requiring a housing program supplement to general welfare reform. Moreover, a more efficient strategy might be to eliminate the cause of the imperfection, rather than to attempt to offset it with a counterbalancing Federal program.

Need for Separate HABG and CDBG

The HABG and CDBG appear similar in several respects. First, HUD's current proposal for an HABG suggests that "all units of general local government receiving formula entitlements under the CDBG program" would also receive HABG formula entitlements. In addition, State governments would receive an entitlement. Although States are not currently funded directly under CDBG, we believe HUD will propose allowing States to allocate discretionary balances under CDBG. Thus, it is highly likely that the recipient groups will be the same for both CDBG and HABG.

Second, the variables likely to be included in the HABG formula are very similar, if not identical, to those currently in or likely to be included in the CDBG formula. These include elements for:

- Population
- Poverty
- Housing overcrowding
- Housing costs
- Age of housing
- Housing vacancies

Presumably, the principal reason for providing separate block grant programs is that the program objectives differ and therefore the formula allocation should reflect those differences. Assuming that the programs will, in fact, have significantly different objectives and hence different formula allocations, it is not obvious why two separate programs are needed when one program could provide a two-stage allocation--one based on the community development formula, the other on the housing assistance formula.

Pros for Two Separate Programs

- Program objectives should differ, although there should be significant correlation between the two.

- Separate programs allow the Federal Government to establish relative budget priorities between housing and community development, but still permit local discretion within those programs areas.

Cons for Two Separate Programs

- One program with two formula allocations would permit the Federal Government to differentiate housing from community development priorities.

- One program would insure these two interdependent objectives are closely coordinated.

- One program with one allocation (or two allocations) would eliminate Federal (and perhaps some local) staff needs.

- One program would allow greater local flexibility to set priorities between housing and community development objectives.

Need for Legislation to Achieve HABG Objectives

HUD has proposed advancing the HABG now as only a legislative initiative because HUD believes HABG is an idea whose time has come. HUD also believes this is the most effective way to achieve program consolidation and simplification, and to encourage the development of greater local responsibility by delegating the tough program decisions to those local authorities along with an overall budget restraint.

OMB, however, maintains that:

. A major HABG legislative initiative should not be advanced in concept until more of the programmatic, structural, and impact issues are resolved.

. The more time there is to debate the proposal publicly, the greater the opportunity for those interest groups, whose programs are to be folded into the block grant, to increase their current program levels and thereby establish a firm, higher base for hold-harmless.

. An HABG may not be the most effective way to achieve program consolidation, since, by taking on all the interest groups at once, you magnify the political repercussions.

. An HABG may not really achieve meaningful program consolidation, since with set-asides we are merely establishing categorical programs under a new name.

Evaluation of Alternatives

Alternative #1 (Advance HABG as independent 1978 Legislative Initiative)

Pros

. Consistent with Administration policies to:

(a) Simplify Federal programs,

(b) Encourage local solutions to local problems, and

(c) Reduce Federal Government employment.

. Provides Congress opportunity to evaluate proposal fully before having to make budget adjustments.

. Would represent a major Presidential housing initiative.

Cons

. Early submission maximizes political pressure and encourages efforts to increase base for hold-harmless provisions.

. Need for separate HABG and CDBG is not well established.

. Need for an HABG with major welfare reform is not clear.

. Program consolidation can be achieved more directly as suggested by OMB issue paper on consolidation of section 202 and section 8 housing programs.

. Increasing local discretion can also be achieved more directly as indicated by OMB proposed reform of section 8 (HUD issue #1).

Alternative #2 (A Single HABG/CDBG)

Pros

. Better coordination at Federal and local levels between two highly interrelated programs.

. Can accommodate two-stage formula allocation if housing and community development objectives are sufficiently different that separate formula allocations are required.

Cons

. Need for an HABG to supplement welfare reform is still moot.

. Requires additional legislative changes to Housing and Community Development Act of 1974.

. Advantages of HABG can be achieved directly through individual consolidations.

Alternative #3 (No HABG)

Pros

. Focuses attention on first solution to low-income housing problems--welfare reform to overcome inadequate effective demand.

. Avoids congressional confrontation on "pet" programs, which are likely to survive as set-asides in an HABG if they are included at all.

. Advantages of HABG can be achieved more directly through individual consolidations.

Con

. Allows many categorical programs to continue without need to compete for funds or to reflect local preferences.

HUD Request: Alternative #1.

OMB Recommendation: Alternative #3.

SUBISSUE 1B: Elements of an HABG

Statement of Issue

If an HABG is proposed, what categorical programs should be included in it?

Alternatives

#1. Include only HUD subsidized housing programs.

#2. Include HUD and FmHA housing subsidy programs, excluding FmHA direct loans (HUD request).

#3. Include HUD and FmHA housing subsidy programs, plus direct loan programs of VA and FmHA.

Analysis of Alternatives

Alternative #1

Pro

. Avoids interagency conflicts.

Cons

. Excludes programs with similar objectives merely because of geographical focus.

Alternative #2

Pros

. Includes all subsidized housing programs under one program.

. Supports current Administration efforts under section 8 to achieve consolidation of housing programs under one agency.

Cons

. Interagency confrontation.

. Ignores direct loan programs which provide indirect subsidy by making credit available where it presumably would not be otherwise.

Alternative #3

Pros

. Consolidates all subsidized housing and direct loan programs, excluding only supplementary credit market operations (e.g., mortgage insurance, secondary market operations).

. Allows local communities to determine vehicle for providing housing assistance, i.e., loans and grants, as well as particular program mix.

. Would get Federal Government out of direct housing loan business and, thus, reduce competition with private sector.

Cons

. Direct loans may be viewed as correcting a market deficiency rather than providing a subsidy, since they are presumably provided to overcome lack of private market supply. However, existence of Federal direct loans may deter private activity in the market.

. Including direct loans adds another powerful lobby against the program.

HUD Request: Alternative #2.

OMB Recommendation: Alternative #2.

Issue Paper
Housing Cross Cut
1978 Budget

Issue # 2 : Rationalization of FHA, FmHA and VA Housing Programs

Statement of Issue

Should FHA, FmHA and VA housing programs be rationalized?

A. Organization and Procedures

Background

Currently three Federal agencies are responsible for administering Federal housing programs. In theory, though not always in practice, the Federal Housing Administration (FHA) in HUD is the Nation's primary vehicle for meeting the Nations several housing objectives which have evolved over the years:

-- improve housing standards and conditions (1934 Act).
-- stimulate the construction industry and economic recovery (1934 Act and legislative history)
-- provide adequate credit availability for single family homes and multifamily dwellings (1934 Act and legislative history).
-- reduce the cost of housing (1934 Act and legislative history).
-- provide a decent home and suitable living environment for every American family (1949 Housing Act).
-- assist families with incomes so low that they could not otherwise decently house themselves (1968 Housing Act).

To meet these objectives, FHA has a plethora of housing programs, including programs for veterans and rural areas as shown in Attachment 1, as well as several nonhousing programs. The housing programs provide insurance for single family homes, multifamily dwellings, and mobile homes. Some of the programs are targeted to low or moderate income families or the elderly and some are not.

The Farmers Home Administration (FmHA) in the Department of Agriculture was intended to serve the low and moderate income rural population who require services delivered through mechanisms similar to those used for the farmers whom FmHA serves. However, its income limits for program participants and beneficiaries are much higher than the poverty limits set by the Bureau of the Census, and its rural geographic coverage has recently been extended from areas with less than 10,000 population to areas with less than 20,000. In addition to its farm programs, FmHA now has single family direct loan programs similar to VA's direct loan program as well as multifamily direct loan programs. In October 1976, FmHA issued regulations to implement a loan guarantee program for moderate income homebuyers which has some similarities to FHA's 203 program which also provides insurance in rural areas. Currently, HUD is studying rural housing to determine what market gaps exist and how to fill them.

The Veterans Administration (VA) housing programs were originally intended to be a time-limited readjustment benefit for war-time service veterans. With conversion to a permanent program for all veterans in 1974, it has become much broader in scope. It is now the largest Federal mortgage guarantee/insurance operation and serves many of the same purposes as FHA. The VA has loan guarantee and direct loan programs for single family homes and a mobile home loan program. In FY 1978 Director's Review, decisions were made to, (1) terminate the programs for future armed services' personnel in keeping with the original intent of the programs, and (2) charge new program participants a one-quarter percent premium in each of the first three years of the loan guarantee program to cover the costs of new loans.

In addition to its own programs, each agency has its own procedures and criteria for originating and servicing mortgages and for selling properties. This results in program overlaps and inconsistencies, varying benefits and costs to the homebuyer, and varying performance records in terms of default rates and losses. (See attachments on appraisal activities (2) and fees (3) for examples).

Proposals to consolidate the housing programs of these agencies would meet with opposition from the several Congressional committees which oversee these agencies and from interest groups.

Alternatives

1. Continue three independent operations. Each agency would continue to establish its own procedures independent of the other agencies. (Current policy).

2. Consolidate the housing programs of three agencies in one agency.

3. Standardize selected procedures for all three agencies. Such activities as appraisals and property standards would be good candidates. Standardization of requirements such as fees and downpayments would be a follow-on activity. (OMB Recommendation).

4. Assign each agency primary responsibility for selected procedures. Under this option one agency would be responsible, for example, for all appraisals, another for all property sales.

Discussion

Alternative 1. Continue Three Independent Operations.

Advantages

- Requires no changes in current policy.

- Allows each agency to tailor procedures to its own particular market.

Disadvantages

- Results in different benefits and costs for groups of beneficiaries whose needs are the same.

- Contributes to the proliferation of Federal forms and requirements which involves costs both to the Federal Government and the people who participate in Federal housing programs.

- Allows continuation of variations in procedures (such as appraisals) for which there appears to be no inherent reason.

Alternative 2. Consolidate Housing Programs

Advantages

- Would focus attention on the total Federal housing efforts for both policy and programmatic decisions.

- Would result in elimination of overlapping activities and streamline some Federal requirements.

- Would help to avoid competition of Federal agencies in certain activities (e.g., property disposition).

Disadvantages

- The details of the proposal would create many difficulties (e.g., while FHA would be the logical place to house consolidated programs, VA has lower defaults and losses as well as a larger program).

- HUD is currently conducting a study of rural mortgage markets to determine whether there are in fact market imperfections in such areas requiring specialized Federal assistance. This study should lead to decision regarding the roles of FHA and FmHA in rural areas. A consolidation decision now would prejudge the results of this study.

Alternative 3. Standardize Selected Procedures

Advantages

- Would reduce the number of different requirements and forms in the housing area which should result in some savings.

- Would bring the separate programs of each agency into closer alignment with one another, facilitating consolidation at a later date were that deemed desirable.

- Would permit different procedures where differences could be justified, with the burden of proof on each agency, and would allow each agency to retain full control over the administration of its procedures.

- Would require evaluation of existing techniques to determine the best procedures to use, which should result in improved performance.

Disadvantages

- Would require changes in procedures in the agencies which would involve some costs such as revising regulations, training, and evaluation in several areas to determine the best procedure to use.

- Would probably meet resistance from the agencies.

Alternative 4. Assign Each Agency Responsibility for Selected Procedures

Advantages

- Would allow economies of scale to be achieved in some areas.

- Would reduce the number of different requirements and forms.

- Would assure greater consistency in the administration of individual housing procedures within the Federal Government.

Disadvantages

- Would not allow each agency to administer all aspects of its program.

- Would require revision of procedures which would involve some costs.

- Would probably meet resistance from the agencies.

- Would be difficult to reach agreement on which activities to assign to each agency.

OMB Recommendation

Alternative #3. Except where justification can be presented for differing approaches, procedures and requirements should be standardized among and within agencies. To implement this recommendation, a two-phase effort is recommended. An interagency task force including HUD, FmHA, VA and OMB should be established to determine first the best standardization methods for at least the following procedures: appraisals, building property standards, construction inspection, loan servicing and foreclosure, forebearance policies and property management and disposition. Subsequently the task force would be charged with standardizing requirements such as fees, downpayments, eligibility criteria, and loan maximums.

B. Data Collection and Reporting

Background

Currently the three major Federal housing agencies each has its own systems and categories for collecting data. As a result, comparable data are not available in such areas as geographic location of properties, closing costs, mortgagor income, and total administrative and program costs. In some cases, the categories are defined differently by different agencies. In others, the information is not collected by some of the agencies. Thus it is difficult to compare program performance and impact. (See Attachment 4 for examples).

Alternatives

1. Each agency should continue to collect and report data in the categories in which they are currently collected.

2. Key housing data collection and reporting categories should be standardized among the three agencies.

Discussion

Alternative 1. Continue independent data collection efforts.

Advantages

- Requires no changes in current activities.

- Allows agencies to tailor data collection systems to their own needs.

Disadvantages

- Comparison of agency program performance, cost and target markets will continue to be difficult.

- The total Federal impact in the housing area will continue to be difficult to determine.

- Data of questionable usefulness will continue to be collected.

Alternative 2. Standardize key data categories.

Advantages

- Will improve the governments ability to compare and evaluate Federal housing programs.

- Will result in some review and streamlining of data collection and reporting systems.

- Will provide better information on the total Federal impact on housing.

Disadvantages

- May be opposed by the agencies.

- May involve some cost in changing agency systems.

OMB Recommendation

Alternative #2. Better comparative data on Federal housing programs and better information on the total Federal housing effort is needed in order to develop and support broad housing policy decisions. To implement this decision, an inter-agency task force (which could be the same task force established under Part A of this issue) should be asked to establish standard data categories for at least the following: administrative costs, gross and net sales losses including capitalized expenses, mortgagor income, housing expense/income, default rates, claim or foreclosure rates, geographic location, downpayment, closing costs and subsidies.

Attachment 1

FHA, VA, FmHA [1/]

MORTGAGE AND LOAN PROGRAMS
FY 1975

	Eligible Recipients	Loans # (Units)	Average Loan	Down Payment [2/]	Maximum Per Unit Loan Amount
1. Insured Single Family					
FHA					
203(b) Home Mortgage Insurance	Families	195,105	28,000	a	45,000
203(b) Homes for Certified Veterans	Certified veterans	19,918	18,200	b	45,000
203(h) Home for Disaster Victims	Disaster victims	0	0	0	14,000
203(i) Homes in Outlying Areas	Families	10	13,400	c	16,200
203(k) Home Improvement Outside Urban Renewal Areas	Families	4	10,400	d	12,000
213 Purchase of Sales-type Cooperative Housing	Members of a non-profit housing cooperative	0	0	e	45,000
220 Homes in Urban Renewal Areas	Families	19	13,183	f	45,000
220(h) Improvement Loans in Urban Renewal Areas	Families	2	20,700	f no minimum	12,000
221(d)(2) Homes for Low and Moderate Income Families	Low-moderate income families	30,451	17,798	g	21,600
222 Mortgage Insurance for Servicemen	Service members on active duty	3,741	25,965	a premium paid by U.S.	45,000
223(e) Home Insurance in Older Declining Areas	Families	7,465	17,148	-- -- Same as program -- -- under which loan is originated.	

	Eligible Recipients	Loans # (Units)	Average Loan	Down Payment 2/	Maximum Per Unit Loan Amount
233 Experimental Homes	Applicants proposing experimental design	49	21,011	-- -- Same as program under which it is originated.	-- --
234(c) Purchase of Condominium Units	Families	1,954	11,268	e	45,000
235(i) Interest Reduction Homes	Low income families	9,614	18,179	h	21,600
235(j) Interest Reduction Project Rehabilitation of Homes for Re-sale to Low Income Families	Non-profit organizations	20	16,450	0	21,600
235(j) Interest Reduction Purchase of Rehabilitated Homes	Low income families	N/A	N/A	minimum $200	21,600
237 Special Credit Risks	Low-moderate income families	317	15,520	Determined by program under which originated.	18,000
240 Lease Purchase - Fee Simple Title	Homeowners	0	0	d	10,000
809 Armed Services Housing	Civilian Employees in research and development installations	79	28,988	a	45,000
810(h) Armed Services Housing Individual Sales	Military and essential civilian employees or employees of contractors thereof	N/A	N/A	c (See 810(g))	e (See 810(g))
<u>FmHA</u>					
Sec. 302 Farm Ownership Loans	Farmers who cannot obtain credit on reasonable terms	10,598	36,300	0	No statutory maximum
<u>VA</u>					
GI Home Loans (Insured)	Veterans, certain service personnel, widows and widowers	306,950	30,300	None required	25,000

	Eligible Recipients	Loans # (Units)	Average Loan	Down Payment 2/	Maximum Per Unit Loan Amount
2. Direct Single Family Loans					
FHA					
None					
FmHA 2/					
502 Low to Moderate Income Rural Housing Loans	Low-moderate income families in rural areas (less than 10,000 population)	102,516	18,794	0	No statutory maximum
504 Very Low Income Housing Repair Loans	Very low income home-owners in rural areas (less than 10,000 population)	2,254	1,886	0	5,000
VA					
VA Direct Loans	Veterans, service personnel, certain widows, widowers	2,900	19,000	None required	25,000
VA Direct Loans for Disabled Veterans	Totally disabled veterans	N/A	24,500	None required	25,000
3. Insured Multifamily Mortgages					
FHA					
207 Rental Housing	Investors, builders, developers	1,356	17,756	10% value	18,000 - 30,000
213 Development of Sales Coop Projects	Non-profit sponsor	0		-- --	Sum of separate maximum mortgages insurable for occupant mortgagors under 203(b). -- --

	Eligible Recipients	Loans # (Units)	Average Loan	Down Payment 2/	Maximum Per Unit Loan Amount
213 Investor Sponsored Coop Housing	Investors, builders, developers, public bodies	33,688	12,610	10% replacement cost or appraised value after rehabilitation	13,000 - 30,000
213 Management Type Coop	Non-profit coops	10	25,250	2% replacement cost; 3% replacement cost for rehabilitation of existing 213 projects.	13,000 - 30,000
220 Rental Housing in Urban Renewal Areas	Investors, builders, developers, public bodies	506	21,033	10% replacement cost	13,000 - 30,000
220(h) Improvement Loans for Urban Renewal Areas	Same as 220	84	11,283	Loan plus debt cannot exceed limits under Section 220	12,000
221(d)(3) Rental Housing for Low and Moderate Income	Public, non-profit, coop, bld-seller, investor-sponsor, lim. distri.	15,089	16,246	0-10% replacement cost	11,240 - 26,570
221(d)(4) Rental Housing for Moderate Income	Profit sponsors	0		10% replacement cost	12,300 - 29,038
223(f) Mortgage Insurance for Existing Multifamily Projects	Private or public	Not available		15% value	
231 Rental Housing for the Elderly	Investors, builders, developers, public, non-profit	494	18,259	0-10% replacement cost	12,300 - 29,038
233 Experimental Rental Housing	Sponsors with experimental designs	0		-- -- Same as program under which it is originated. -- --	

	Eligible Recipients	Loans # (Units)	Average Loan	Down Payment 2/	Maximum Per Unit Loan Amount
234(d) Construction or Rehabilitation of Condominium Projects	Investors, developers, builders, public bodies	1,954	11,268	10% lesser of replacement cost or sum of unit mortgages.	13,000 - 30,000
236 Interest Reduction Rental and Coop Housing for Low Income Families	Non public sponsors	19,401	19,204		11,240 - 26,570
241 Supplemental Loan Insurance for Multi-Family Improvements	Owner of FHA-insured project	919	1,535	10% improvement value	Same as program under which it is insured.
Title I, Section 2 Property Improvement for All Existing Structures and Building of New Non-residential Structures (coinsured 90/10)	Owner or tenant with a lease	247,402	2,730	None required. (90/10 coinsured with lender)	5,000 (MF) 10,000 (SF)
810(f) Armed Services Rental Eventual Sales	Military and essential civilian personnel	0	e	10% estimated value	9,000 - 18,500
810(g) Armed Services Rental	Military and essential civilian personnel	0	0	-- -- Sum of the unit mortgage amounts computed under 203(b).	-- --

FmHA

None

VA

None

4. Direct Multifamily Loans

FHA

202 Housing for the Elderly

	Eligible Recipients	Loans # (Units)	Average Loan	Down Payment 2/	Maximum Per Unit Loan Amount
FmHA 2/					
514-516 Farm Labor Housing Loans and Grants	Farmers Associations and Farmers	101 projects	28,477 (Indiv. Loans) 159,544 (Organ. Loans)	10% must be obtained from other sources.	No statutory maximum
515 & 521 Rural Rental Housing Loans	Individuals, coops, non-profit organ.	20,633	14,169	0% non-profit 5% otherwise	
523 & 524 Rural Housing Site Loans	Public and non-profit organization	14	150,857	0% non-profit 5% otherwise	$100,000 without national office approval
VA					
None					
5. Mobile Home Loans					
FHA					
207 Mobile Home Parks	Investors, Developers, builders	1,021	3,213	10% value	3,250 per space
Title I - Mobile Home Purchase	Families	4,905	9,744	(90/10 coinsured with lender)	12,500
FmHA					
None					
VA					
VA Mobile Home Loans	Same as other VA housing programs	1,438	13,400	None required	12,500

NOTES

1 Data are taken from Catalogue of Domestic Assistance and HUD mortgage insurance handbooks. List of programs may be incomplete.

2 The downpayment requirements and maximum per unit limits described are the basic provisions. In most of the programs there are variations. Maximum loan amounts vary up to 45 percent for high cost areas and large families. Downpayment requirements differ for veterans, displaced families, rehabilitation, non-occupant mortgagors, and properties notconstricted subject to FHA or VA inspection completed less than one year from date of application.

3 Farmers Home loans are issued directly by the Agency and therefore included under direct loans. FmHA considers them to be insured loans because they are funded by an investment pool rather than a direct appropriation from Congress. Under FmHA definition only the 504 program is a direct loan program.

DOWNPAYMENT CATEGORIES

a Purchase price minus maximum loan amount which is:
97% of the first $25,000 of estimated value and closing costs;
90% of the next $10,000; and
80% of the amount over $35,000
Minimum: 3% of cost of acquisition.

b Purchase price minus maximum loan amount which is:
100% of the first $25,000 of estimated value and closing costs;
90% of the next $10,000;
85% of the amount over $35,000
Minimum: $200.

c Purchase price minus maximum loan amount which is 97% of the estimated value and closing costs.

d Maximum loan amount is the lesser of:

FHA's estimate of cost of repairs or purchase of fee simple title, or
97% of first $25,000 of cost of estimated value
90% of the next $10,000 plus
80% of the amount over $35,000
Minus existing indebtedness on the property
No minimum mortgagor investment required

e Purchase price minus the maximum loan amount which is the unpaid balance of the project mortgage allowable to individual property.

f Purchase price minus maximum loan amount which is

97% of first $25,000 of estimated replacement cost (or value before repair) and closing cost plus the cost of rehabilitations if applicable
90% of the next $10,000
80% of the amount over $35,000
Minimum: 3% of cost of acquisition plus rehabilitation

g Purchase price minus maximum loan amount which is the lesser of

the appraised value and closing costs, or
97% of the appraised value, closing costs plus prepaid expenses; in no case less than $200
Minimum: 3% of cost of acquisition or $200 for displaced families

h Downpayment is the greater of

3% of the first $25,000 of cost of acquisition plus
10% of amount over $25,000, or
6% of estimated cost of acquisition (including purchase price, closing costs and prepaid expenses)

Definitions

	FHA	VA	FmHA
Average downpayment	Cost of acquisition (purchase price plus closing costs) minus maximum loan amount (percent of estimated value plus closing costs). In 221(d)(2), maximum loan amount includes prepaid expenses also.	% purchase price.	% purchase price.
Closing costs	Includes fees for FHA examination, mortgagee initial service charge (maximum 1 percent of mortgages), title search, preparation, deed and mortgage preparation, recording, mortgage tax and similar items.	Fees for recording, survey, title, credit report plus 1 percent maximum origination fee.	N/A
Income	Gross income.	Net debt free (approximately 2/3 gross income).	Gross less 5 percent less $300 per child,
Housing expense	Principle, interest, taxes, insurance, utilities, maintenance, MIP.	Principle, interest, taxes, insurance, utilities, maintenance.	N/A
Geographic location	Urban - Area within city limits. Suburban - Area outside major population center of large cities and accepted as suburban by local populace. Rural - Non-farm areas and small towns less than 5,000 inhabitants.	Self explanatory on chart.	Self explanatory on chart. Change in law will require additional category: places with 10,000-20,000 population.

	FHA	VA	FmHA
Default rate 1/	Number of mortgages in default ÷ total insurance in-force.	Delinquent more than 3 months at the time of the report ÷ total mortgage outstanding.	Any amount over $10 which is overdue at any time during the year ÷ total active mortgages. (Data available for one, two, three and over three months delinquent.)
Claims rate 1/	Number of claims in a given year ÷ total mortgages in-force.	Number of claims in a given year ÷ total mortgages outstanding (same as in-force for FHA.)	Does not apply.
Average subsidy	Average subsidy based on a sample of mortgages insured.	Does not apply.	Total subsidy ÷ number in program (average for 1969-1975.)
Average loss/property sale	Sales losses, principle write-offs, repair costs, and holding costs.	Sales loss, principle write-offs, repair costs, and holding costs.	FmHA currently has data for sales losses and principle write-offs only. OMB staff have developed with FmHA an estimate of total cost/property including sales loss, principle write-offs, repair, and holding costs.
Net losses	Net losses to the fund including sales, repair, inventory hold costs.	Net losses to the fund including sales, repair, inventory holding costs.	Net sales losses only. OMB staff have developed with FmHA an estimate of total net losses.

	FHA	VA	FmHA
Total administrative costs	Salaries and expenses plus allocated overhead, interest on debentures, fees.	Direct personnel and supply costs for both loan guarantee and direct loan programs at field and central plus an estimate of overhead based on an overhead cost allocation study done for 1970-72 (overhead = 38.7%). Cost per loan is divided by total guarantee and direct loans.	Everything except capital expenditures. All FmHA expenditures are allocated to programs on a pro-rata basis according to work measurement standards.
Program Cost per Loan	Program costs ÷ number of loans.	Administrative cost per loan plus [total net losses ÷ #loans guaranteed].	Program cost ÷ number of loans.

N/A Not available.

1/ Default and claims rates provided are very dependent on volume and not very meaningful. We are trying to get better numbers.

Single Family Appraisals

Farmers Home Administration - FmHA performs its own appraisals using two approaches to determine market value. The first is a comparison to at least 3 recently sold properties on which sales prices are verified and adjustments made to make property comparable to the FmHA appraised property. The second approach is the depreciated replacement cost approach. Discount points, loan origination fees and similar fees are not considered in arriving at these values. No fees are charged for this service.

Veterans Administration - An appraisal report is completed by fee appraisers and reviewed by VA staff appraisers. The fee for the appraisal (usually $50) is paid by the person requesting the appraisal directly to the fee appraiser. Three methods are used to determine value: cost, capitization of income and market.

Federal Housing Administration - Both staff and fee appraisals are used. In FY 76, staff appraisals were done in 257,366 of the cases and fee appraisals in 189,342 of the cases. FHA indicates that the timeliness and quality in appraisals are roughly the same under either method. Their calculations indicate that staff appraisals ($39.87) are less costly than fee appraisals ($55.34). The principle criteria for using fee appraisers is the workload which may exceed the capacity of the staff. However, fee appraisers are not used for proposed construction but are more frequently employed in outlying areas where it would not be as economical to use staff employees. FHA's preferred appraisal method for single family is the market approach to value. Cost is generally used as the upper limit of value.

Attachment 3

Fees and Costs for Single Family Mortgages

	FHA - 203	VA - Loan Guarantee	FmHA - 502
Application Fee	$50 existing * $65 proposed * (lower fees for veterans)	0	0
Appraisal fee	Included in application fee.	Paid directly to fee appraiser.* Average cost = $50.	0
Inspection fee	Included in application fee.	Paid directly to compliance inspector.*	0
Closing costs (recording fees, survey, title examination, credit report)	Included in mortgage and downpayment. Average for 203: 2.2% of purchase price.	Paid by borrower at closing. No estimate available.	Paid by borrower at closing. No estimate available.
Prepaid expenses (taxes, insurance)	Paid at closing by borrower except in 221 (d)(2) where it is included in mortgage and downpayment. No estimate available.	Paid at closing by borrower. No estimate available.	Paid at closing by borrower. No estimate available.
Loan origination fee	A maximum 1 percent fee is allowed in closing costs.	A maximum 1 percent fee is allowed in closing costs.	0
Points allowed	None allowed. (May be reflected in selling price).	None allowed. (May be reflected in selling price).	None allowed.
Mortgage insurance premium	.5% per year.	0	0
Downpayment	203(b) = 8.1% purchase price.	None required. Average = 2.9% purchase price.	0
Contract interest rate (July 1976)	8.5%	8.5%	8.5%

* Paid by whomever requests appraisal - buyer or seller.

Attachment 4
Part A

SINGLE FAMILY MORTGAGE INSURANCE AND LOAN PROGRAM DATA a/

FY 1975

	INSURED				DIRECT
	VA	FHA b/			FmHA
	Loan Guarantee	203	221	235	502 Total
I. Level of Activity					
Applications	339,379	449,383 c/	21,734 c/	0 c/	272,797
Mortgages insured or loans made					
1975	288,167	178,771	28,733	8,918	102,516
Cumulative	8,806,100	9,203,186	663,559	445,033	926,447
Mortgages insured or loans made ($ millions)	$ 8,072	$ 4,224	$ 521	$ 161	$ 1,927
Average Mortgage or loan	$ 28,012	$ 23,627	$ 18,123	$ 18,075	$ 18,794
Applications approved	85.1%	---	--- 51.2% c/ ---	---	38%
II. Mortgage and Beneficiary Characteristics					
Average term (years)	29.5	29.4	29.5	30	33
Average downpayment *	$ 851	$ 2,264	$ 501	$ 99	$ 0
Average downpayment/purchase price*	2.9%	8.1%	2.5%	.5%	
Average closing costs	N/A	$ 613 d/	$ 449	$ 463	$ N/A
Mortgagor profile					
Average income **	$ 16,072	$ 17,227	$ 14,407	$ 6,589	$ 8,741
Housing Expense/income *	37.1%	24.5%	23.2%	37.8%	N/A
Average age (years)	33	31	29.3	30	29.9

	INSURED				DIRECT
	VA	FHA b/			FmHA
	Loan Guarantee	203	221	235	502 Total
Geographic location *					
farm)					1%
open country)					44%
places 2,500 pop.)					25%
2,500-5,500 pop.)					17%
5,501-10,000 pop.)					13%
towns 25,000 pop.)	41.9%				
cities 25,000 pop.)	58.1%				
urban		55%	64%	54%	
suburban		43%	36%	44%	
rural		2%	.3%	2%	
III. Program Performance					
Default rate *	1.2%	-- -- --	2.0% e/	-- --	21%
Claims rate	.4%	-- -- --	1.2% e/	-- --	Does not apply
Average Inventory Holding time (mos.)	8.7	-- -- --	21 e/	-- --	N/A
IV. Program Costs					
Average subsidy *	Does not apply	Does not apply	Does not apply	$ 816	$ 684 f/
Average loss/property sold **	$ 3,033	$ 8,453	$ 11,146	$ 6,059	$ 3,450 g/
Average loss/average mortgage **	10.8%	35.7%	61.5%	33.5%	18.3%
Net loss ($000) **					
1975	$ 21,369	$ 175,253	$184,496	$110,319	$ 14,100 g/
Cumulative	$174,502	$1,301,385	$486,396	$231,274	
Total administrative costs ($000) h/					
1975	$ 58,412	$ 94,514	$ 59,547	$ 78,353	$ 62,403
Cumulative	$936,347	$1,644,205	$217,251	$216,363	
Administrative cost/loan					
1975	$ 200	$ 528	$ 2,072	$ 8,785	$ 608
Cumulative	$ 106	$ 178	$ 327	$ 486	

	INSURED				DIRECT
	VA	FHA b/			FmHA
	Loan Guarantee	203	221	235	502 Total
Total program costs ($000) i/					
1975	$ 79,790	$ 269,767	$ 244,043	$ 188,072	$ 79,503
Cumulative	$1,110,849	$2,945,590	$ 703,647	$ 447,657	
Program cost per loan					
1975	$ 274	$ 1,509	$ 8,493 j/	$ 21,156 j/	$ 746
Cumulative	$ 126	$ 320 k/	$ 1,060 m/	$ 1,006 n/	

NOTES

N/A Not available.

* Figures not comparable (see definitions).

** Figures not collected on a comparable basis but have been adjusted for this report to be roughly comparable.

a Most of these data were obtained from the agencies. In some cases, conflicting data were submitted and/or adjustments had to be made to make the data comparable. Therefore, it should be considered "rough" data but we believe it reasonably reflects operating characteristics.

b For FHA, data for the following are based on a sample of each program:

- average term
- average downpayment
- mortgagor profile

In the case of Section 235, the sample is based on 1972 data.

c Applications may come in under 203(b) but be insured under a different program if it is appropriate. Therefore, application data are not very meaningful for 203. To get a rough rate of applications approved, all major single family applications and mortgages insured were grouped together as shown below.

FHA FY 1975

Total Single Family Applications = 449,978
Total Single Family Mortgages Insured = 230,519

Approval Rate: 51.2%

d FHA closing costs are not paid up front by the borrower as they would be in VA or a conventional mortgage but are included in the mortgage amount and/or downpayment. For example, if the purchase price was $24,400 and the closing costs were $600, the downpayment would be 3 percent of $25,000 (the total cost to acquire) or $750. Of this downpayment, $600 would be applied to closing costs and the remainder to principle and interest.

e According to the Single Family Program Director, data are available only for all single family programs and not for individual programs.

f Average for interest credit for loans for 1969-1975. Subsidy should be $1,136 for FY 1975 borrowers.

g OMB and FmHA staff estimate. See definitions.

h Includes overhead. See definition of administrative costs.

i Total administrative costs plus annual losses.

NOTES

j Sharp decreases in volume in these programs account partially for the higher cost of these programs in FY 1975.

k Cumulative 6/30/34 to 6/30/75.

m Cumulative 1954 to 6/30/75.

n Cumulative 8/1/68 to 6/30/75.

Attachment 4
Part B

MULTIFAMILY MORTGAGE INSURANCE AND LOAN PROGRAM DATA
FY 1975

	INSURED			DIRECT
	FHA			FmHA
	207	221 MR(d)(3)	236	515
I. Level of Activity				
Applications *	1,122	2,573 b/	16,641	2,158 a/
Mortgages Insured or Loans Made				
1975 projects	8	135	124	1,153
1975 units	1,454	15,312	17,436	20,633
Cumulative *	280,640	511,695	434,390	5,146 a/
Mortgages Insured or Loans Made ($ millions)	$ 26	$ 267	$ 361	$ 292
Average Per Unit Mortgage	$ 18,145	$ 17,449	$ 20,704	$ 14,169
Average Per Project Mortgage	$3,297,804	$1,979,134	$2,911,296	$ 253,561
Cumulative Applications *				
Approved	41%	81% b/	90%	53.4% c/
Disapproved	58%	17%	4%	
In Pipeline	1%	2%	6%	
II. Mortgage and Beneficiary Characteristics				
Term	40	40	40	40
Average Downpayment/Replacement Cost or Value	10%	10%	6%	5%
Tenant Profile				
Income	N/A	N/A	$ 5,634	N/A
Housing Expense/Income	N/A	N/A	N/A	N/A

	INSURED			DIRECT
	FHA			FmHA
	207	221 MR(d)(3)	236	515
Geographic Location				
Inside SMSA	100%	87%	92%	N/A
Outside SMSA	0%	13%	8%	
III. Program Performance				
Default Rate *	2.8%	2.9%	3.5%	9%
Assignment Rate	2.5%	2.4%	2.6%	
Foreclosure Rate	.3%	.4%	.9%	
Average Inventory Holding Time	N/A	N/A	N/A	N/A
IV. Program Costs				
Average Subsidy	Does not apply	Does not apply	$ 942	Does not apply
Average Loss/Unit Sold *	$ 461	$ 8,324	$ 8,386	$ 12,333 d/
Average Loss/Average Mortgage *	3%	48%	41%	5% d/
Administrative Cost e/				
1975 ($000)	$ 4,013	$ 15,756	$ 30,349	$ 2,863
Cumulative ($000)	$ 80,692	$ 118,511	$ 129,324	
Administrative Costs/Unit				
1975	$ 2,675	$ 1,029	$ 1,744	$ 139
Cumulative	$ 287	$ 232	$ 297	
Insurance Deficit	$ 49,838	$ 606,717	$ 229,506	N/A
Insurance Deficit/Loan Cumulative	$ 177	$ 1,185	$ 528	N/A

NOTES

* Data not comparable between FHA and FmHA figures.

a Based on projects rather than units.

b Applications approved for 221 are based on figures for 221(d)(3) market and below market rate programs only.

c Based on FY 75 figures only.

d Based on net sales losses per project rather than total net losses per unit used for FHA.

e For FHA, the administrative costs are the salary and expenses allocated to the program.