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OVERSIGHT ON HOUSING AND URBAN DEVELOPMENT PROGRAMS, CHICAGO, ILLINOIS

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

NINETY-THIRD CONGRESS

FIRST SESSION

TO CONDUCT OVERSIGHT ON HOUSING AND URBAN DEVELOPMENT PROGRAMS; AND TO HEAR TESTIMONY ON THE EXTENT AND SERIOUSNESS OF THE IMPOUNDMENT OF APPROPRIATED FUNDS FOR HOUSING AND URBAN DEVELOPMENT PROGRAMS

CHICAGO, ILLINOIS

MARCH 30 AND 31, 1973

Printed for the use of the
Committee on Banking, Housing and Urban Affairs

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U.S. GOVERNMENT PRINTING OFFICE

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OVERSIGHT ON HOUSING AND URBAN DEVELOPMENT PROGRAMS

FRIDAY, MARCH 30, 1973

U.S. SENATE,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Chicago, Ill.

The subcommittee met, pursuant to call, at 2 p.m., in Studio A, Television Station WTTW, 5400 North St. Louis Street, Senator John Sparkman (chairman) presiding.

Present: Senator Sparkman, Senator Adlai Stevenson III.

Chairman SPARKMAN. Ladies and gentlemen, we have come to Chicago to hear what you think needs to be done to improve our housing programs.

We come at a time when the Administration has impounded housing funds, suspended housing programs and declared a moratorium on housing activity for 18 months.

The President approved of this cutoff of housing programs despite congressional urging not to do so.

The Administration's housing shutdown particularly disturbs me because it stops everything and proposes nothing; as if we can forget our desperate housing needs for a couple of years.

But the 1968 Housing Act, after considerable deliberation set housing goals for the Nation and I, for one, believe we must keep our eyes on these goals if we are to provide every family, the poor as well as the rich, with a decent house in which to live.

Each year the Congress reevaluates the programs that it enacts and then changes the laws where needed.

We try to do this in a constructive manner, building carefully on the firm foundation of experience.

We are here today to learn what your experience with these programs has been in order to better achieve the goals that we set.

Now, at this time, I am going to ask Senator Stevenson to give his statement.

Senator STEVENSON. Thank you, Mr. Chairman.

No one has done more and over many years to make good the commitment of the Federal Government to decent housing for all American citizens than Senator Sparkman has as chairman of the Senate Banking, Housing and Urban Affairs Committee.

He is chairman of the Senate Subcommittee on Housing as well.

I am very grateful to him for coming to Chicago today.

I might add that the name "Sparkman" has been a household word in the Stevenson household for more than 20 years. He ran

with my father as candidate for Vice President of the United States back in 1952, so that I am not only grateful but it also is a personal pleasure and privilege for me to be here today with him.

Nearly 25 years ago, in the Housing Act of 1949, the Congress set forth a national goal of "a decent house in a suitable living environment for every American family." The Nixon administration has repudiated that commitment by imposing a "moratorium" on federally subsidized housing, both single family and rental.

I for one do not want to go back on that commitment. The evidence is clear that Federal support for housing is necessary if the housing needs of low- and moderate-income families are to be met in the inner city, in the suburbs and in the countryside. In 1971, only 2 percent of all new homes sold for less than $16,000. Thirty percent of all American families cannot afford a home at that relatively low cost. The average cost of a new home in February of this year was $30,400, far above what most Americans can afford. And far too many families who live in rental units pay an exorbitant portion of their income for rent.

Existing housing programs are not perfect. Too often they serve interests other than those intended—and at the expense of the taxpayer. Too often they have ignored the housing needs of the inner city, including the need for an adequate number of well maintained rental units. Too often their intent is warped by faulty HUD administration. Too often the housing is not structurally sound or safe. But the answer is not to abandon our commitment to decent housing. The answer is to make Federal support for decent housing work.

The Nixon administration mismanaged Federal housing programs, then said they did not work, and then terminated them. It refuses to execute the law.

The laws should be obeyed, and the housing programs reinstated. Then, while Federal housing activities continue Congress should review and revise them.

I have already introduced legislation which will allow purchasers of FHA homes to be reimbursed for the cost of repairs necessary because of structural defects which FHA overlooked in its appraisal and inspection. We must assure that Federal housing programs benefit homebuyers and tenants, as well as builders, realtors, landlords, and mortgage bankers.

The solution is not to kill, but to cure. The moratorium will have a disastrous effect on housing both nationwide and in Chicago. The Housing Act of 1968 required that housing goals be set for each year from 1969–1978. The housing goals, set by HUD itself in 1970 call for 695,000 units of subsidized housing in fiscal year 1974. As a result of the moratorium only 250,000 units will be built nationwide in fiscal year 1974. In fiscal year 1975 the housing goals call for 730,000 subsidized units, but unless the present moratorium is lifted none will be built. In Chicago, 6,000 units of federally subsidized low- and moderate-income housing will be completed this fiscal year, but because the Administration's moratorium permits no new starts, only 4,000 units will be completed next year, and only 3,000 in 1975. So despite increasing needs, the amount of housing available for low- and moderate-income families will dwindle.

These hearings will give the subcommittee a chance to see and hear about the progress made and the problems that have occurred under Federal housing programs. We want to determine to what extent the shortcomings that do exist are a result of faulty administration by the Department of Housing and Urban Development and to what extent they are due to defects in the legislation that can be corrected. We want to know what the adverse effects of the moratorium will be on people in the Chicago area. Our purpose is not to hunt witches, but to build houses—to provide decent shelter at a reasonable cost for every American family.

Thank you, Mr. Chairman.

Chairman SPARKMAN. Senator Stevenson, I am going to ask you to preside over this meeting.

We have quite a long list of witnesses for this afternoon. I believe there is an understanding as to the time for each witness, and I believe our cut-off time is 5 o'clock; is that correct?

Senator STEVENSON. If we don't cut off at 5 o'clock, we will be competing with "Sesame Street," Senator.

Chairman SPARKMAN. I am afraid we would lose out there.

Senator STEVENSON. So that both for the sake of the witnesses and us Senators, we better conclude today's hearing no later than 5 o'clock.

The hearings will be resumed tomorrow. We will go all day tomorrow both in the morning and in the afternoon.

Mr. Chairman, you are right, in order to keep within that time constraint, we have been compelled to ask all of the witnesses to condense, summarize their statements.

The full statements will be entered into the record, but we want to leave time for some questions and answers between ourselves and the witnesses.

So, what we are going to do is ask the witnesses to summarize their statements to the extent that they can, in 4 or 5 minutes, putting the full statement in the record in order to leave time for questions. Mr. Hill?

STATEMENT OF LEWIS W. HILL, COMMISSIONER, DEPARTMENT OF DEVELOPMENT AND PLANNING, AND THE DEPARTMENT OF URBAN RENEWAL FOR THE CITY OF CHICAGO

Mr. HILL. Thank you, Senator; Senator Sparkman and Senator Stevenson.

For Mayor Daley who is outside of the city today, we extend to you his personal greetings and pleasure that you have brought to Chicago your hearings to hear directly from the people who have been working to produce housing, the people who use the housing and the people who want to produce housing, some of the problems that confront us at this time.

So we are pleased to have you here and we hope that the sessions are productive for you in formulating your programs and that you will return to us in the near future to provide us, we hope, with good information in terms of the successful culmination of your efforts.

Chairman SPARKMAN. May I thank you for the word regarding Mayor Daley and will you please express to him, from one Irishman to another, my best wishes.

Mr. HILL. I will, Senator.

As Senator Stevenson has said, the basic American housing goal—and we quote from the Housing Act, is "to provide a decent home and a suitable living environment for every American family." In our judgment will not become a promise fulfilled without continued cooperation, participation and commitment from the Federal Government.

Private enterprise and local government, no matter how well intentioned, simply do not have the financial resources to do the job without a return of a fair share of their tax dollars to help make up the difference between many families' ability to pay and the market cost of the housing.

The city of Chicago pioneered in programs of slum clearance and neighborhood conservation. Prior to passage of Federal legislation making financial aid available, the State of Illinois and city of Chicago approved legislation in 1947 for slum clearance and housing and for neighborhood conservation in 1953. The local legislation was backed with substantial financial assistance from both State and city.

In the period between 1960 and 1972, Chicago continued to improve its housing stock, making substantial progress in building new dwellings and removing older, dilapidated housing. During the period, building permits were issued for the development of a total of 152,561 new housing units, slightly in excess of 12.6 percent of the city's present total housing stock. At the same time, permits were issued for the removal of 66,099 dwelling units, resulting in a net gain of 86,462 units added to the city's housing supply.

The total value of permits issued by the Department of Buildings, for new housing construction and rehabilitation during this period is estimated at $1,930,403,692, new construction being estimated to total $1,749,138,209, and rehabilitation of existing housing estimated as involving $181,265,483.

Of the total of 152,561 housing units developed through new construction during the 1960–1972 period, about 83,200, or in excess of 54 percent, of these units involved some form of Federal assistance. Of this group, the low-rent public housing program comprised a total of slightly in excess of 22,300 units, or about 27 percent of the total of all publicly assisted housing constructed during the period. About 8,550 units of section 236 housing were developed, accounting for more than 10 percent of the housing developed through Federal assistance. Under the section 235 program, about 3,200 housing units were constructed, representing about 4 percent. The older section 221(d)(3) type of moderate income housing program accounted for 12,150 units, or nearly 15 percent of the total of housing receiving some form of Federal assistance. Grouped together, these specific moderate income housing programs accounted for about 29 percent of all federally assisted housing developed in Chicago during the period.

Overall, since the inception of the low and moderate income housing programs in Chicago, a total of slightly in excess of 100,000 such

dwelling units have been developed in the city, including about 5,000 units developed with conventional financing on urban renewal write-down land. As part of these programs, the Chicago Housing Authority had available as of March 1973 a total of 41,458 housing units for occupancy by families and elderly persons. Of this total, 30,273 apartments are for family occupancy, and 8,045 are for the elderly. The section 23 leasing program comprises a total of 3,140 apartments, 2,359 of which are leased by elderly individuals or couples, and 781 by families.

Permit data for new housing construction in the years 1969 to 1972 ranged from 6,636 to 12,154 units per year, and dollar volume ranged from $122 million to $221 million during this period. Of this total, the public housing average per year for the last 2 years was 300 units at about $6 million in construction costs per year. Federally subsidized moderate income housing has averaged over 3,100 units and $75 million cost per year for the last 2 years. The balance of 3,200 to 8,800 units per year were privately constructed, and the construction industry would be expected to maintain production within this range.

As outlined in the new Federal budget, low and moderate income housing programs are not funded. While some units already approved remain to be constructed in 1973, the loss to the city in future years will be at least 3,100 units per year, amounting to over $75 million in new construction.

Federally subsidized new residential construction represented over 10 percent of all types of construction in 1971 and almost 15 percent in 1972.

Federally subsidized new residential construction represented over 34 percent of all new residential construction in 1971 and over 61 percent in 1972.

In the project rehab program, 28 proposals, totaling over $46 million in insured mortgages for 2,700 units are pending. Under the announced rules of the section 236 moratorium, 14 of these proposals, totaling almost $20 million, and providing 1,200 units in section 236 housing, are frozen. While these funds are frozen, the buildings are suffering vandalism, fires, and continuing deterioration. If left in their present condition without financial assistance, the buildings may well not be available for rehabilitation in the future.

An additional 8 proposals, totaling over $7 million and providing 435 units, may be lost if they cannot be moved forward from the feasibility stage to positive commitment within the established time limit. Six proposals for almost $20 million and 1,065 units are presently committed.

At present, minority contractors have been awarded $3 million in contracts out of a total of $4 million of construction underway in project rehab. It is anticipated that at least $20 million of the $26 million in project rehab construction currently pending approval would go to minority contractors.

Of all types of residential rehabilitation, federally aided rehabilitation since 1967 has averaged over 39 percent of all rehabilitation in the city.

Approximately 1,250 low-rent units for the elderly are to be started during 1973, but the program's future is now uncertain. Almost 5,000 elderly units will not be funded based upon the current Federal budget, while we have 14,000 senior citizens on the waiting list.

The leasing program averaged about 360 units added per year, during the last 2 years, to the city's low-income housing stock. This program will be phased out as existing contracts or commitments expire or are not extended.

Over 800 low-income families are benefiting from rent supplement subsidies related to section 236 housing development in the last 2 years. For section 236, construction has averaged about 2,400 units per year, at an estimated cost of $60 million per year. Section 235 construction amounted to over 700 units per year, at an estimated cost of about $15 million per year. Effective January 5, 1973, new program commitments were suspended. These units comprise an important part of new construction in Chicago, and will be lost as this program is dismantled.

During the past few years, the city's effort to remove dangerous and dilapidated buildings was aided greatly by demolition grants received through various HUD programs. In 1966, the city received a demolition grant of $715,500, which was later supplemented by an additional $500,000 grant. As HUD's original commitments for demolition grant funds were reduced in the last few years, the city obtained demolition funding assistance through both the neighborhood service program (concentrated code enforcement program) and the model cities program. With respect to the latter, the city received an allocation of $252,000 in 1970 through the model cities program which permitted the demolition of about 75 buildings, most of which were of the larger, high-density type. In the latter part of 1972, the city obtained additional funding of $500,000 through the model cities program which facilitated the removal of an additional 151 dangerous and dilapidated buildings. With the sharp curtailment of funding in the new Federal budget, it is anticipated the city's program will be seriously affected in the coming years.

Chicago has had considerable success with housing developments built in the 221(d)(3) and 236 programs. Our regret is that not nearly enough such units have been built to meet the pressing need—not because of reluctance on the part of the city and local sponsors but because of arbitrary vacillating HUD guidelines and now a suspension of funding.

In the Chicago urban renewal program alone, almost 5,000 subsidized new homes and apartments have been completed and are occupied by low- and moderate-income families and older persons. Another 840 homes and apartments are in advanced stages of construction.

Since the inception of the housing subsidy programs, excluding low-rent public housing, there have been over 7,500 units built on urban renewal sites of which over 70 percent have been built under one of the subsidized programs.

Plans for an additional 3,255 subsidized homes and apartments are in the works at varying stages—plans completed and approved, construction ready to commence, some awaiting clearance from HUD

over questions of financing or site location, and still other projects have advanced beyond the discussion and local approval steps. Now, with the HUD suspensions and terminations they are left in limbo. Even if they are ultimately approved, valuable time is being lost and other prospective development groups become discouraged.

The so-called pipeline of uncompleted projects which the administration cites as evidence that all work will not be immediately terminated is misleading. No consideration is given to the lead time necessary to carry out a development from planning to approval, through implementation with land acquisition, relocation, demolition, land disposition, architectural work, financing, contracting, construction, site and utility work, landscaping and occupancy. Without this lead time the production of low- and moderate-income housing grinds to a halt. This in turn makes it impossible to complete currently funded urban renewal projects.

We hear a lot of talk about "trickle down" or "used" housing as the answer to the problem of meeting housing needs of low- and moderate-income groups. This is only a partial solution, and here, too, its effectiveness and success depend on assistance in financing from the Federal Government. On the west side of Chicago in the Lawndale area we have a program in which 491 apartments in multi-unit buildings have been successfully restored through programs using 221(d)(3) and 236 financing The buildings are located on both sides of Douglas Boulevard in a six-block area. With the exception of the first two groups of 32 buildings, the work was sponsored by a neighborhood not-for-profit corporation serving predominantly black, low- and moderate-income residents. In the initial phase of the program, to get the program started the Department of Urban Renewal purchased and rehabilitated 32 buildings with 294 apartments which were then sold to the neighborhood Douglas-Lawndale Corp. which provides management services. The bulk of the actual construction and subcontracting was performed by black firms.

While we consider the program an outstanding success in terms of good, sound, spacious housing to serve low- and moderate-income families, this project has been a complicated and time-consuming effort—due in part to its experimental nature and the lack of any precedent or guidelines. We coordinated efforts with the model cities program, municipal departments and private agencies. Training courses in property management, maintenance and housekeeping were part of the comprehensive in-depth approach used to assure success in Douglas-Lawndale.

The Douglas-Lawndale program was to have been the prototype for the entire Chicago project rehabilitation, another program which the President and HUD have left dangling in a state of confusion and uncertainty.

Rehabilitation efforts made possible by low interest, long-term loans under section 312 and direct grants of up to $3,500 in the section 115 program are also at a standstill. The proposed cutbacks in Federal rehabilitation assistance will amount to a loss of at least $2.7 million in loans and grants in the section 312 and 115 grant programs, and a possible additional loss of approximately $3 million in private but related residential rehabilitation in urban renewal

areas. An estimated 1,200 jobs in construction work are also at stake.

A great many hours of staff time at all levels have been spent in the slow and frequently frustrating efforts to develop and encourage responsible community sponsorship of such housing programs. There were plenty of civic-minded individuals and established organizations—whether church, labor or community-service-oriented—who were willing and eager to participate. But, they often lacked the technical expertise needed to initiate and successfully carry forward projects of this kind, especially with constantly changing guidelines and restrictions at the Federal level, to say nothing of the pitfalls and hazards of financing construction on the part of non-professionals.

However, community groups and private sponsors did emerge and did successfully complete 5,840 subsidized homes and apartments on urban renewal sites in the city of Chicago in the programs designed to provide housing for families of low and moderate incomes.

Among the first such developments were: the 514 unit, section 221(d)(3) Lawless Gardens apartments sponsored by a group headed by the late Dr. Theodore K. Lawless, a world famous black dermatologist; Noble Square, a cooperative of 487 units; Woodlawn Gardens built by the Woodlawn Organization and the Kate Maremont Foundation with 504 units in low-rise buildings along with a neighborhood commercial center.

On the near South Side, on a 30-acre former slum site, South Commons is one of Chicago's finest examples of an urban renewal program offering an entire community a diversity of choice of living accommodations. More than a third of the 1,619 units have been built for moderate income groups including a 312-unit building for middle-aged and elderly persons of moderate income. The first units for low and moderate income occupancy were built under the 221(d)(3) program and the recently completed apartment building for older tenants under section 236.

In the 221(d)(3) program, a 21-story apartment building with units ranging in size from efficiencies to one- and two-bedroom apartments was built, together with four-story maisonette buildings with larger apartments of three and four bedrooms. Income levels range from $6,900 to $12,900 for families with at least seven persons. The balance, built under section 220, produced housing for middle and upper middle income groups. When we planned for the South Commons project Federal officials thought that, because of the proximity of public housing, South Commons should be largely 221(d)(3). Our experience has shown, however, that it is possible by careful planning to achieve a successful distribution of upper middle and middle income occupants along with moderate and low income residents.

In South Commons we have occupants of $45,000 to $60,000 town houses or $400 monthly rental units living in proximity with families of low incomes. The community is racially integrated with the ratio being approximately 60 percent white and 40 percent black. Besides a complete spectrum of housing at varying price ranges, South Commons has an elementary school, community center, shop-

ping center and recreational facilities including swimming and tennis.

Other desirably located housing for moderate income families is available in the Hyde Park community as part of the Lake Village development and in Harper Square, a 600-unit townhouse and apartment development sponsored by the Amalgamated Clothing Workers of America. It was financed partially by the Illinois Housing Development Authority, a State of Illinois agency. Approximately one-third of the Harper Square units were financed under section 236 for moderate income families. One of the early developments, Hyde Park West, consisted of 160 units built by the not-for-profit Community Renewal Foundation. Further south, in the 87th-Mackinaw area, a not-for-profit foundation formed by the United Steel Workers of America is completing a 357-unit development named Germano-Millgate after one of the union leaders. A small development of 78 townhouse units was built by a neighborhood-sponsored group at 73rd and Dobson.

Although not a participant in the HUD experimental-research program, Operation Breakthrough, seeking innovative and speedier solutions to housing, Chicago developed an operation breakthrough of its own. A 458-unit development, Lake Grove Village, is being completed in the record time of slightly more than 1 year from ground-breaking to occupancy—about half the time for conventional construction. This record was achieved by the use of a construction technique using a component system approach, first tried in France and introduced for the first time in this country in Chicago.

Another first: Participants in all phases of the $10 million Lake Grove Village development are black including sponsors, mortgage firm, banks, architects, attorneys, contractors and construction workers. The sponsors are two church groups, the Chicago Conference of the African Methodist Episcopal Churches and the Chicago Presbyterv-Sixth Grace Church.

On the North Side in the Lincoln Park community, the conservation program specified that efforts would be made to retain the diversity that accounts for much of the charm and appeal of this section of the city. This has been done in both private and public developments. The Chicago Housing Authority has constructed a total of 222 units in several Lincoln Park developments including housing for the elderly and family size low-rise units. Out of a total of 252 units, private developers of Walpole Point have provided 127 units of housing for families in moderate income brackets.

North Park Tower, a high-rise apartment building with 126 units built by a private developer, is managed by the Foundation for Cooperative Housing. One of the first moderate income developments to be completed in Lincoln Park is the 45-unit Ogden Corners, a townhouse development built by a corporation formed by residents of the community with financing under section 221(d)(3).

West Park Place, a $1.7 million 69-unit townhouse development built by a private developer under section 236 financing, has been the subject of a number of laudatory news stories. A story just a few weeks ago in a Chicago daily paper carried the heading: "West Park

Place; a rental nugget in a gilt-edged market," with a subhead, "How Mrs. Gusba found a brand new 3-bedroom apartment for $183 a month." About half of the families living at West Park Place are black or Latin.

Also worthy of note among housing developments nearing completion under the section 236 program is Martin Luther King Plaza, being built by an all-black group at Madison and Kedzie on a site cleared after the 1968 riot. Martin Luther King Plaza with 138 units has a waiting list numbering thousands of applicants.

In the Roosevelt-Halsted area, a not-for-profit development group was formed by a coalition of 10 major community organizations, including residents of nearby public housing projects. It is their goal to construct up to 1,000 housing units for low- and moderate-income families. Construction of the first phase of 272 units is more than 50 percent completed after breaking ground in August 1972. Here, too, the sponsoring group met with discouraging delay at the hands of the FHA in obtaining financing which was "on-again, off-again" over questions of HUD's new site selection criteria.

The impact of urban renewal as a catalyst in stimulating private investment is readily apparent throughout Chicago. To briefly cite two examples:

In the Hyde Park-Kenwood conservation area of 854 acres, $183,860,000 was invested in private funds in new construction and rehabilitation from 1959 through the end of 1972 according to building department permit data. The public investment in the Hyde Park renewal program—Federal and city—was $60,727,887.

In Lincoln Park project I, in the period 1968 through the end of 1972, public investment in renewal—Federal and city—amounted to $35,813,147 as compared to private investment of $142,126,161 for new construction and rehabilitation.

In Chicago we need 6,700 units of federally assisted housing to meet existing commitments on urban renewal land for low- and moderate-income occupants. This includes 2,100 units of 236 housing in ongoing projects where land has been cleared and needed to close out the projects with the Federal Government.

We have estimated another 2,900 units of 236 housing are needed in the neighborhood development program areas where some preliminary work has already been started and groups of sponsors have organized to construct the housing on the assumption that Federal financing would be available. Estimating $25,000 cost for each new unit, the HUD freeze would stop approximately $145 million in construction and deprive 6,500 families from having new homes or apartments. The balance of housing needed for this group of citizens would be 1,000 units in the Project Rehab program, another program started and also suddenly suspended—451 units in a block square area at 47th and Michigan also for rehabilitation, and 250 more units in Douglas-Lawndale including 175 new and 75 rehabilitated.

I cannot overemphasize the gravity of the problem of providing housing for low- and moderate-income groups, not only in Chicago but nationally. The federal government has made commitments. Congress has enacted legislation and has appropriated money to

implement the legislation and the commitments. The programs must be continued at least at the present level and current commitments must be honored. This is not to say these programs cannot be improved. The following recommendations, based in part on the Chicago experience I have just outlined, would eliminate some of the existing drawbacks in the various subsidized housing programs enacted by the Congress and allow these programs to do the job they were intended to do.

RECOMMENDATIONS

(1) We believe that the concept of special revenue sharing is excellent and desirable, but such sharing should be done now and not deferred until July 1, 1974, and it should be paid directly to the locality not through the State. Funding should be contracted directly between the Federal Government and the city. We object to deferring funding until July 1, 1974. Interim funds must be provided. To stretch last year's appropriation out over a 2-year period is simply a rationing device. There should not be this gap of a year in funding.

We also recommend the full funding and use of all authorized appropriations. This would include: $300 million for section 235 housing; $300 million for section 236 housing; $100 million for the rent supplement program; and, $400 million for low-rent public housing. These appropriations and authorizations should be made available no later than July 1, 1973, to cover the fiscal year 1974.

In addition, all funds previously appropriated for fiscal year 1973 should be released in order to ease current cost and management burdens in public and other subsidized housing programs. Authorizations and appropriations for funding should be made in like amounts for fiscal year 1975.

(2) Federal officials need to take a more flexible approach in determining the ratios of housing for various income groups. For example, in earlier days of the program before the subsidized housing programs under sections 221(d)(3) and 235 and 236 were enacted, financing approaches did not allow for an economic balance and distribution of housing within the same urban renewal project areas.

Carl Sandburg Village in the North-LaSalle project was financed under section 220 which produced housing only for middle-income and upper income groups.

An economic balance, however, was successfully carried out in Lincoln Park, South Commons and Hyde Park where section 236 subsidized housing stands side by side or across the street from privately built middle and upper income developments with harmonious results.

(3) Assuming HUD continues to operate in something resembling its present organizational structure, there should be clarification as to the responsibility vested in the HUD central, regional and area offices. It is difficult under the present organizational structure to determine where to get quick, clearcut answers or decisions.

For example, in the past we have frequently received HUD financial commitments for land acquisition and clearance with no corresponding FHA priority in funding for new housing. Because of the lack of formal communication with HUD, coordination of

the programs has been difficult and the city of Chicago has had to compile its own roster of public and privately built subsidized housing.

(4) There is also need for clarification of specific levels of responsibility within HUD and the Office of Management and Budget, relative to approvals by the regional planning body (in Chicago's case, the Northeastern Illinois Planning Commission). Here we have the somewhat ridiculous situation of the regional planning body asking the city of Chicago Departments of Planning and Development and Urban Renewal for clarification of questions asked of them by HUD which is a roundabout way of doing business.

(5) I believe that recently enacted Federal guidelines, designed to achieve racial and economic dispersal through rigidly set site selection criteria are not achieving what they were meant to do. In fact, they are actually imposing hardship on inner-city residents in situations where vacant landsites are available, where housing demand and need are greatest and where sponsors are available.

At least 10 Chicago projects are being held up over questions of the site selection criteria which, while they ostensibly seek to avoid concentrations of minorities in any one area, at the same time effectively restrict minorities and the poor from improving their housing situations.

For example, by calling for a 1-to-1 city/suburban development of particular subsidized housing programs, the regulations have had the effect of slowing up if not actually halting a variety of programs and efforts in the inner city, channeling or diverting such programs to suburban areas. Whatever the purported purposes, the regulations have functioned as a rationing device.

(6) Some housing experts have proposed tax abatement or reduction as an incentive to private construction of housing for low- and moderate-income groups. However, this housing in fact presents a heavier demand on local services and because of this I believe that cities, hard pressed as they are to provide essential services and public improvements, need the taxes paid by these developments to support city services. More services, not less, are needed.

(7) Housing subsidy programs are not the whole story. These programs need to be supported with programs for health, education, employment, day care, housekeeping, property maintenance, and similar efforts. With the proposed elimination of the Emergency Employment Act funds, the Chicago Housing Authority will be forced to close community and day care centers serving 60,000 persons. Loss of Model Cities and Neighborhood Youth Corps funds will create additional hardships for public housing tenants. These cuts should not be tolerated until substitute programs are available.

(8) In conclusion, I wish to stress that, while the Nation's subsidized housing and renewal programs may need changes and updating and improvements to make them more responsive to existing economic and social conditions, I am unalterably opposed to a suspension for a period of reappraisal. No one in the business community would suggest shutting down a plant or place of business while deciding on ways to expand profits. It is unreasonable and immoral to propose shutting down the nation's subsidized housing program

while a reassessment is being made. We in Chicago pledge full support to actions geared to improving the program. But we strongly oppose its suspension or termination while an evaluation is taking place.

Let us evaluate, improve and continue to move forward simultaneously.

Thank you for the opportunity to appear.

Senator STEVENSON. Thank you, Mr. Hill.

Senator Sparkman.

Chairman SPARKMAN. Well you are the presiding officer so I am subject to your command.

Senator STEVENSON. Senator Sparkman.

Chairman SPARKMAN. I shall ask a very few questions.

You speak of these subsidized programs, sections 235 and 236 particularly. It was in 1968 that we started those programs.

Mr. HILL. Yes.

Chairman SPARKMAN. At that time we also wrote into the law a housing goal of 26 million units over the next 10 years, that is by 1978.

Of that 26 million, 6 million were to be for lower income people.

Do you believe that there is any less need today for that type of housing than there was in 1968 when this proposal was passed by virtually a unanimous vote of the Congress.

Mr. HILL. There certainly is not, Senator.

If anything, the need has really increased instead of decreasing.

Chairman SPARKMAN. Do you think that it is possible for us to achieve that housing goal if we ruthlessly cut it off as has been done?

Mr. HILL. If we ruthlessly cut it off as has been done, I fear for the consequences because that housing goal that was enunciated before will be more difficult to achieve in 2 or 3 years and our problems to then approach it would be even greater than they were before.

Chairman SPARKMAN. By the way, in cutting this off, Secretary Lynn has on several occasions assured the Congress that—and I quote his words—"No less dirt will fly over the next two years than flies now."

Will there be less housing activity as a result of the moratorium or won't there be, in the city of Chicago?

Mr. HILL. If we are talking about the 1973 spring-to-fall construction period, we will probably be able to maintain the pace, almost the pace of last year because these are the projects that had already had the architectural work done on them.

Chairman SPARKMAN. They were in the pipeline, in other words?

Mr. HILL. Well, they were further along, they had the site selection—they weren't even in the pipeline. They were at the very end of the pipeline, ready for the dirt to fly.

In my prepared comments I pointed out, as you well know, it isn't that you turn it on and off; it is not like a spigot of water that you have in your house; there is still all of the preliminary work that needs to be done.

There is all of the architectural work, the construction work, the cost analysis, the advertising for bids, the place that you are going

to put it; all of that preliminary work which is necessary before the dirt flies.

If we don't get that work done in 1973, there won't be any dirt flying in 1974 and those are the programs that are really going to suffer and that is why, to cut it off and terminate or freeze; and you can use any of those terms which are all the same basically, because all they mean is "No more housing."

That is where it is going to be very critical.

Chairman SPARKMAN. Thank you very much.

I could ask a lot more questions but I yield to Senator Stevenson.

Senator STEVENSON. Mr. Hill, this morning on our tour we went by one new home and out in front there was a lady with a sign which read:

"Welcome Senators. Thank you. We love our 235 home."

Now, 235 is a subsidized homeownership program, as you know. Just before we visited her home we had visited another home and there the owner took us around and showed us the house.

We saw exposed wiring. We saw that she had only two electrical outlets in the whole house. She couldn't plug an appliance in without blowing a fuse.

We saw sewage welling up in the bathroom and up on the floor in her basement and we saw the walls crumbling in the basement and timbers rotting and I could go on and on.

Now, that was an FHA insured house. She bought it on the assumption that it had FHA inspections, it had been inspected by the FHA, and approved by her government. She bought it. She made a lifetime financial commitment and she is stuck with it and she has no remedy.

Why is it that some of these programs work as in the case of the first lady and in another case, as in the case of the second, they don't?

Mr. HILL. I think there is one other point, Senator, that I believe would be very important to stress in this.

The new house, where the lady was so pleased with her "Welcome" sign, and she waved and was all smiles, as you pointed out, was under section 235, under one of the Federal subsidized programs to help reduce her monthly payments in purchasing that house, which appears, from all purposes, to be very successful.

However, the previous home that we visited was not a federally subsidized home even though it was an FHA mortgage and I think frequently the public is confused.

I hate to say on this occasion that it is deliberately confused, because I don't want to question the motives of some of the statisticians and some of the official comments that we received.

But the woman whose house is not up to standard, that is, not up to the city codes, got an FHA mortgage and not a subsidized mortgage.

One would have thought that if anything, from all of the publicity and all of the comments, that the two cases would have been reversed, but she is not getting assistance and primarily that can only be as a result of inadequate processing.

Now, I understand that some steps have been taken, and I assume that the FHA representatives who appear before you, will point out

some of the things that they are doing to hopefully terminate that type of abuse.

However, that house, if it were to be acquired by a new family should have a mortgage that covers the purchase price and makes an allowance for the cost for making the repairs needed to bring it up to code requirements so that it could be a livable house for the term of the mortgage.

Now, under the present circumstances, it will not be. It is perfectly obvious to anyone who saw it that it cannot be.

Senator STEVENSON. As to the processing, you mean inadequate inspecting?

Mr. HILL. I think that this is the only conclusion that can be drawn.

Senator STEVENSON. Now, I understand that recently there has been a change in FHA processing. Now, FHA, before the mortgage commitment is made, requires that the housing be inspected and that it meet the city standards.

Mr. HILL. That is correct.

Senator STEVENSON. Will you tell us a little bit about that. That sounds like a very hopeful change to me and it might be adopted elsewhere in the country.

Mr. HILL. I think it is beneficial.

I think it is unfortunate that it took some of these abuses and problems to bring about that kind of coordination with the city offices and in my recommendations, this could be one of those kind of things needed to bring the Federal FHA and other programs into closer coordination with the city programs, because it doesn't take anyone with a great deal of genius to see that that building needed specific repairs.

Under the current FHA program, they will now require, from the city through its Building department, a certificate of inspection. That doesn't say that that building is perfect or that it meets code requirements fully, but it will spell out what the deficiencies are so that in his mortgage program the purchaser would be able to set aside not only money for purchasing the building but be able to evaluate what monies would be needed to correct those code violations to produce a good livable house. In retrospect I think that that is a substantial step forward, because it appears to be a very logical type of thing that should have been done from the beginning.

Senator STEVENSON. You mentioned special revenue sharing in your statement.

In the last session of Congress, the President submitted a revenue sharing bill for community development. That bill was referred to the committee of which we are both members and we took that bill and we rewrote it somewhat.

We ended up though consolidating many of the existing categorical programs including urban renewal, providing more flexible latitude at the local level, and eliminating some of the redtape. We also built in reasonable Federal standards and procedures.

We, in effect, compromised between the old categorical approach and the new revenue sharing approach and we came up with a bill that seems to satisfy both sides.

It was reported out of the Banking Committee almost unanimously and approved by the whole Senate as I recall.

Chairman SPARKMAN. Only one vote against it.

Senator STEVENSON. I can't remember who that was.

Chairman SPARKMAN. I do. [Laughter.]

Senator STEVENSON. We can, I hope, do that again although in this session the President has not submitted a special revenue sharing bill.

I am told there is nothing in the works at the moment, but I am optimistic and I assume there probably will be another attempt made.

Now, with respect to the community development bill, you said, "July 1, 1974."

I don't believe it can realistically take effect before July 1 of 1975.

The last bill we passed was aimed for July 1, 1974.

Chairman SPARKMAN. That is right.

Senator STEVENSON. And 1974 I think is very optimistic.

Mr. HILL. Well, all I was using Senator, was the national administration estimates of when they proposed to take effect.

I think the key issue, and I think you are getting to it, is that we cannot stop now and wait for something which may come sometime in the future.

We just can't have that gap, period, whatever that future is.

If it is not going to be in 1974, then it might well be 1975 and maybe then we would see the President's legislation introduced but who knows, based upon past practices.

Based upon past practices, it might be 1984 and, based on that kind of a commitment to the city housing programs, who knows?

Senator STEVENSON. It might be July of 1975 at the earliest and that gives you a longer hiatus than you had perhaps assumed.

Now, it is argued that general revenues sharing in the meantime is going to help take up some of the slack. Can you comment on that claim?

Mr. HILL. Well, I think that the people making that kind of a comment are being deceitful and trying to create an illusion about general revenue sharing which, from its inception was specifically disavowed by the President and all of his spokesmen, when they referred to as additional funds and not as a replacement for any existing Federal funding program.

Then to come back to the city of Chicago where we have committed our general revenue sharing funds to such things as to employ additional policemen, to raise their salaries, to work toward getting two men in the police squad cars as well as seeking to reduce local real estate taxes and then be told:

"Oh, no, now you can shift that over to those other kind of things," would appear to be a deliberate act of misdirection. That these funds are supplementary is just not the case at all. It is just not the case.

Senator STEVENSON. You are the first witness, Mr. Hill, and we are already 15 minutes late and I am worrying about the children who like to watch Sesame Street.

I would like to thank you very much.

We will enter your statement into the record.

Mr. HILL. Thank you very much.

Come back to Chicago again for the hearings.

Senator STEVENSON. Oh, yes, I will be back.

Now, we will hear from a panel of homeowners and tenants.

The panel consists of Mrs. Dee Levenson, Rainbow Valley Homeowners Association.

Marie Hullum, Harvey Area Community Organization.

I believe we will seat you in the order in which I am calling your names, so that the reporter can keep everybody straight.

Next will be Father Richard Dodaro, Chairman of the Our Lady of the Angels Real Estate Committee.

Next will be Mr. Marc Salone of the Organization for a Better Austin.

Next will be Mrs. Gail Cincotta of the West Side Coalition.

Next Miss Ann Gissendanner, Concerned Tenants of Longrove House—South Commons, and Sid Weil, of Belmont Neighbors.

I will have to ask you, as I did earlier, if you would, each of you, try to condense your statement as much as you can and then we will enter your full statements into the record in order to leave as much time as we can for questions and answers.

Why don't we start in the name order and begin with Mrs. Dee Levenson.

STATEMENT OF DEE LEVENSON, RAINBOW VALLEY HOMEOWNERS ASSOCIATION

Mrs. DEE LEVENSON. My name is Dee Levenson. I am from Rainbow Valley, located in Mokena, Ill. However, I am speaking to you as a representative of a coalition of associations and organizations concerned with housing throughout the Chicago suburban area.

I would like to tell you some horror stories about some of the housing in the suburban areas which were built with FHA approval and had inspections by FHA.

Appletree subdivision, built by Kaufman & Broad is located in Country Club Hills, Hazelcrest, Ill.

The Louis Adamek family first became aware of water problems in November 1972, when they first saw water in the heating vents of their home. The Adamek's explained the problem to Kaufman & Broad and they in turn installed a dehumidifier in the home, and promised when the ground thawed, they would return and install drain tiles around the house.

By Christmas, the Adameks had ice and mold forming on the interior walls. At that time K. & B. installed another dehumidifier and laid the drain tiles—which, by the way, creates a terrible mess. As of this date, the Adameks still have water in their home and mold growing on the walls in nearly every room of the house. The extra work and strain caused by these problems caused Mrs. Adamek to suffer a heart attack—the second in a 7-month span.

When FHA was doing an inspection tour in Appletree, they stopped at the Eugene Dotson residence, who had complained of a faulty furnace since April 1971. The chief architect of FHA in the Chicago office informed Mrs. Dotson that, if she would dust off the top of the furnace, she wouldn't have any more problems with it.

At the time Mrs. Dotson was pregnant and Mr. Dotson was suffering from terminal cancer. The day Mr. Dotson returned from the hospital he had to take the furnace apart to clean it as it was burning carbon. The furnace had to be cleaned every two or three months or they had no heat. Mr. Dotson has since died and Mrs. Dotson has had numerous heating, cleaning, and repair bills. FHA and Kaufman & Broad refuse to do anything about this, yet the heating people are willing to verify the condition of the furnace.

Kaufman & Broad's workmen, however, did try to do some jobs quickly, with perhaps a technique of their own. For instance, workmen were sent to repair the buckling floors of the John Handley home. They tried to do so by pounding nails through the wall to wall carpeting.

In Rainbow Valley located in Mokena, Ill., also built by Kaufman & Broad, we are also experiencing problems.

We have homes which are built on the sides of hills which have water. There are cases of water in heat ducts, in the walls, water stains on ceilings, water leaking into basements. This picture is of the Michael Power's home [exhibiting two photographs]. As you can see, there is mold growing on the walls and ceiling. The humidity in the house was unbearable. This family was forced to live with these conditions for months. After installing two dehumidifiers temporarily, a whole new overhead heating system and drain tiles were installed. The problem seems to have been alleviated. However, most of the soft molding drywall was never replaced, just repainted with cheap paint.

This is the picture of the John Lenske home in Rainbow Valley. As you can see, there are large cracks in the foundation. As each day passes, these cracks are spreading and becoming more numerous. The builder has admitted that these problems have arisen in part from the foundations being poured over frozen fill. The soil conditions and foundation were again approved by Federal inspectors. The Lenske family is still having to occupy this home.

[Exhibiting photograph.] We have cases of foundations being only 2½ inches thick as this photo of the Keith Bailie home shows. Foundations are required to be 4 inches thick. The floor is cracked completely through the center of the house, and the walls are starting to separate from the ceiling. The local FHA inspector, Mr. Urbain, told the homeowner the house was structurally sound.

However, when the Federal inspectors from Washington inspected this house, they found the house to be unsafe. The Bailie family is still occupying this home—which was approved again, by the local HUD office.

In some of the houses there is no insulation at all in the lower level. In the winter, this creates anywhere from a 30 to 50 degree difference in temperature between the upstairs and downstairs. This in turn creates an area of a home that is practically useless as well as enormous heating bills.

We have cases of roofs with no felt paper. We have cases of windows and doors constantly leaking; we have cases of bathrooms with no heat; we have cases of ice forming in homes on baseboards, windows, walls, and floors. These problems are caused by using either

damaged and/or improper materials, improper building techniques and deplorable Federal inspections. Our electrical wiring is so poor that it is a common condition to see loose, uninsulated wires hanging from the furnace.

I could go on and on, listing these horror stories which we are forced to live with every day, but again, I want to remind you these homes were inspected and approved by the Federal Government. Also, these are not isolated cases—these problems are common throughout the area involving many, many builders and FHA.

We are desperate people. The only choices that have been open to us have been either to spend thousands of dollars which we don't have or to abandon the property. Neither is the proper solution. We need help now.

We would suggest as a solution to these immediate and desperate problems that every homeowner who has complained within the last 3 years to HUD, have his home reinspected by honest and qualified inspectors and these homes be repaired, boarded up or demolished as needed. Even if it takes a special act of Congress to perform this.

We would also suggest that any contractor called in to do the work have the joint approval of the homeowner and HUD.

Since we have lived with the problems and have dealt so much with these slipshod builders and the apathetic administration of HUD, we feel we are qualified to present some suggestions and solutions on the way HUD subsidized programs should be reinstated and restructured.

1. The subsidy should follow the buyer. This we feel would give the buyer more mobility, would create a more open market and would make the buyer and the mortgage houses more critical owners.

2. Public hearings to be held in the local communities where HUD projects are proposed so that local citizen advisory boards could be set up to work with the builder and HUD in these communities.

3. Scattered site housing with no large concentrations of low and moderate income housing in one area. An example would be if a builder proposes 500 homes in the $25,000 to $35,000 bracket, no more or less than 10 percent to 15 percent be low or moderate income housing.

4. Enforced nondiscriminatory advertising for all Federal housing programs.

5. A Federal or State law bonding builders, using a minimum 5-year warranty bond for each home.

6. A consumer's advocate in each district office of HUD to aid the consumer with his problems, and to have the authority to cut through the bureaucracy and red tape. This consumer's advocate should not be ruled by the local authorities, but should answer to someone other than the district he serves.

7. Publicize the eligibility requirements for subsidized housing. It is common practice for people to be bounced from builder to bank and back again and each says something different.

8. Maintenance and debt counseling should be included on HUD subsidized programs.

9. Copies of specifications and blueprints should be made readily available to prospective purchasers before final commitment papers are signed.

10. Itemize documents at closing for buyer so that he may be sure he has received all the necessary papers, as well as a list of his rights and responsibilities.

11. Stiff penalties for HUD officials and inspectors for not adhering to and enforcing minimum property standards, local building codes, and specifications.

By reviewing the cause and effect in existing laws and programs, we feel that these recommendations for the present and future should be more than just considered, but acted upon.

[The complete statement of Mrs. Levenson follows:]

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1. The subsidy should follow the buyer. This we feel would give the buyer more mobility, would create a more open market and would make the buyer and the mortgage houses more critical owners.

2. Public hearings to be held in the local communities were HUD projects are proposed so that local citizen advisory boards could be set up to work with the builder and HUD in these communities.

3. Scattered site housing with no large concentrations of low and moderate income housing in one area. An example would be if a builder proposes 500 homes in the $25,000 to $35,000 bracket, no more or less than 10% to 15% be low or moderate income housing.

4. Enforced non-discriminatory advertising for all Federal Housing programs.

5. A Federal or State law bonding builders, using a minimum 5 year warranty bond for each home.

6. A consumer's advocate in each district office of HUD to aid the consumer with his problems, and to have the authority to cut through the bureaucracy and red tape. This consumer's advocate should not be ruled by the local authorities, but should answer to someone other than the district he serves.

7. Publicize the eligibility requirements for subsidized housing. It is common practice for people to be bounced from builder to bank and back again and each says something different.

8. Maintenance and debt counciling should be included on HUD subsidized programs.

9. Copies of specifications and blueprints should be made readily available to prospective purchasers before final commitment papers are signed.

10. Itemize documents at closing for buyer so that he may be sure he has received all the necessary papers, as well as a list of his rights and responsibilities.

11. Stiff penalties for HUD officials and inspectors for not adhering to and enforcing minimum property standards, local building codes and specifications.

By reviewing the cause and effect in existing laws and programs, we feel that these recommendations for the present and future should be more than just considered, but acted upon.

STATEMENT FROM RESIDENTS OF RAINBOW VALLEY

We reside in a community of mostly 235 homes, called Rainbow Valley, built by Kaufman & Broad which is located in Mokena, Ill. We wish to call attention to the fact that this subdivision was built with the approval of and inspections made by the Federal Housing Authority.

We feel problems began before foundations were poured—beginning with the improper selection of land sites and development of those sites which were approved by Federal Inspection.

As an example, in Rainbow Valley, built by K & B, we are experiencing water problems. We have homes which are built on the sides of hills which have water. There are cases of water in heat ducts, in the walls, water stains on ceilings, water leaking into basements. Attached is a picture of the Michael Powers' home in Rainbow Valley. As you can see, there is mold growing on the walls and ceilings. The humidity in the house was unbearable. This family was forced to live with these conditions for quite some time. The builder has finally installed drain tiles to help alleviate some of the problem, but the soft, molding drywall was never replaced—just repainted with cheap paint. These problems have occurred previously and we feel will keep reoccurring again and again due to improper land development.

Attached is a picture of the John Lenske home in Rainbow Valley. As you can see, there are large cracks in the foundation. As each day passes, these cracks are spreading and becoming more numerous. The builder has admitted that these problems have arisen in part from the foundations being poured over frozen fill. The soil conditions and foundations were again approved by Federal Inspectors. The Lenske family is still having to occupy this home.

We have cases of foundations being only 2½" thick as the enclosed photo shows of the Keith Bailie home. Foundations are required to be 4" thick. The floor is cracked completely through the center of the house and the walls are starting to separate from the ceiling. The local HUD inspector, Mr. Urbain, told the homeowner the house was structurally sound, however, when the Federal Inspectors from Washington inspected this home, they found the house to be unsafe. The Bailie family is still occupying this home which was approved again, by the local HUD office.

There are only two models of homes in our subdivision. A ranch and a raised ranch. In the raised ranch there is no insulation at all in the lower level and the outside insulation is a foot short of meeting the foundation. This creates anywhere from a 30 to 50 degree difference in temperature between the upstairs and downstairs.

There are no heating facilities in the bathroom of the ranch model.

We have cases of roofs with no felt paper which is required by FHA. We have cases of windows and doors constantly leaking.

These were approved by the local office of HUD. However, they are poorly made and poorly installed. Every time it rains it is necessary to mop up. The effect from all of this besides the aggravation is that the frames around the windows are rotting, and the drywall is splitting. We have cases of frost forming in homes on baseboards, walls, windows and floors.

This, we know, is due to either damaged and/or improper materials being used, improper building techniques and deplorable Federal inspections.

Our electrical wiring is so poor, that it is a common condition to see loose, uninsulated wires hanging from the furnaces.

We could go on and on listing these horror stories which we are forced to live with every day—but again we want to remind you—these homes were inspected and approved by the Federal Government.

Individually and as a group we have picketed, written letters and made hundreds of calls by phone and personally to HUD (local and nationally) our builder, our elected officials (local and national) as well as contacted the press

trying to get help for our problems. The net results for our efforts has been extremely poor. We are desperate people. It seems as if our only choices have been to spend thousands of dollars that we don't have to correct these conditions, or to abandon the property. Neither one is a satisfactory solution. We need help NOW!!

While these problems are being discussed and while these papers are going from office to office, and while legislation is being formed for a new housing program the people we mentioned as well as thousands of others are forced to live in these deplorable conditions.

We would suggest as a solution to these types of problems, that every homeowner who has complained within the last three years to HUD about his home, have his home re-inspected by *honest* and *qualified* inspectors—and these homes be properly repaired and restitution be made.

Since we have lived with the problems, and have dealt so much with these slip-shod builders and the apathetic administration of HUD, we feel we are qualified to present some solutions and suggestions, so that, in the future, these conditions will not reoccur.

We feel that HUD programs should be re-structured in the following manner:

1. Subsidies should be given directly to the homeowner—not the builder or lending institutions.
2. A federal or state law bonding builders, using a minimum 5 year warranty bond for each home.
3. Stiff penalties for HUD officials and inspectors for not following and enforcing minimum property standards, local building codes and specifications.
4. Scattered site housing with no large concentration of low and moderate income housing in one area. An example would be if a builder proposes 500 homes in the $25,000 to $35,000 bracket, no more or less than 10% to 15% be low or moderate income housing.
5. Enforced non-discriminatory advertising for all subsidized housing.
6. Publicize the eligibility requirements for subsidized housing.
7. Public hearing to be held in the local communities where HUD projects are proposed, so that local citizen advisory boards could be set up to work with HUD in these communities.
8. Maintenance and debt counciling should be included on HUD subsidized programs.
9. A consumer's advocate in each district office of HUD to aid the consumer with his problems, and to have the authority to cut through the bureaucracy and red tape. This consumer's advocate should not be ruled by the local authorities, but should answer to someone other than the district he serves.
10. Copies of specifications and blueprints should be made readily available to prospective purchasers before final commitment papers are signed.
11. At the time when the final commitment papers are signed, the purchaser should receive a statement disclosing the papers he should receive, as well as his rights and responsibilities.

By reviewing the cause and effect in existing laws and programs, we feel that our suggestions and recommendations for the present and future be more than just considered, but acted upon.

Senator STEVENSON. Thank you, Mrs. Levenson.

STATEMENT OF MARIE HULLUM, HARVEY AREA COMMUNITY ORGANIZATION

We will now hear from Mrs. Hullum.

Mrs. HULLUM. Thank you, Senator.

Although the picture I must paint here of subsidized housing on the whole is a dismal one, please understand that I do not intend it as an indictment of subsidized housing but as an indictment of the way the housing program is administered.

Where the housing is built on a scattered site basis, the quality is much improved because this housing must conform to the standards of existing housing codes.

Still the quality of the housing depends almost entirely upon whether the builder is conscientious or whether he is a quack out to make a buck and where the buyer has been fortunate enough to have had a conscientious builder, the problems have been minor.

I feel that with adequate controls by FHA, this program would be the best thing that ever happened to the low-income people who desire home ownership.

On the other hand, where you find tracts of development of 235 houses, you find a multitude of problems ranging from serious to relatively minor.

In Markham, a development was built on a swamp. The houses are supposed to be a foot above flood level, still some of them flood.

One almost universal problem that we face is most serious and it is inadequate heat. The flooding problem is a most serious one and our lower levels are living quarters and on that level there is unheated family rooms in all of the homes which contribute to the heating problem.

There are inadequate driveways, roofs coming off and aluminum siding coming off. Towel racks will not stay on the walls and, Senator, you have some photographs in front of you, I believe, that show some of the things that I am talking about.

Cabinets and tops will not stay on.

Tile keeps coming up off the floors and off the walls.

Sidewalks and walkways are breaking up.

We have loose railings, very poorly made cabinets and in most cases, or many cases poor wiring, exposed wiring over furnaces and in other areas.

These are not all of the problems, but I hope it will give you some idea of what we face.

In Dixmoor the problems are much the same as in Markham except they have the added problems of overcrowded schools, schools on double shifts, no recreational facilities.

The police department closes at 4:30 p.m. and they have an all-volunteer fire department.

There are no sidewalks on many of the streets and in some instances there are no paved streets or proper sewage.

Now, the builder there tried to get 400 units in an area that is already overcrowded with no facilities. Due to the concern of the people in the community, he only got 100 but that was 100 too many in this situation.

In Harvey and all the other suburban communities, the problems are almost exactly the same. We have gone to the FHA repeatedly, asking for help. We should not have had to ask for that help in the first place and still we have gotten nothing but a lot of promises.

The builder has done some minor repairs but we still have very serious defects in our homes.

Yet, I feel that the subsidized housing program can and must work if poor people, of which there are many more than any others, are to be given the opportunity to raise their children in an environment that is away from concentrated crime areas.

I am sure that you gentlemen intend to follow these hearings with constructive action for the future programs and this is good.

What about us who are trapped in inadequate housing and 30-year mortgages? Can you help us?

Some people have moved out of most of the developments already, in desperation, in despair, and others are becoming more and more disillusioned. If something isn't done and soon, many more will move.

This situation will create a terrible burden on the taxpayer as these homes cannot be resold for the same reason that they are being abandoned.

Now, the South Suburban Housing Coalition, together with the West Side Coalition, worked on the proposals one through eight that Mrs. Levenson read to you.

We sincerely hope that in your efforts to make the 235 and the 236 and all such subsidized housing programs constructive programs, that really work for the people they were intended for, that you will seriously consider these.

Thank you.

[The complete statement of Marie Hullum follows:]

STATEMENT OF MARIE HULLUM, HARVEY AREA COMMUNITY ORGANIZATION

Although the picture I must paint here of subsidized housing, on the whole, is a dismal one, please understand that I do not intend it as an indictment of subsidized housing; but as an indictment of the way the program is administered.

Where the housing is built on a scattered site basis, the quality is much improved, because it must conform to the standards of the existing housing. Still, the quality of the housing depends almost entirely on whether the builder is conscientious, or, whether he is a quack out to make a buck. Where the buyer has been fortunate enough to find a conscientious builder, the problems have been minor.

I feel that with adequate controls by F.H.A., this program would be the best thing that ever happened to poor people who desire home ownership.

On the other hand, where you find tracts or developments of 235 houses, you find a multitude of problems, ranging from very, very serious to relatively minor. For instance, in Markham, the development was built on a swamp. The houses are supposed to be a foot above flood level, still, some of them flood. One almost universal problem, and one of the most serious, is inadequate heat. Also, the flooding problem is a most serious one, as our lower levels are also living quarters. On that level there is an unheated family room, which contributes to the heating problems. There are inadequate driveways, roofs coming off, aluminum siding coming off, towel racks will not stay on the walls, tile coming up in all areas where there is tile, sidewalks and walkways breaking up, loose railings, very poorly made cabinets, and in many cases, poor wiring. These are not all the problems we have, but I hope it will give you some idea of what we face.

In Dixmoor, the problems are much the same as Markham, except they have the added problems of overcrowding in the schools (double shifts), no recreational facilities, the police department closes at 4:30 P.M., an all volunteer fire department, no sidewalks on many streets, in some instances no paved streets. The builder there tried for 400 units, but due to the efforts of caring people in the community, he got one hundred.

In Harvey and most other suburban communities, the problems are almost exactly the same.

We have gone to F.H.A. repeatedly asking for the help we should not have had to ask for in the first place, and still, we have gotten nothing but a lot of promises and no action.

Yet, I feel that the subsidized housing program can and must work if poor people, of which there are more than any others, are to be given the opportunity to raise their children in an environment that is away from concentrated crime areas.

I am sure that you gentlemen intend to follow these hearings with constructive action for future programs, and this is good, but what about us, who are

trapped with inadequate housing and 30 year mortgages. Can you help us? Some people have moved out of most of the developments in despair, and others are becoming more and more disillusioned. If something isn't done soon, many more will move. This situation will create a terrible burden on the taxpayer, as these houses cannot be resold for the same reasons that they are being abandoned.

Senator STEVENSON. Thank you.

Next, we will hear from Mrs. Gail Cincotta.

STATEMENT OF GAIL CINCOTTA, WEST SIDE COALITION

Mrs. CINCOTTA. How bad will the Chicago metropolitan area and other cities have to get before this Nation is moved to take action? The crises of abandonment and disinvestment is eroding not only the foundations of the people's homes and communities—but the foundation of the future of our urban society. The tragedy of the housing problem is people fighting over a limited housing supply and the few bucks allocated to it.

Congress has been exposed before to the depth of this disgrace. We testified last year, as well as people from cities across the country.

No housing bill has been passed.

Scandals in 203 and 221(d)(2) produced an unrealistic outcome: cut programs!

It makes no sense that the housing market, which continues to be limited economically—and racially—be subject to HUD cutbacks.

Every once in a while here in Chicago we have a scandal in the police department. No one has ever even entertained the idea that abolishing the police department would solve the problem.

A new housing bill—written for the people and not the money interests—must be passed. More and better Federal programs must be included. For instance, payback for 203 homeowners who have been sold bad homes should be established immediately.

Consumer protection must be built in to prevent future mismanagement.

Banking and savings and loan associations have got to be forced to reinvest money back into the community for mortgages and rehab. Real estate companies and builders have got to be forced to open the housing market and not use Federal money to discriminate or steer.

Administration of the Federal programs must be improved. Adherence to many of the past guidelines would have prevented much of what happened so far.

Congress must see that housing (a decent place to live for every American) is our top national priority. America is a rich country and the people of this country have a right to a decent home. We want Congress to see to it that Chicago is revitalized as fast as Germany and Japan were, and before Vietnam.

Our recommendations and demands are:

1. That the practice of double listing in real estate sales be prohibited by Federal law, and that all records of real estate brokers be a matter of public record; that is anyone wishing to see all listings, sales, selling prices, commissions, closing costs, name of previous owner, etc., be able to do so by Federal law, and

2. That there be a Federal law that bans all FHA mortgage guarantees to the listing of any real estate broker, salesman and company who use FHA unethically and that they be fined and imprisoned and that the Federal Government force permanent State revocations of all their licenses and, pending investigation, money of these realtors be cut off.

3. That Federal laws be drawn up and passed by our legislators stating that no realtor, anywhere, be allowed to make more than a 6 percent profit on any home sold, and that such legislation have some teeth in it, stating that any realtor found guilty of selling homes for more than a 6 percent profit have his State, city and suburban licenses revoked forever, and such legislation forbid relicensing and reopening under a new name(s) or "straw owner management" by convicted parties, and that FHA list the last time the home was sold (i.e., year), price sold at that time, and present asking price.

4. That since people sign contracts without any knowledge as to legal contract terminology, contracts used by brokers be standardized by a regulatory body, including clauses to protect the buyer.

5. We urge Congress to enact a public law which would prohibit anyone soliciting by means of the U.S. mail for the purpose of purchasing, selling, renting, leasing or exchanging residential properties in any area in the United States that is undergoing racial, ethnic, and/or economic integration.

6. That no individual can buy or sell more than two homes in any municipality within a year; this is a safeguard against speculation.

7. That contract sales be illegal.

203—EXISTING STRUCTURES

1. Prebuyer counseling before purchase, set up under FHA program this counseling agency could be bilingual, multiracial, and involve community people. After purchase ongoing consumer protection service.

2. Uniform and consistent inspection by city building department, certificate to accompany application for FHA appraisal.

3. Since many homes have been sold with multiple code defects which is not covered by law, re-recommended strong legislation that provides reimbursement program for the 203 program retroactive to January 1, 1969.

4. Monitoring and disclosure where 203 program is used. Criteria to be set up for use of 203 programs:

(a) Cannot be concentrated in one area.

(b) Cannot be used by realtors for steering.

(c) Removal of point system, subsidized fluctuating interest rate.

(d) Buyer decides what kind of financing.

5. Contract sales illegal in any community.

Position paper proposal for Senate housing hearings on mortgage, banks and savings-loans:

Our recommendations and demands are:

That a Federal Housing Control Board be formed with Federal control on all banks, savings and loans, with power to revoke the

Federal charters, and with control through the FDIC, FSLIC and that 50 percent of the board be people who live in and own homes worth less than $30,000.

That there be a Federal law to force savings and loans and banks to commit 50 percent of their conventional mortgages for purchase and remodeling loans in their communities.

That any bank and savings and loan caught panic peddling in our communities by using panic phrases or refusing to give loans be subject to revocation of its State and/or Federal charter.

That our Federal representatives propose legislation which would make it a Federal offense to refuse loans on a geographic basis or to discriminate against people (blacks, Latinos, ethnic whites, and others) in the making of loans.

That every 6 months every bank and savings and loan be required to reveal on a geographic basis where they are making mortgages and investing our money.

That the Federal Government move to achieve the following by any means necessary:

1. That 10 percent of the interest free checking money of commercial banks be put into long-term mortgages at current interest rates and that people are not to be penalized for borrowing money.

2. That insurance companies be required to put 50 percent of their investment money into one to four family units in our communities and cities.

3. That 15 percent of those pension funds, which receive Federal tax breaks, go into mortgages within the cities.

4. That FHA insure only with subsidized interest rate or fluctuating interest with no points charged.

5. That the Federal Government force the Home Loan Bank Board to enforce its own regulations against inflated mortgages, concentration of investments, and all other regulations.

6. That all the above apply to individual sales involving only two parties so as not to subsidize real estate steering, speculators, land developers.

7. That at least two-thirds of the above money go into home purchase mortgages, and that one-third go into home improvement mortgages and rehab money to salvage apartment buildings.

Accountability on guidelines and position on tax and subsidized buildings:

1. HUD should live up to its guidelines by providing monthly accountability sessions.

Members of this group who hold accountability sessions should. The group which holds accountability sessions should include four staff members and at least one member from the community organizations in the area who is familiar with subsidized houses in the area. and the meetings should be open to the public.

2. HUD should make agreements with the applicable city and State agencies regarding taxes before the buildings are built so that the owners or renters go in with their eyes open.

Testimony outline—summary from represented groups concerned with 235 new, subsidized, single family home ownership.

1. Fix up the defective homes now. Get inspections by independent (not area) inspectors. Repair, board up or demolish as needed, whether it takes a special act of Congress, guaranteed payment to a contractor the homeowner selects, or whatever * * *

2. Reinstate a subsidy program. A subsidy program can work with quality control. Don't just drop the programs—e.g., Bickerdike; people want a direct subsidy. (a) gives them mobility to move. (b) would create a more open market. (3) would make buyer, mortgage house more critical owners.

3. Controls on builders. Community hearings before FHA site approval. Scattered sites, and an economic mix. Nondiscriminatory advertising. Five-year warranty bond.

4. HUD responsibility. Become a consumer advocate in people's housing. Publicize eligibility requirements. (People have bounced from realtor to bank, each says something different.) Make maintenance and debt counseling available. Make specifications available to buyer before closing. Itemize documents at closing for buyer. Impose more strict penalties.

5. Local control. Suburban problems. City problems. (End of printed, prepared copy.)

Now, we feel like in Chicago we may have police scandals occasionally but nobody would even entertain the idea of abolishing the police department that that would solve the problems.

However, in the area of housing, cutting off the money, they see that as some way of solving the problem.

Now, I have lived on the west side of Chicago. I am a homeowner and I have seen my community and the community east of me, Garfield and Lawndale, be hurt by disinvestment; banks and savings and loan associations pulling their money out of the communities not investing in them.

The real estate industry letting it run rampant and having the choice of placing people where they should live, when they should live and when they should move and making those decisions for the people with the aid of the banks and savings and loan associations, also with the aid of the Federal Government.

In our community, the school enrollment went up from 975 kids to 4,000 and in 3 years that was, and there is no criteria under two or three plus no payback.

Everyone is experiencing this, every one of the schools on the west side has experienced this.

Now, I saw the communities of Garfield and Lawndale not only not be salvaged—they weren't salvaged and not only that, they weren't even rebuilt.

Now, you toured out there this afternoon and they still look like a deserted town.

I had two boys who served in Vietnam and when they came back to Chicago, they said it looked as bad as anyplace that they had seen in Vietnam. Now, this is their city. This is where they were born and I was born, and we would like to see the Congress make housing top priority in the United States.

As far as the banks and savings and loan associations are concerned, we would like to see them reinvest in our communities and

Congress should force the realtors to stop the practices that they are using to really make open housing a reality and force the money interests to conform before they make their money.

Every housing bill we have had up to now has not had people in mind.

The banks are protected. The savings and loan associations are protected. Mortgage brokers are protected. The real estate industry has been protected. There has been no protection for the homeowner who, whether it be subsidized government guaranteed or whatever, or it is just nothing there for the people.

Now, what is happening in our cities and even where you have a picket line in front of a hearing, it is just that the people are fighting over such limited housing stock and besides the problem of not having a decent place to live and like if you let us live in the park, we could pitch a tent but we have got to live here.

We have to have a place for our families.

We want to survive in the cities and we have got to have help and it has got to come down from the Senate, from Congress, making housing a top priority and making the programs work.

You must get rid of the people in the offices who administer the programs that won't listen to the people or won't hear their complaints.

Everything is happening and you saw that case, you went through the house that we took you through today and those cases have been in the files for a year or a couple of years and nobody has done anything.

They have told us that the only way we are going to get any relief is through the Federal Government, so here we are, hoping that you will take back to the full committee and make housing a top priority for our cities and let's see about Chicago and the other cities whether they can be rebuilt faster than we rebuilt Germany after World War II and rebuilt Japan after World War II and we are going to rebuild up Vietnam, I am sure, before I see Chicago being rebuilt, unless something is put into a program now and not cut off.

STATEMENT OF GALE CINCOTTA, CHAIRMAN, NATIONAL PEOPLES ACTION ON HOUSING, CHICAGO, ILL.

How bad will the Chicago metropolitan area and other cities have to get before this nation is moved to take action? The crises of abandonment and disinvestment is eroding not only the foundations of the people's homes and communities—but the foundation of the future of our urban society. The tragedy of the housing problem is people fighting over a limited housing supply and the few bucks allocated to it.

Congress has been exposed before to the depth of this disgrace. We testified last year, as well as people from cities across the country.

No housing bill has been passed.

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Every once and a while here in Chicago we have a scandal in the police department. No one has ever even entertained the idea that abolishing the police department would solve the problem.

A new housing bill—written for the people and not the money interests—must be passed. More and better federal programs must be included. For instance, payback for 203 homeowners who have been sold bad homes should be established immediately.

Consumer protection must be built in to prevent future mismanagement.

Banking and savings and loan associations have got to be forced to reinvest money back into the community for mortgages and rehab. Real estate companies and builders have got to be forced to open the housing market and not use federal money to discriminate or steer.

Administration of the federal programs must be improved. Adherence to many of the past guidelines would have prevented much of what happened so far.

Congress must see that housing (a decent place to live for every American) is our top national priority. America is a rich country and the people of this country have a right to a decent home. We want Congress to see to it that Chicago is revitalized as fast as Germany and Japan were, and before Vietnam.

POSITION PAPER PROPOSAL FOR SENATE HOUSING HEARINGS ON REAL ESTATE ABUSES AND OUR RECOMMENDATIONS

Our recommendations and demands are:

1. That the practice of double listing in real estate sales be prohibited by federal law, and that all records of real estate brokers be a matter of public record; that is anyone wishing to see all listings, sales, selling prices, commissions, closing costs, name of previous owner, etc., be able to do so by federal law, and

2. That there be a federal law that bans all FHA mortgage guarantees to the listing of any real estate broker, salesman and company who use FHA unethically and that they be fined and imprisoned and that the federal government force permanent state revocations of all their licenses and pending investigation money of these realtors be cut off.

3. That federal laws be drawn up and passed by our legislators stating that no realtor, anywhere, be allowed to make more than a 6% profit on any home sold, and that such legislation have some teeth in it, stating that any realtor found guilty of selling homes for more than a 6% profit, have his state, city and suburban licenses revoked forever, and such legislation forbid relicensing and reopening under a new name(s) or "straw owner/management" by convicted parties, and that FHA list the last time the home was sold (i.e. year), price sold at that time, and present asking price.

4. That, since people sign contracts without any knowledge as to legal contract terminology, contracts used by brokers be standardized by a regulatory body, including clauses to protect the buyer.

5. We urge congress to enact a public law which would prohibit anyone soliciting by means of the US mail for the purpose of purchasing, selling, renting, leasing, or exchanging residential properties in any area in the United States that is undergoing racial, ethnic and/or economic integration.

6. That no individual can buy or sell more than 2 homes in any municipality within a year; this is a safeguard against speculation.

7. That contract sales be illegal.

POSITION PAPER PROPOSAL FOR SENATE HOUSING HEARINGS ON 203—EXISTING STRUCTURES

1. pre buyer counseling before purchase, set up under FHA program this counseling agency should be bilingual, multiracial, and involve community people after purchase ongoing consumer protection service

2. uniformed and consistent inspection by city building department certificate to accompany application for FHA appraisal

3. since many homes have been sold with multiple code defects which is not covered by law, we recommend strong legislation that provides reimbursement program for the 203 program retroactive to Jan. 1, 1969

4. monitoring and disclosure where 203 program is used criteria to be set up for use of 203 program:

   (a) can not be concentrated in one area;
   (b) can not be used by realtors for steering;
   (c) removal of point system, subsidized fluctuating interest rate, and
   (d) buyer decides what kind of financing.

5. contract sales illegal in any community

Position Paper Proposal for Senate Housing Hearings on Mortgage Banks, and Saving & Loans

Our recommendations and demands are:

That a Federal Housing Control Board be formed with federal control on all banks, saving & loans, with power to revoke the federal charters, and with control through F.D.I.C., F.S.L.I.C., and that 50% of the board be people who live in and own homes worth less than $30,000.

That there be a federal law to force saving & loans and banks to commit 50% of their conventional mortgages for purchase and remodeling loans in their communities.

That any bank and saving & loan caught panic peddling in our communities by using panic phrases or refusing to give loans be subject to revocation of its state and/or federal charter.

That our federal representatives propose legislation which would make it a federal offense to refuse loans on a geographic basis or to discriminate against people (Blacks, Latinos, Ethnic Whites, and others) in the making of loans.

That every six months every bank and savings & loan be required to reveal on a geographic basis where they are making mortgages and investing our money.

That the federal government move to achieve the following by any means necessary:

1. That 10% of the interest free checking money of commercial banks be put into long-term mortgages at current interest rates and that people are not to be penalized for borrowing money.
2. That insurance companies be required to put 50% of their investment money into 1 to 4 family units in our communities and cities.
3. That 15% of those pension funds, which receive federal tax breaks, go into mortgages within the cities.
4. That FHA insure only with subsidized interest rate or fluctuating interest with no points charged.
5. That the federal government force the Home Loan Bank Board to enforce its own regulations against inflated mortgages, concentration of investments, and all other regulations.
6. That all the above apply to individual sales involving only 2 parties so as not to subsidize real estate steering, speculators, land developers.
7. That at least two/thirds (2/3) of the above money go into home purchase mortgages, and that one/third (1/3) go into home improvement mortgages and rehab money to salvage apartment buildings.

Accountability on Guidelines and Position on Tax and Subsidized Buildings

1. HUD should live up to its guidelines by providing monthly accountability sessions. Members of the group who hold accountability sessions should include four staff members and at least one member from the community organizations in the area who is familiar with subsidized houses in the area, and the meetings should be open to the public.
2. HUD should make agreements with the applicable city and state agencies regarding taxes before the buildings are built so that the owners or renters go in with their eyes open.

Testimony Outline—Summary from Represented Groups Concerned with #235 New, Subsidized, Single Family Homeownership

1. FIX-UP the defective homes now. Get inspections by independent (not area) inspectors. Repair, board-up, or demolish as needed, whether it takes a special act of congress, guaranteed payment to a contractor the homeowner selects, or whatever . . .
2. Reinstate a subsidy program. A subsidy program can work with quality control. Don't just drop the programs—e.g. Bickerdike. People want a direct subsidy
   (1) Gives them mobility to move.
   (2) Would create a more open mkt.
   (3) Would make buyer, mtg hsc more critical owners.

3. Controls on builders. Community hearings before FHA site approval. Scattered sites, and an economic mix. Nondiscriminatory advertising. 5 yr warranty bond.
4. HUD responsibility. Become a consumer advocate in peoples housing. Publicize eligibility requirements (People have bounced from realtor to bank, each says something different). Make maintenance and debt counseling available. Make specs available to buyer before closing. Itemize documents at closing for buyer. Impose more strict penalties.
5. Local control. Suburban problems; City problems.

Senator STEVENSON. Thank you, Mrs. Cincotta.

Your recommendations will be entered in our record, without objection, and they will be seriously considered and I am sure they will be very helpful to the subcommittee.

Father Dodaro.

STATEMENT OF FATHER RICHARD DODARO, CHAIRMAN, OUR LADY OF THE ANGELS PARISH

Father DODARO. I would like to introduce myself, I am Father Richard Dodaro, associate pastor of Our Lady of the Angels parish in Chicago. Also I am chairman of the OLA Real Estate Committee.

I would like to begin my testimony by expressing my appreciation for the opportunity to address this subcommittee this morning.

We feel that this is an excellent opportunity for us to present our understanding of the problems facing Chicago, particularly the problem of housing and abuses therein. I would also like to clarify the fact that I do not claim to have all the answers to the problems that I will present, nor will I have all the statistics that you might deem necessary. My presentation will for the most part be from the practical angle; that is, the people's view. What is true in my area is mirrored elsewhere in Chicago and across the Nation, but most particularly in the Westside coalition area.

About 3 years ago, the area known as Our Lady of the Angels parish was a neighborhood made up of predominantly Italian and Polish people flanked on the south by the blacks and the northeast by the Latino community. This area contained many senior citizens and blue collar workers, people who have lived here all their lives. These people have either lived in the family home since birth, taking over the responsibility of the home after marriage or else have bought homes in the area because of ethnic ties to the Church and the surrounding community. This community was like many other communities in the Nation.

Suddenly something began to happen and it happened overnight. Bombardment of these people by phone, flyers, mailings, visits and threats. The real estate industry had shown its first signs of being present. They would call the people and have conversations such as these: "You better sell your homes—the blacks and latinos are coming."

Flyers were being put in the mailboxes at the rate of two or three a day, these carrying the message in a most special way. "Meet your new neighbor at such an address," "Dont get caught over a barrel," "We have FHA money for a quick sale."

Mailings were the same as the flyers, they also carried the message of doom.

As for visits from real estate men, the doorbell rang and in would walk Johnny Real Estate with the message that the neighborhood was changing and the property values were going down, the message to sell now before it was too late. Many times, they did not use these particular words, but the meaning would be gleaned from their remarks. When these failed to panic the people, threats of violence were used by anonymous callers. Young men and children were employed to break windows and do other damage.

At this time the community began to see a rise in the number of realtors who would hang their shingles in our neighborhood. Fifteen years previously to this time there were about 15 neighborhood realtors who had been in the same place for many years before this. About 7 years ago, the number began to rise until it hit about 350 realtors.

The scene was set and it was time for the kill. The people knew this was a clearly unnatural thing that was happening and they were frightened, panicked, and mistrustful of one another. The real estate industry had successfully identified the blacks and Latinos as the enemies and in turn the black and Latino communities, identified the whites as the enemy.

This area, as so many other areas, was now ripe for the industry to come in and sell block by block and turn over this neighborhood. Under the guise of giving the blacks and browns a place to live, they were in fact denying these groups free access to housing in the Metropolitan Chicago area. Instead they were shown homes in the specially prepared hot area.

This type of discrimination was handled in three ways: Double listings (several sets of books were kept, one for black, one for white, and one for browns); color coding (the listings were coded by letter or color); speculation (the realtor himself bought homes in the area and sold only to blacks or browns).

Whenever these men were attacked for this block-by-block change, they yelled racism. "We are putting these people into your neighborhood and you do not want them." Yet they employed the three above-mentioned methods of listings. They also prepared the neighborhood in the manner that I described.

I am sure that they were not at all aware of the wording of the Civil Rights Act of 1968 which stated a nondiscriminatory act on housing. A man may live wherever he can afford. The real estate industry said, "Yes, we agree," but we deem this area as the only possible area for blacks and browns at this time.

This pressure zone caused much tension between the three groups. The whites left in desperation. They sold their homes at lower prices and paid points because now the banking industry had pulled out of the areas and refused to make mortgages in the areas. We were designated "an FHA area" and that, because it was the only financing available in the area.

Besides selling their homes at lower prices, people also had to pay points, sometimes as high as 18. They were completely at the mercy of the industry.

This caused the white community to hate the blacks and Latinos. On the other hand, the blacks and Latinos bought homes at sometimes twice and three times the worth from speculators. The homes in many instances were riddled with code violations. It cost a lot of money to correct these violations, money people could not pay. They wished to be homeowners and tried to use a governmental program to help do this and in turn they end up hating the whites.

Another sad comment about this situation is the fact that these people did not have free access to the city but rather were placed by the industry in a certain geographical area. Throughout this whole process, the catalysts—the real estate men—went free, still yelling that they were only doing what the law asked of them. Just as every group has its shyster used car salesman, the real estate industry has its share.

Among the men who were licensed to sell real estate in Chicago, we find Robert Baldi, a convicted murderer; Peter Costello, a convicted safecracker; and Elaine Baumgartner, convicted of grand theft by deception. Elaine Baumgartner ran a company known as Carnae Real Estate. She was convicted of panic peddling, which is a violation of the city's Fair Housing Act. She lost her license to operate in the city of Chicago. She was also convicted by the State's attorney's office on 25 counts of grand theft by deception. She took $147,000 from poor families. Of course, she had to close down her business.

A few days prior to her conviction, her husband, John Dice, opened Belltone Realty, but Elaine was boss. The same personnel was being used and the same tactics. Belltone employed over 20 salesmen and turned over about 70 buildings a month. Belltone was convicted for panic peddling and Dice's city license was revoked.

The same day as the revocation, Robert Jane, son of Elaine, opened Realty U.S.A. The same people were still involved. He used the same tactics as his mother and stepfather. Finally he was convicted of subterfuge by the City of Chicago. Presently both Baumgartner and her son are licensed by the State of Illinois to do business.

There are four companies that are in some way or another tied into this whole chain: Craigin Realty, Elaine's brother; Apollo Realty, former employees of Carmae and Belltone; Jane Realty, Robert Jane, son of Elaine; and Firm Mortgage Company, renegotiating contract sales. We find the same personnel throughout these businesses and we would wonder about it.

Sky Realty had five offices and 60 salesmen. In one case they had purchased a home from a Mrs. Mildred James for $2,200 and sold it later for $19,000. The case was appealed by the two Sky salesmen and the end result was that they still have their licenses. The U.S. attorney had them indicted for fraud. They received a minimal sentence of 4 years probation and a fine. The newspapers call this a white collar crime.

It is no coincidence that these realtors moved in on our neighborhood. They had an assist from insurance companies whose rates skyrocketed, and mortgage houses, who refused to make conventional loans. When we went to Washington find answers to our problems with HUD, George Romney, past Secretary of the Department of

Housing and Urban Development and his staff repeated phrases which he had constantly tossed at the committees. Romney stated before the Committee on Housing and Urban Affairs that there is no problem with the FHA in the Chicago area, but these are the real problems that are existent:

1. Homes are being sold in Chicago under the existing FHA 203 program with multiple code violations.

2. New homes are being built under FHA that are substandard.

3. Communities are being resegregated through the blindness of FHA programs.

4. In Chicago, mortgage defaults have skyrocketed; 5,000 homes are in default of payment and FHA has acquired 500 through foreclosures; 1,200 others are in various stages of foreclosure.

Black, brown, and white are being manipulated by people who are making a fortune from fear and despair and what's worse, our own government seems to be assisting the speculator in the community. The abuse of FHA has become the syphillis infecting our society.

Mortgage houses aline themselves with the program by withdrawing conventional loans from areas which are changing and insurance companies follow suit by redlining these areas—determining them to be high risk, thereby withdrawing their policies or jacking up the rates. FHA falls right in line by mothering these policies through granting loans in the areas determined by realtors. This is going to stop. We don't want our cities and lives planned by people who are out to make a fast buck.

People are tired of being talked to and are demanding to be heard. We are coming together to talk about national problems and national solutions. Wise public officials had better be prepared to listen. We are the survivors who are tired of seeing the cities collapse around us and who feel that there is hope for the cities and that this hope lies in the hands of the people.

The FHA program should not be used to concentrate minorities in only certain communities, but it should be made available throughout Chicago and the suburbs. The people of my community see the solution of this drastic FHA problem to be as follows:

1. That a U.S. district court order be obtained defining fringe areas in Chicago, stopping FHA sales in these areas, and forcing the FHA 203 program to be utilized throughout the remaining Chicago metropolitan area.

2. That in these court-defined fringe areas, all contract sales be banned.

3. That a new Federal Housing Commission be initiated to monitor on a monthly basis, where all FHA 203 mortgages are being written.

4. That this Commission would have the power to force all lending institutions to invest a sum of money proportionate to the amount of savings on deposit from local community people, back into the local community in the form of conventional mortgages.

5. That this Commission would monitor the portfolios of these lending institutions on a monthly basis.

6. That FHA should not back up any mortgages 100 percent.

Thank you.

STATEMENT BY REV. RICHARD DODARO, CHAIRMAN, OUR LADY OF THE ANGELS AREA REAL ESTATE COMMITTEE

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The scene was set and it was time for the kill. The people knew this was a clearly unnatural thing that was happening and they were frightened, panicked, and mistrustful of one another. The real estate industry had successfully identified the blacks and latinos as the enemies and in turn the black and latino communities, identified the whites as the enemy. This area as so many other areas was now ripe for the industry to come in and sell block by block and turn over this neighborhood. Under the guise of giving the blacks and browns a place to live, they were in fact denying these groups free access to housing in the Metroplitan Chicago area. Instead they were shown homes in the specially prepared hot area. This type of discrimination was handled in three ways: Double listings (several sets of books were kept one for black, one for white, and one for browns), Color coding (the listings were coded by letter or color), speculation (the realtor himself bought homes in the area and sold only to blacks or browns). Whenever these men were attacked for this block by block change, they yelled racism. "We are putting these people into your neighborhood and you do not want them." Yet they employed the three above mentioned methods of listing. They also prepared the neighborhood in the manner that I described. I am sure that they were not at all aware of the wording of the Civil Rights act of 1968 which stated a non discriminatory act on housing. A man may live wherever he can afford. The real estate indus-

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1. Homes are being sold in Chicago under the existing F.H.A. 203 program with multiple code violations.
2. New homes are being built under F.H.A. that are substandard.
3. Communities are being resegregated through the blindness of F.H.A. programs.
4. In Chicago, mortgage defaults have skyrocketed. 5,000 homes are in default of payment and F.H.A. has acquired 500 through foreclosures. 1,200 others are in various stages of foreclosure.

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2. That in these court-defined fringe areas, all contract sales be banned.
3. That a new Federal Housing Commission be initiated to monitor on a monthly basis, where all F.H.A. 203 mortgages are being written.
4. That this Commission would have the power to force all lending institutions to invest a sum of money proportionate to the amount of savings on deposit from local community people, back into the local community in the form of conventional mortgages.
5. That this commission would monitor the portfolios of these lending institutions on a monthly basis.
6. That F.H.A. should not back up any mortgages 100%.

Senator STEVENSON. Thank you, Father.

I regret that not everybody has appeared who has asked us for an opportunity to testify, because it is simply impossible in the amount of time we have and we are running late as I said, and now it is even later.

STATEMENT OF MARCUS SALONE, PRESIDENT, ORGANIZATION FOR A BETTER AUSTIN

Mr. SALONE. The 203 program was initiated with the goal in mind of assisting families to obtain the American dream of owning their own homes. Because of bribes to FHA inspectors, fraud by realtors, and lack of experience on the part of the home buyer, this program has resulted in an "American Nightmare" for many families.

In my community of Austin alone, we have over 200 home buyers who, when purchasing their homes, thought the structures to be free of violations, only to discover that basements leaked, foundations were settling, some plumbing needed to be replaced, as well as heating plants. As if this is not enough, some buyers have discovered that FHA appraisals exceed independent appraisals in some cases by as much as $10,000.

Where does the fault lie?

The bulk of the responsibility can be traced to the FHA for not offering prebuyer counseling to people who have never bought before. The unsuspecting buyers are left to deal with realtors who are fast-

buck artists interested only in closing the deal as quickly as possible so that they can be on to the killing.

I recommend that part of the FHA program include prebuyer counseling which prepares the prospective homeowner for selecting a home, determining the approximate market value of that home, and informs the buyer of his rights in closing a sale and the responsibilities of owning and maintaining a home. Hopefully, such prebuyer counseling would assist the layman in making a wise choice of a home for his needs and financial ability.

Second, the fault lies with the realtors who cover up defects in the home, either by not showing them, or bribing city and FHA inspectors who turn in a violation-free report on the structure.

To avoid this pitfall, I am suggesting stronger and more consistent inspection guidelines with rigid fines or prison terms for any inspectors, FHA appraisers, or realtors connected with the sale of a home which has major defects that are not noted.

When a family moves into a home and suddenly find themselves facing a $2,000 repair bill on top of a mortgage note, they will attempt to struggle on. However, many cannot afford the additional financial burden and must default on the mortgage. The homeowner loses, the taxpayer loses, the Federal Government loses, the community loses. The realtor, the inspector, the FHA appraiser, have made their money and are possibly vacationing from the proceeds. Stronger inspections and strong penalties for those involved in sale of a violation-riddled house would protect the family and the FHA-insured mortgage.

I see these two measures as assisting those families who in the next few years will be making their decision to become home buyers. I also see this as a means in which the 203 program can truly help thousands of families in search of the American dream.

There must be also some provision made for the families who are now owners of 203-insured homes and find themselves faced with exorbitant repair bills for defects which were present in the homes as they signed the mortgage papers. Without some kind of assistance many families are going to default and everyone will lose except the realtor who sold the home.

The precedent for such a procedure was established in the FHA 235 program. Two hundred and thirty-five home buyers can get financial reimbursement for defects in the home. Such a provision is needed in the 203 program.

An all too typical case is that of a family who paid $28,500 for an FHA appraised and approved house 2 years ago. Two months ago, a private appraiser placed the home's value at $18,500. A contractor submitted a bid of $7,500 to make the repairs on the defects of the house which had existed since the family bought it. So for just $35,000 this family can have a house which is worth $18,500 on the present market. That is not much of an American dream.

When John Waner was notified of this, his response was, "There is nothing I can do; you signed the papers," despite the fact that the FHA appraiser gave an appraisal of $10,000 higher than market value. When the realtors were notified of this, their response was,

"There is nothing I can do; you signed the papers." A Great Lakes mortgage company official was most helpful when he was informed of the situation. His response was, "I have absolutely no responsibility to do anything; let the buyer beware." When asked if there wasn't something that he could do, he replied, "Yes, I will help them fill out the foreclosure papers." Where does a family like this turn to for help?

The only hope for this family and to keep their home from the ranks of the abandoned is some type of reimbursement for repairs made upon a home within 1 year of purchase, such as there is in the 235 program.

I would like to introduce Mrs. Whitney, whose home you were conducted on a tour through today.

Senator STEVENSON. We met Mrs. Whitney at her home earlier.

Mr. SALONE. Would you kindly tell the Senators of some of the existing conditions in the house.

STATEMENT OF MRS. WHITNEY

Mrs. WHITNEY. Some of the things that I didn't have a chance to tell you about are——

Senator STEVENSON. Why don't you hand the microphone up to Mrs. Whitney, but please be brief.

Mrs. WHITNEY. I will be very brief.

Some of the things I didn't have time to tell you about this evening, I couldn't tell you because you were going so fast.

The front and back porches are rotten.

The electricity is bad.

I have rotten windows upstairs.

The stairs are too small, leading upstairs, and the basement, the sinks are overflowing and it is coming out of the ground and the sewage backs up into the basement and into the tubs in the basement.

The sewage comes up through there and the furnace is bad and the main line leading out to the street is very bad.

Senator STEVENSON. Thank you very much, Mrs. Whitney.

It was your home that I was referring to in my remarks a little bit earlier.

Thank you again.

Now, let's keep moving.

Mr. SALONE. Briefly again, my points are:

1. To protect the prospective buyer, precounseling.

2. More consistent inspections with fines and/or imprisonment for those involved in the sale of violation-ridden 203 homes; and

3. A program of reimbursement for repairs made by 203 home buyers.

Last, gentlemen, as one American says, Let me make one thing perfectly clear, nothing that I have said here today should be construed or used as an excuse to kill the 203 program. By design, it is a good program and has the correct intention of assisting more families into the housing market. However, it must be cleaned up and made to work to benefit the people, not the money interests.

Thank you.

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Secondly, the fault lies with realtors who cover up defects in the home, either by not showing them, or bribing city and FHA inspectors who turn in a violation-free report on the structure.

To avoid this pitfall, I am suggesting stronger and more consistent inspection guidelines with rigid fines or prison terms for any inspectors, FHA appraisers, or realtors connected with the sale of a home which has major defects that are not noted. When a family moves into a home and suddenly finds themselves facing a $2,000 repair bill on top of a mortgage note, they will attempt to struggle on. However, many cannot afford the additional financial burden and must default on the mortgage. The home owner loses, the tax payer loses, the federal government loses, the community loses. The realtor, the inspector, the FHA appraiser have made their money and are possibly vacationing from the proceeds. Stronger inspections and strong penalties for those involved in sale of a violation-riddled house would protect the family and the FHA-insured mortgage.

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The precedent for such a procedure was established in the FHA 235 program. 235 home buyers can get financial reimbursement for defects in the home. Such a provision is needed in the 203 program.

An all too typical case is that of a family who paid $28,500 for an FHA appraised and approved house two years ago. Two months ago a private appraiser placed the home's value at $18,500. A contractor submitted a bid of $7,500 to make the repairs on the defects of the home which had existed since the family bought it. So for just $35,000 this family can have a house which is worth $18,500 on the present market. That is not much of an American Dream.

When John Waner was notified of this, his response was, "There is nothing I can do; you signed the papers," despite the fact that the FHA appraiser gave an appraisal $10,000 higher than market value. When the realtors were notified of this case, their response was, "There is nothing I can do; you signed the papers." A Great Lakes Mortgage Company official was most helpful when he was informed of the situation. His response was, "I have absolutely no responsibility to do anything; let the buyer beware." When asked if there wasn't something that he could do, he replied, "Yes, I will help them fill out the foreclosure papers." Where does a family like this turn to for help?

The only hope for this family and to keep their home from the ranks of the abandoned is some type of reimbursement for repairs made upon a home within one year of purchase, such as there is in the 235 program.

Briefly again, my points are: 1. to protect the prospective buyer, pre-counseling; 2. more consistent inspections with fines and/or imprisonment for those involved in the sale of violation ridden 203 homes; and 3. a program of reimbursement for repairs made by 203 home buyers.

Lastly, gentlemen, as one American says, let me make one thing perfectly clear, nothing that I have said here today should be construed or used as an excuse to kill the 203 program. By design, it is a good program and has the correct intention of assisting more families into the housing market. However, it must be cleaned up and made to work to benefit the people, not the money interests.

Senator STEVENSON. Thank you, Mr. Salone.

STATEMENT OF SIDNEY WEIL OF THE BELMONT NEIGHBORS

Mr. WEIL. Good afternoon, Senators, distinguished officials, and friends.

It seems that North Vietnam, which has been bombed and has been promised rebuilding, is in a better situation for help from our government than any kind of federal housing program.

510 Belmont is a federally subsidized, middle income building under the 221(d)(3) program. The building is privately owned, but HUD holds the mortgage. The tenants are required to provide copies of their internal revenue forms to prove they do not earn over a maximum income.

The tenant organization was formed under the auspices of the Lake View Citizen's Council in order to combat a 25 percent increase in rent.

The spokesman for the group is Mr. Sidney Weil.

For example, we have been forced to accept a 25 percent increase in rent, despite 13 points in HUD's own guidelines, copies of which are before you, that would provide investigation before such increases occur. Thirteen points were somehow just "overlooked."

Higher property taxes have been imposed upon us—200 percent higher—when HUD guidelines provide the power to negotiate local

taxes before buildings are built. Why? Why can't HUD negotiate so that taxes are known and rents don't jump this way?

Twenty percent of their income is supposed to go toward rent.

We are forced to accept a lease which has a clause in it stating that "troublemakers"—anyone who doesn't agree with the management in the building can be thrown out of the building with 3 days notice. All this, despite HUD guidelines which allow them to review the leases before they are foisted upon the tenants.

We are forced to wait for many months after a review of our case, without any action, despite the fact that HUD has the power to grant us relief.

We can go on and on about violations of HUD guidelines that allow our landlords to run over us, robbing us of our rights.

What had HUD done about these things? Nothing! So far, HUD has promised us a 10 percent reduction in our rents. HUD has come to our building to inspect our complaints. HUD has sent several letters to management about the reduction. But do we have the money our landlords owe us because of the decrease in rent? No sir! All we have so far is a lot of promises.

Gentlemen, we are asking that HUD be required to assume the consumer advocacy role that was assigned to it by the Congress of the United States.

You have before you a proposal for what we call "accountability" sessions that we feel may help to solve some of our problems with HUD. We need something to force HUD to listen to tenant complaints.

The legislation we are proposing would require HUD to meet with tenants on a regular basis to hear the concerns and complaints of the tenants. These sessions would keep the much needed lines of communication between HUD and the tenants open. Coupled with a formal grievance procedure, which currently does not exist at HUD, the sessions would provide an avenue for solving tenant and management problems.

All these things were thought of before, gentlemen, by your very own colleagues in the Senate and House, when they wrote the Urban Renewal and Model Cities programs.

Gentlemen, we at 510 Belmont, who do desperately need legislation of this kind, are currently working on formal proposals which we hope to submit for your review and later submission to the Congress.

The Congress of the United States has written an excellent set of guidelines for federally subsidized housing. It is time that Congress assure itself that these guidelines are implemented by putting teeth into the law.

The tenants of 510 Belmont propose the following:

A. That a formal grievance procedure be written and that HUD be required to follow that procedure by law. We would recommend the following.

1. A tenant that has a complaint may turn it over to a representative from his building for investigation.

2. The representative would determine whether or not the complaint is legitimate.

3. HUD would be contacted with the full information.

4. HUD would take the necessary action.

5. HUD would report back to the representative and the tenant.

B. That legislation be written requiring HUD to hold monthly "accountability" sessions. This would be similar to what Congress requires in the Urban Renewal and Model Cities programs. The following guidelines are suggested:

1. The panel for the sessions should be composed of four HUD staff members and one representative from every project in the Chicago metropolitan area.

2. The accountability sessions should be used by the representatives to introduce a formal grievance, according to the guidelines established.

3. Complaints submitted through the sessions should be decided within a reasonable period of time. We suggest allowing 60 days for action.

C. That at any time a rent increase is requested by the sponsors of the building, the application for increase and the grounds therefor, the submissions of the sponsors, and the decision of HUD should be made available to tenant representatives and the representatives should be allowed to file statements, evidence in opposition or personally appear before HUD representatives.

The Insured Project Servicing Handbook and the "Insured Project Management Guide" require HUD to determine and consider, among other things, whether:

1. The application is supported by substantiating documentation, including at a minimum, (a) a formal written statement citing the basis for the request, (b) a statement relating to the general physical condition of the project, and (c) a current financial statement;

2. The project is adequately maintained, as ascertained by actual inspection of the premises;

3. The equipment, facilities, and services included in rent are the same or comparable to those contemplated at the time of the original processing of the rental schedule;

4. The statement of project expenses is reasonable and economical in comparison with expenses of similar projects;

5. Further economies in operation can be reasonably achieved;

6. The management fee is reasonable in light of the services performed;

7. Any capital improvement, or extraordinary or nonrecurring items are being taken improperly as operating expenses;

8. The project will remain competitive in the local rental market after the increase;

9. The present tenants of the project have been consulted and what their attitudes are as to the reasonableness of the proposed rent increase;

10. The present tenants are able to pay the increased rent without undue hardship, especially where the increased rent exceeds 20 percent of a tenant's adjusted income;

11. The increased rent will cause collection difficulties and legal expenses for eviction;

12. The increases can be deferred, reduced, or avoided by depletion of residual receipts or suspension of payments into the reserve fund for replacements; and

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13. The increase can be deferred or avoided by recasting or modification of the mortgage or a forbearance agreement, providing for suspension, reduction, or further amortization of principal and/or interest payments.

Thank you.

Senator STEVENSON. Thank you, Mr. Weil.

We would be glad to have your suggestions included as formal suggestions for changes in the law which you refer to.

[The information follows:]

INTRODUCTION

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Thank you.

PROPOSAL

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7. any capital improvement, or extraordinary or non-recurring items are being taken improperly as operating expenses;
8. the project will remain competitive in the local rental market after the increase;
9. the present tenants of the project have been consulted and what their attitudes are as to the reasonableness of the proposed rent increase;
10. the present tenants are able to pay the increased rent without undue hardship, especially where the increased rent exceeds 20% of a tenant's adjusted income;
11. the increased rent will cause collection difficulties and legal expenses for eviction;
12. the increase can be deferred, reduced or avoided by depletion of residual receipts or suspension of payments into the reserve fund for replacements; and
13. the increase can be deferred or avoided by recasting or modification of the mortgage or a forbearance agreement, providing for suspension, reduction, or further amortization of principal and/or interest payments.

Senator STEVENSON. Apparently in anticipation of your statement the committee received a statement from the 510 Belmont property which I will enter into the record.

SUMMARY OF SITUATION WITH RESPECT TO 510 BELMONT AVENUE

1. 510 Belmont Avenue is a 24 story structure containing 277 apartments and was built in 1969 under FHA Section 221(d)(3), to provide middle income housing;

2. The building is generally regarded as the outstanding middle income project in the United States from the standpoint of location, concept, execution and maintenance. This is demonstrated by the fact that there has always been a long waiting list of qualified potential tenants;

3. Unlike many 221(d)(3) middle income projects, the Sponsors have a cash investment of over $500,000.00 in this property because of the cost of the excellent site and that the building was constructed with better than minimum FHA requirements;

4. In September 1972 the County Collector increased the assessed valuation of the property so that the real estate taxes would have amounted to $244,000.00, or almost 50% of the gross rentals;

5. The Sponsors immediately employed special counsel and filed objections to the exorbitant real estate taxes not only for 1971 but for the new quadrennial beginning in 1972. Sponsors efforts to obtain the tax reduction were ultimately successful and the taxes have been substantially reduced;

6. Pending the outcome of Sponsors efforts to obtain the adjustment in real estate taxes, Sponsors had no alternative but to seek a rental increase from HUD in order to meet their mortgage charges because HUD had served the Sponsors with a notice of default because of their inability to pay the exorbitant real estate taxes;

7. Sponsors could have filed for a 40% rental increase but anticipated that their efforts to obtain a reduction in real estate taxes would be successful so that a 25% rental increase was granted by HUD with the understanding that should the rental increase be more than required, an adjustment would be made allowing Sponsors to derive enough income to meet their mortgage charges and their 6% allowable return;

8. During the pendency of the Sponsors efforts to obtain relief from the real estate taxes, certain tenants in the building organized a so-called steering comsors and the County Assessor. The Federal Court recently dismissed the County mittee and instituted proceedings in the Federal Court against HUD, the Sponsors and the County assessor. The Federal Court recently dismissed the County Assessor and HUD from this suit but the Sponsors have incurred and continue to incur substantial legal expenses which have the ultimate effect of increasing the tenants rentals;

9. The so-called tenants committee has sought to influence the operations of the property and has been the source of information which has confused the tenants and misled the press;

10. The objective of the housing legislation of which 510 Belmont Avenue is a part was to encourage the creation of middle income housing. As an inducement for developers to provide this housing, they were to be allowed 6% on their investment. As a result of this inducement, the Sponsors created 510 Belmont Avenue, which is an outstanding example of a successful 221(d)(3). Sponsors seek only rentals sufficient to provide them with the 6% return to which they are entitled under the legislation;

11. Subsequent to Sponsors finally obtaining a reduction in real estate taxes, the default under the mortgage with respect to real estate tax payments was corrected and Sponsors and HUD agreed that commencing May 1, 1973, rentals would be reduced for the remainder of 1973 by an amount which would appear to be sufficient to provide Sponsors with sufficient income to meet the revised real estate taxes, fixed mortgage requirements and the 6% return on equity.

STATEMENT OF W. ANN GISSENDANNER, THE CONCERNED TENANTS OF LONGROVE

Miss GISSENDANNER. Good afternoon, gentlemen.

I represent the concerned tenants of Longrove House and South Commons; especially South Commons, since Mr. Hill stated that South Commons was one of the finest examples of 221(d)(3).

I wonder who told him to say that or if he thought it up all by himself.

Our issues, we, as you know, are managed by the McHugh-Levin Corp.—pardon me, we are owned by them; South Commons and Longrove House, but we are managed by the Habitat Co., which is a subsidiary entity.

Also Marshall Field happens to be one of the private stockholders in the company.

Our reason for organization was because within a period of 1 year from August 8, 1971, to August 8—to August of 1972—our rent was increased 32.5 percent.

Rent for a two-bedroom apartment jumped from $139 per month to $172 per month.

Keep in mind, now, this is moderate income.

All right.

The Habitat Co. told us that our rents had to be increased because of the tremendous amount of taxes on the property.

We have documented information to prove that the Habitat Co. taxes were prorated for Longrove House because the building at the time was under 3 years old and it was opened in the middle of the year.

Also, not only were our rents increased but our security deposits were increased at the time when they made their last 12 percent increase.

They also requested—rather demanded that we pay that same amount in security deposit.

Now, if you do not pay that same amount in security deposit, your leases are withheld pending the expiration of your old lease.

Some of us are without leases at all presently.

The building was designed to be 50/50 ratio balance. It is now 90/10 blacks dominating the building. That isn't bad in itself, but it is not a 50/50 balance.

The building has had a turnover of 62 percent in the last 18 months because of the outrageous and astronomical rent increases. Also, we are paying from 40 percent to 60 percent of our gross income in rent.

Now, is this having the—does this have the best interests of the low and moderate income people in mind? No.

We feel that not only Longrove House and South Commons are experiencing these problems but also Kedvale Square and Stone Terrace and other 221(d)(3) buildings.

The Habitat Co. has saw fit to increase our rents and they have also saw fit to decline or do away with our services altogether.

From January to the present date, we in Longrove House have not had any heat or hot water. On cold days they freeze us to death. On hot days, they burn us up.

On December 9, 1972, there was a fire at South Commons, you know, and this is a unit of houses, 200 in the building, that is a high rise building of 220 units. Now, there are 21 floors and two elevators.

Well, the fire was in one of the elevator shafts and that was 4 months ago. Now, that elevator still has not been repaired. They say

they are waiting, they have to wait for something, but God knows what.

So, the one elevator that is working is not lighted and you have to be accompanied to your floor, wherever you are going in the building by elevator, you have to be accompanied by a guard who has a flashlight.

Now, it is moderate income now. OK.

Back in 1971, there was a storm that completely demolished most of the apartments on the west end of the Longrove House. The Habitat Co. was not insured against these losses.

Furthermore, the building is tremendously poor. It is tremendously poor in construction, almost no construction at all in some places, you might say.

When it rains, water comes through the closed windows and you know that is true. OK.

Senator, your term as Senator could expire in the time it takes you to get out of Longrove House or into Longrove House, really. You come by it and I will show you.

You know what, wait a minute, now you want hot water if you want to take a shower, bath, or wash your hair, you have to get up at about 6 o'clock so that you know you are going to catch some.

On the weekends you are not going to get any at all on the weekends. On the weekends you are not going to get an elevator at all, so don't invite anybody over. All right.

We asked for a rebate on our rent from the time that we did not have adequate heating and adequate hot water. The Habitat Co. said that they would not even consider a rebate at all.

We, like the other members of this panel, are not suggesting that this program be cut out. We can't ask Mr. Nixon to prove to us that he has something better to offer than this. However, until he decides that he has something better to offer, at least try and expand and revamp this situation.

What we are saying here, Senators, is that HUD, who gave approval to the Habitat Co. in the first place to increase our rent 30 percent this last time, should be carefully watched—very carefully watched. All right.

We suggest that more State controls—we suggest that more State control be given to HUD—no, not to HUD, I don't mean that, but more State control be put on HUD so that they don't run rampant as they have been doing and, you know, getting paid off and everything like they have been doing.

We want you Senators to hear us, and to scrutinize and revamp this whole situation so that it will do what it was supposedly designed to do, provide adequate, decent housing to low- and moderate-income people; the people for whom it was intended and the people who you serve.

We know that you can do this, Senator.

We know that you can do this and we hope that you fulfill this because, if you don't, you will hear from us.

Senator STEVENSON. That completes the testimony of the panelists.

I have a number of questions and very little time in which to ask them.

Senator Sparkman, do you have any questions?

Chairman SPARKMAN. I could ask a lot of questions. I want to say that I think this panel has given us some very good testimony.

We have seen some of the things that they have talked about today and I would like to say, along with Senator Stevenson, that we just don't agree with President Nixon and the job he is doing, and for my part, I cannot see, for the life of me, how those people over there, the families in those houses were permitted to get injured so badly.

I can't conceive of the FHA not having adequate inspection and adequate appraisal, in checking up on things as they went along. They should have done that, certainly.

I can't understand how FHA assisted people into housing as bad as we saw it today, and then not help them get some kind of relief.

I can assure you that we are going into this question in depth when we get back to Washington and hold our housing hearings. They will be starting within a few days.

I could ask a good many questions, but time is passing.

Senator STEVENSON. Some of the concerns you have expressed we have been aware of and as Senator Sparkman especially has been aware of them.

In fact, in the last session of the Congress we took some action that brought some relief to some of you.

You mentioned the rising rents and the inadequacy, the deteriorating services at South Commons. Some of the sponsors are suffering as well because the costs go up partly because of increased taxes.

Belmont Neighbors is a case in point. Sometimes, the rents do go up and the tenants suffer, and sometimes the rents don't go up and the sponsors suffer.

Now, this situation occurs partly because the Federal subsidies are geared to the initial capital cost but not to the future operating expenses which may go up.

In the last session of the Congress, we recognized that problem. The Senate passed a bill that would have provided partial operating subsidies as well as capital subsidies but that bill died in the House of Representatives.

I have been quite aware of the reimbursement problems that have been mentioned here.

Now, Mrs. Levenson and Mrs. Hullum, were both talking about 235 housing, I believe.

Mrs. LEVENSON. That is right.

Senator STEVENSON. And in the case of the new 235 housing, there is supposed to be a reimbursement right already in the law.

Mrs. LEVENSON. It is impossible to get.

Senator STEVENSON. Let me ask you a question.

Have you attempted first to collect under section 518?

Mrs. LEVENSON. Yes.

Mrs. HULLUM. Yes.

Senator STEVENSON. Reimbursement for defects which should have but were not tested or rather detected by the FHA?

Mrs. LEVENSON. We sent in approximately 70 letters from Rainbow Valley Subdivision and one to the FHA and we never so much as received a reply.

Mrs. HULLUM. And we also applied to FHA with respect to our complaints and also to HUD and to the builder and this was done long before most of our year's guarantees were up or our warranties were up, that they either force the builder to make repairs or grant us the funds to do it and, under section 518,—and none of that has been done, and this was last year we did this.

Chairman SPARKMAN. Did you get a reply?

Mrs. HULLUM. No, we had a meeting.

Chairman SPARKMAN. Who did you write your letter to?

Mrs. HULLUM. We submitted this in writing at a meeting with HUD.

Chairman SPARKMAN. But you wrote a letter?

Mrs. LEVENSON. We asked for restitution under section 518 of the National Housing Act.

Chairman SPARKMAN. And you sent that to the FHA?

Mrs. LEVENSON. To Mr. Waner, personally, in the Chicago area office.

Chairman SPARKMAN. And you have had no reply?

Mrs. LEVENSON. We never received so much as a thank you; nothing.

We have had three reinspections since our homes have been put up, with HUD and our builder, and we have been promised the world and received nothing.

Senator STEVENSON. Don't you also have some warranty rights?

Mrs. LEVENSON. Our warranty isn't worth the paper it's written on.

Senator STEVENSON. Why do you say that

Mrs. HULLUM. That is right.

Mrs. LEVENSON. Because, under the conditions we have a builder that has not built the house properly to begin with and then they send in a handyman with a tube of caulking compound, which is a cure-all but, of course, it isn't.

After we complain to FHA, they say, "We will do something about this." And that is the last of it.

We have complained since the day we have moved in there and the conditions have not improved. As a matter of fact, the conditions have deteriorated since we moved in.

Mrs. HULLUM. That is right.

We have the same situation. We have submitted stacks of complaints, sheets of them, to the FHA in the very beginning, soon after organization, and we never got any reply from the FHA.

We wrote them three letters inviting them to meet with us, begging them to meet with us, so that we could tell them what our problems were and we could show them what our problems were. We asked them to just come and see them or even send a representative and we never heard anything from them and you have the letters in front of you where I wrote to Washington and this is the only way I got an audience with the FHA in the first place.

They ignored us for months and months.

I wrote to Mr. Romney and Senator Percy and Senator Hart, after which I got a letter from Mr. Romney stating that he had instructed Mr. Vavoulis to look at the situation. I got a letter from Mr. Vavoulis

to the effect that he set up a meeting with Mr. Waner and that is how we met Mr. Waner.

Well, we went down there and we got a million beautiful promises. We got all those promises and it was just beautiful, because we believed it.

Well, we went home and we waited and waited and nothing happened.

Senator STEVENSON. How long ago was that meeting?

Mrs. HULLUM. I think the original meeting we had with Mr. Waner must have been like July something, June or July of last year, and nothing happened.

I set up a system of calling down there once a week, you know, trying to get some action, and I got a lot of promises all the time. "We are looking out for you." "We are going to see to it that the repairs are made." "We know that your complaints are legitimate."

They did send FHA inspectors out and they went through all of the homes, documented the things that were wrong, then refused to give us copies of their inspection reports.

We asked for the specifications on our houses to date and we have not seen any specifications.

FHA claimed that they cannot find the specifications for the houses.

The builder came in, did some minor repairs and that is it.

We still have inadequate heat. We still have got cracking basements, flooding. We still have water coming in the closed windows and doors. We still have roofs coming off and the whole bit.

Senator STEVENSON. One of the weaknesses in the laws is that it gives the Secretary of HUD the authority to reimburse, but it doesn't impose a duty upon him to reimburse.

It does not apply to many forms of federally supported existing housing including the case of Mrs. Whitney, the 203 (b) case.

Now, to remedy both of those problems, to make it a duty to reimburse these federally caused losses to people and to extend the rights to all housing, I introduced a bill in the last session of the legislature which agan we in the Senate did act on and did pass, but it died in the House. We will try again, however.

Now, Senator Sparkman indicated that he agreed that we would try again and I am sure he will consider all of the other suggestions.

I am particularly interested in the suggestion on counseling. There again the law already makes provision for counseling, but I have yet to see anybody who is receiving federally assisted counseling in the Chicago area.

Mrs. LEVENSON. On that point, on the counseling, our subdivision requested some counseling and our subdivision was approximately 9 or 10 months old at the time, and we were told that our subdivision was too old.

Mrs. HULLUM. Also under section 518, there is a provision where if a builder refuses to come in and bring the house up to standard, he can be blacklisted.

We also requested in our writing to HUD that they do this for the real estate companies; that is, the Real Estate Company of America, that they either be forced to comply, bring our houses up to standard

or that they be blacklisted so that they could never build under FHA again.

Now, this has not been done either.

Senator STEVENSON. I think that has been done with respect to some but not many in the terms of the realtors or the brokers.

Many of Mr. Salone's suggestions were very sound.

I don't know that he mentioned this specifically, but let me ask all of you if you wouldn't think it wise for us to consider establishing, in the law, not leaving it to regulation but in the law, minimum standards for warranties, sales contracts, and leases for federally supported housing. These minimum standards might guarantee the home buyer and the lessee some minimum rights. I think this would be especially important in the case of homeowners, because I saw one sales contract not long ago which had been doctored up in such a way that it prohibited the buyer from even inspecting the house before he bought it.

He was deprived of an opportunity to go inside and look at the house under this doctored-up contract.

Now, it seems to me we ought to seriously consider some minimum rights for people and write them into the law and into those contracts and those leases and perhaps have some sanctions provided for those who disobey the law by ignoring the rights that we guarantee to the purchasers of homes and the tenants or the lessees of homes.

Mrs. CINCOTTA. I think if you could hit the money people in their pockets, such as have the realtors put up a bond, have the builders put up a bond, have the mortgage brokers put up some money so that they are responsible for selling a bad home then somewhere they will be hurt in the pocketbook.

It shouldn't always be so we are always told "Let the buyer beware."

It is the same thing that they have on food and drugs, where if there is a case of botulism, they don't say, "Let the buyer beware, and I hope you get the right can," but something is done about it.

In housing, there is nothing done with these people. When we brought them into court, we got indictments and convictions and the court said, "It was a white collar crime."

And they got 4 years probation but they are still selling real estate and they still get HUD money and we are killing them slowly, but it is just like the old song.

Now, botulism would kill a lot faster but the people, little by little, wondered why this should be.

Now, little by little, you have one boarded up house and another family in misery and another abandoned community.

Now, this has to hit them in the pocketbook instead of always hitting the consumer in the pocketbook.

Chairman SPARKMAN. I wonder if I may interject something that just crossed my mind.

Mrs. Cincotta, just talking about letting the buyer beware, "caveat emptor."

Mrs. CINCOTTA. Right, that is what they always tell us.

Chairman SPARKMAN. Do you remember F.D.R.'s statement about "caveat emptor?" He said, "Hereafter, it is going to be caveat venditor."

Senator STEVENSON. For the benefit of all you Latin scholars, as you know, that means "Let the seller beware." It would be very useful if we could spend more time with you. If you do have further suggestions or statements, we would be very happy to have them.

You have been extremely helpful to us.

Chairman SPARKMAN. While they are going back to their seats let me give just one item for the record from HUD itself.

During the calendar year 1972, there were 154 applications for reimbursement filed from the Chicago area; the whole area.

It says, of this total, 80 are in processing.

Mrs. CINCOTTA. There is no processing.

There is nothing under 203 which can be done, even if they were in process.

Chairman SPARKMAN. It doesn't say a 203. It says, "applications for reimbursement, under section 518" from the whole Chicago area.

Mrs. CINCOTTA. Did he also include in his report that 9,000 homes in the Chicago metropolitan area are in default now?

He didn't include that, did he?

Chairman SPARKMAN. I just gave you one item, in a short time.

Miss GISSENDANNER. What are you Senators going to do about the situation that we are experiencing now?

I know it is good to listen but just what can be done about it?

We want a rebate for the lack of hot water, the lack of adequate security and everything that we don't have.

We want something done about it before you leave to go back to Washington.

Senator STEVENSON. I will have to be very brief and it will be to repeat: Just as one example of what we can do, and I believe will, we will pass a new housing bill as we did before in the Senate. It is what we refer to as the "other body," the House of Representatives, where the problem lies.

It is their fault but we did pass the operating subsidy program in the last session for the rental housing that would have probably spared you the problems that you have had.

Miss GISSENDANNER. But you don't understand.

After they have enough money—well, I don't know for sure but they must have enough money to do better than they are doing.

We want an investigation of the Habitat Co., of McHugh-Levin Corp., period.

What can you do to see that that is taken care of?

Senator STEVENSON. I will follow up on that, I am sure.

Miss GISSENDANNER. Thank you.

Chairman SPARKMAN. Let me say this, and I think I have said it before: We are going to start oversight housing hearings within the next few days. Now, we are going to dig into this further with reference to FHA. We will have the FHA before us, and certainly we are going into their problems.

I personally don't think you have been treated right.

Miss GISSENDANNER. That is an understatement.

Chairman SPARKMAN. Just rest with that, if you will.

Miss GISSENDANNER. We are not going to rest until we have a decent place to live at a moderate price.

Senator STEVENSON. You should have.

Thank you.

Our next panel will speak on community renewal and abandonment, and is composed of E. Duke McNeil, president of the Woodlawn Organization;

Mr. Cecil Butler, general manager, North Lawndale Economic Development Corp.; and

Fidel Lopez, Lakeview Latin American Coalition and Latino Strategy for the seventies.

Mr. McNeil, why don't we begin with you.

I am not sure you were here previously, but I have had to caution all the witnesses that we are running late and I have had to ask them to please summarize their statements in 4 or 5 minutes if possible and we will take the full statements into the record and that will give us more time for some questions and answers.

STATEMENT OF E. DUKE McNEIL, PRESIDENT, WOODLAWN ORGANIZATION

Mr. McNeil. Thank you very much.

I am E. Duke McNeil, the president of the Woodlawn Organization. I have been the persident of the Woodlawn Organization for the past 3 years. TWO began as a combination of neighborhood clubs, block clubs, welfare unions, and church groups in 1960. TWO is a not-for-profit community organization located in the central south side of Chicago, about a mile wide and 3 miles long.

Woodlawn, as a community, is typical of many inner-city communities throughout the country. It is an entirely black, predominantly poor community. We have felt keenly the ravages of abandonment. Over 50 percent of the structures in Woodlawn are unoccupied and vandalized, abandoned by their owners, forfeited for their taxes. Another 20 percent of the land is vacant, through city demolition programs.

The people of the Woodlawn community have refused to surrender to such devastating conditions. They are concerned, and they participate in the process of revitalizing their community, we are all extremely concerned about the President's moratorium of federally subsidized housing and community development activities. Such a moratorium—in a community like Woodlawn—and, in fact, any city or urban area that has such a community. The President has indicated in public speeches of his strong belief that people should help themselves. To this we can all agree. However, it is illogical to believe that low income communities all across the country will be able to do anything meaningful about standard housing if by Presidential fiat all the tools for self-help are taken away. To ask a carpenter to build a house while at the same time you snatch from his grasp the hammer and nails can lead one to the conclusion that you never intended the house to be built in the first place.

The subsidized housing programs were the only vehicle and I emphasize only vehicle available, for the production of standard housing that low income people could live in. Even a 236 unit in Chicago—a 3-bedroom unit with air conditioning—will cost approximately $235 per month. Without any subsidy, at the present rate of interest on

construction and mortgage loans, this same unit would cost about $365 per month in rental. Just a cursory look at the moratorium clearly points out the catastrophic burdens placed upon low income communities as they indeed try to lift themselves up.

TWO is intimately knowledgeable and experienced in the several forms of subsidized housing that are under consideration today. As a matter of fact, at the end of this year, TWO, as a not-for-profit developer, will have produced over 900 units of new and rehabilitated housing for the Woodlawn community. We know full well what some of the serious problems of subsidized housing are.

TWO completed a 504 unit 221(d)(3) project in 1969. It was the culmination of a community dream. It was the actuality of a not-for-profit community organization producing quality housing for its own. However, it is not without its problems.

When this project was approved as feasible, by the Federal Housing Administration, the feasibility was predicated upon fixed expenses applied to a tenant population on a basis which made certain that these tenants did not have any money available to respond to a rent increase, however necessary. At the time of feasibility it was projected that the expense to income ratio would be approximately 49 percent. After the first year of operation, this expense in actuality was 79 percent—50 percent in real estate taxes alone. This would have resulted in disastrous consequences.

If the gross annual income of any housing development remains constant because of the inability of tenants to absorb rent increases, then you have the ingredients for abandonment. Two refused to submit to the abandonment process. We are now struggling to find ways and means to make a project work when in fact it was designed for obsolescence.

The Woodlawn organization is exploring various means, given the present realities, to make subsidized housing work. Reducing real estate taxes is one way, appyling a long-term operating subsidy which would be directed toward maintenance and operation of the project is another. A major concern is with the day-to-day management and administration, of each project. We have also found that aware, involved tenants help the process considerably.

The basic requirements for feasibility under FHA subsidized programs are predicated upon a non-functional linkage between tenant income, maximum mortgage amount, and a fixed amount for maintenance and operation. We are, in fact, participating in the production of units only for those people who make less than. We must somehow change that picture.

Some form of subsidy, from the Federal and/or local level is necessary in order to provide standard housing units for families of low and moderate income. We must continue subsidized housing programs and federally assisted community development programs with new, innovative, and creative ideas to make them better—to make them work.

It is with a recognition of the scale of the problems and the scope of the need of solutions that the Woodlawn Organization is participating here today. We do not have a universally acceptable panacea for economic feasibility or socially relevant programs. However, we

do have a list of objectives that any housing or community development program must meet in order, as we see it, to have our cities and communities survive. Any viable housing program must include the following at least:

1. An articulated goal from the Federal level to provide shelter for all people regardless of income.
2. Some financial incentive to the producers of housing to continue the high rate of production for both new and rehabilitated units.
3. A program that provides quality housing at moderate cost, that is not dependent upon the income of the user. This means that a subsidy must be attached to the tenant and not be functionally defined as an artificial income limit.
4. National priorities must be defined so that those policies encourage the redevelopment of inner-city areas. Housing dispersal is fine, but not at the expense of inner-city communities.
5. An enforceable requirement that equal opportunity laws as they relate to all phases and all stages of financing, processing, construction and marketing of housing be included in any community development and/or housing package.
6. That there will be included a vehicle that insures that continued participation of nonprofit and community sponsors.

My basis for these objectives rests upon the assumption of the absolute necessity of economic integration in housing. There is no reason why a poor person on welfare should not live next door to a teacher, social worker or a lawyer for that matter. Viable communities, communities that are healthy and active and contribute to their own development are those with a cross-section of incomes as well as backgrounds.

We know from practical experience that poor communities for poor people only are nothing more or less than poor people reservations. Even new communities of this sort have failed dismally. Witness Pruitt-Igo in St. Louis, or Stateway Gardens, Cabrini Green, Ida B. Wells in Chicago. Our poor people are fleeing these high and low-rise reservations as soon as they possibly can. For they spawn the highest crime rates, the poorest schools and the most inhumane social services of any place in this country.

We know that the mere designation of public housing—or low to moderate income—stigmatizes it, and condemns it as a future slum. At this very moment, we are struggling to keep our own Woodlawn Gardens above water as every other sponsor-developer of moderate or low income housing is doing nationally.

If in fact viable communities and feasible projects are the goal, then the project itself must be produced according to acceptable construction and amenity standards and the tenants or users must feel that they have options and in fact exercise those options fully. We see, as a vital factor in achieving a healthy community, the avoidance of the stratification of single income community. We must grasp the opportunity of every individual to advance themselves economically and socially. Despite very real inequities imposed in the country because of race, this advance has still been going on.

It is, therefore, crucial that the community be designed to provide for, and encourage, the opportunity for living environments compatible to the individual's growth or economic and social achievement. As Woodlawn residents prosper they should not be literally forced to move out of their community because no appropriate housing or acceptable environment is available.

Thank you very much.

Senator STEVENSON. Is that all of your statement?

Mr. MCNEIL. Yes. I was trying to stay within the time limit.

Senator STEVENSON. Thank you very much, Mr. McNeil.

We will enter your whole statement into the record.

[The statement follows:]

STATEMENT OF E. DUKE MCNEIL, PRESIDENT OF THE WOODLAWN ORGANIZATION, CHAIRMAN OF THE BOARD OF THE WOODLAWN COMMUNITY DEVELOPMENT CORPORATION

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Senator STEVENSON. We will now hear from Mr. Cecil Butler.

STATEMENT OF CECIL BUTLER, PRESIDENT AND GENERAL MANAGER, NORTH WOODLAWN ECONOMIC DEVELOPMENT CORPORATION

Mr. BUTLER. Good afternoon, my name is Cecil C. Butler, president and general manager of the North Lawndale Economic Development Corporation.

It is my understanding that the purpose of these hearings is to gauge the impact of Federal housing programs in Chicago. This panel is confronted with the question of the community renewal aspects of Federal housing programs. Since my personal association for the past 5 years has been with a community economic development corporation located primarily in the Lawndale area of the west side of Chicago, this is a very crucial issue with us.

The Lawndale community like numerous other neighborhoods in Chicago and other large urban areas, is in an advanced stage of decline and neglect. Many of the institutions which are basic to the maintenance and expansion of a viable community economic system have either completely abandoned the area or no longer commit resources or effort to the continuation of the community.

The essential institutional resources required by any community, be it in a thriving metropolitan area or self-contained, include healthy industrial and commercial enterprise, adequate facilities and services, relevant social and political institutions, and a socioeconomic system that serves the needs of the community as a whole as well as the individuals that constitute it, at every level.

In essence, a community is made up of many kinds of systems and subsystems working positively together or creatively against themselves to produce a degree of satisfaction to the whole, its component parts and its individual members.

Lawndale, Woodlawn, Englewood, Uptown and other Chicago communities have not had such a climate for several years. Community renewal will require that such a climate and such components be constructed and become operational.

It is the basic thrust of this statement that community renewal, or community redevelopment or community development must occur in any community if a housing system that can survive is to become a

reality. Most of the areas listed above are to a large extent isolated economies with a median family income ranging up to more than 30 percent below that of all of the other community areas except 9 of a total of 76. Only 8 community areas have a higher percentage of the male labor force unemployed than Lawndale.

There are 25,374 total housing units in the community, of which fewer than 2,000 are single family and fewer than 1,000 were constructed within the last 15 years. Not 5,000 of the housing units are owner-occupied and less than 3,000 are vacant. Yet the mean gross rent for rented units is exceeded in Lawndale by that of only 41 out of 75 community areas, only 1 of which has a lower median family income than the community.

Conclusions to be drawn from these figures show that the income in the Lawndale area is substantially less than that of the overall Chicago area, the housing stock is substantially older than that of the overall area, yet the cost of housing in Lawndale is substantially the same as that of most community areas.

Fundamentally, then, it is obvious that the construction of standard housing will cost the same anywhere you build it and the relative differences in costs will be in options and land. If the costs of building and financing are constant, as they are, then the costs of occupancy are likely to be relatively similar.

The natural result of these factors require the existence of a community economy capable of providing the residents with the purchasing power that can qualify them to pay the prevailing rate. This means that there must be viable industrial and commercial enterprise in the community or nearby which employs the residents at a level and in numbers sufficient to enable them to afford the housing that can be built. In addition, the additional development of accompanying public and private facilities and services must occur to provide the necessary conveniences that make residents appreciate their surroundings.

The existence of this very basic interrelationship between many forces which make up a community requires more than the single element approach that has characterized most housing programs. The problems that have resulted from such development are well known: Communities that are economically poor have grown up segregated from the resources and supporting elements that provided stability and encourage leadership; subsidized housing has been constructed and financed but gone into default because of taxes or has degenerated into slums because income does not allow for the proper administration and operation of the facility; industry and commerce has moved to other areas out of the city, carrying with them the tax base and the jobs thereby engendering a whole new cycle of problems that accelerate existing ones.

This experience requires that attention now be focused on developing a more enlightened and comprehensive approach to the question of community renewal and a more orderly structuring of priorities. This means that very early attention must be given to the comprehensive nature of the problem, the planning effort required to address it, the levels of cooperation and support that its solution will

require and the scope and scale of development required to realize the results intended.

The basic faiilng of present housing programs initiated to date is the failure of these programs to conform to the philosophy of comprehensive community economic development. Programs have been characterized by legislative insensitivity to local conditions, including a lack of flexibility in the consideration of economic, governmental and sociological factors affecting project viability. The thorough planning and in-depth economic feasibility an analysis necessary for development of comprehensive housing systems has been noticeably absent from the initiated housing programs. Each of these is indicative of the fact that housing has not been recognized as the essential element it is in the development of strategy which integrates all facets of a community economy into a consistent, comprehensive entity.

Allowable housing costs in Chicago preclude the availability of adequate housing for those most in need, due to the inadequacy of family income to support such housing. Federal housing programs must be geared to the development of broad scale facilities and services, similar in scope to those developed for Sandburg Village, South Commons, and Lake Meadows.

NLEDC experience has indicated that planning and packaging of housing programs must be done within the context of servicing the needs, however varied, of a community.

Thank you.

(The complete statement of Mr. Butler follows:)

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Senator STEVENSON. Thank you, Mr. Butler.
We will now hear from Mr. Lopez.

STATEMENT OF FIDEL LOPEZ, LAKEVIEW, LATIN AMERICAN COALITION AND LATIN STRATEGY FOR THE SEVENTIES

Mr. LOPEZ. My name is Fidel Lopez.

The following case history is an example of the struggle of one small group of people who attempted to preserve their neighborhood as a well balanced community.

On the northside of Chicago is a community named Lakeview. This area embraces a complete cross section of racial and ethnic groups within its 100,000 population. Similarly, a variety of income levels exist, with extremely high income people living along the lakefront on Lake Shore Drive. However, the majority of the people are middle to low income.

Elaine Place.—Elaine Place is a one-block street one-half mile from the lake and contained, until recently, a series of three- and four-story well-built brick apartment buildings. Within the units lived a mixture of black, Latin, white, and Oriental families, all having very good relations with one another.

About 4 months ago, in the middle of winter, two developers had bought eleven buildings on Elaine Place having about 250 units, and those families renting the apartments were issued eviction notices.

The apartments were slated for deconversion and were aimed, after extensive renovation, towards the young professionals that were quickly moving into the vicinity. In fact, the area was witnessing a unique real estate boom and tremendous speculation was occurring. "New Town" was labeled as the place for the young, single, middle to high income person to live. These "Swingles" liked the proximity of the Loop as well as the lake and are slowly displacing the established families of the area, mainly because of their ability to pay considerably higher rents.

The units on Elaine Place are to have all the frills that appeal to the "Swingles" market; exposed brick interiors, fireplaces, two-story high living rooms. Rents would at least be doubled from the present levels which are affordable by the present tenants.

What do these people do in the middle of winter when told to leave?

A typical example is Mr. John Asuncion. A Mexican-American, married with four children, Mr. Asuncion had lived with his family on Elaine Place for 7 years. The family was quiet, well-liked and respected and the rent for their apartment had only jumped from $120/month to $135/month in those 7 years.

To be evicted in the middle of winter means that the availability of apartments, particularly for those of narrow means, is limited. The cycle of availability occurs in early spring and early fall. To be evicted, if one is of a limited income range, means the family might have to relocate in a completely different community, thereby severing social ties, pulling the children from school in the middle of the school year, having to start anew in a new school environment, leaving friendships behind, being an outsider again.

For John Asuncion, a normally quiet person, it became the last straw; he had previously been uprooted from his neighborhood 7 years ago when the University of Illinois built its Chicago campus.

Fortunately for John and the other 250 families, a community organization, the Lakeview Latin-American Coalition, was nearby and ready to provide help.

While the developers were perfectly within the law in their free enterprise business activities, there are no protections available to the John Asuncions of America. Private development has no obligations for relocating families, there are no guidelines that require income or social mix, and E.P.A. has no requirements that provide for social or community impact studies.

The Lakeview Latin-American Coalition (with the aid of local governmental representatives pressured the developers into studying the possibility of setting aside at least 25 units on the block so that some of the families could move back and preserve a little of the character that once existed.

Four months later, the Illinois Housing Development Authority, after countless meetings with the developers and the community, provided a $75,000 grant which would enable 25 units to be affordable to some of the evicted families. The grant is available from funds drawn from the unusual interest of IHDA funds which normally would be loaned to developers.

Need for community solidarity.—The point that is essential here is that, strong community organizations arise only after a community has had the chance to take root. Had it not been for the Lakeview Latin-American Coalition, the families would have been totally dispersed and a well integrated mini-neighborhood would have ceased to exist.

Governmental programs, such as model cities, provided some of the essential services which strengthen a community. Furthermore, a strong community has the ability to become a not-for-profit sponsor of new multifamily apartment units such as those formerly available under section 236.

Community participation breeds community pride and eventually stability. The unavailability of government progress for housing and community services means that the fight to combat transiency, blight and decay will be slow down and the core of the cities will revert back to the incredible slums that appeared to be incurable prior to the start of the following programs that have now unfortunately been ended: Urban renewal; Model Cities; Rehabilitation loans; Neighborhood facilities; Basic water and sewer facilities; public facility loans; open space grants.

Necessity for Continuation of HUD Programs.

If continued funding of the above HUD programs had been allowed, the situation at Elaine Place may never have occcured.

While the buildings are in good condition, code enforcement programs would have insured that the buildings not be allowed to slowly deteriorate and fall prey to speculators. Rehabilitation loans would have allowed the owners to improve their properties and, furthermore, conservation programs would have preserved the character of the community.

What is important is that minority people, particularly Latins, want to remain in their communities. The inertia generated by FHA housing programs was slowed down by the strict HUD site selection criteria. This well intentioned move was supposedly to prevent ghettos from occurring and also to disperse low- and moderate-income households as well as minorities throughout other communities. We believe such a decision hindered rather than stimulated or even solved the housing shortages.

The Latin community was just beginning to learn the rules of developing housing under the FHA programs. Also, our community was just beginning to develop its own resource people to initiate such programs. Now, under the moratorium, the rules are changed.

Of significance is that related areas were being developed by the FHA housing programs. Minority real estate brokers, developers, mortgage financiers, architects, engineers, and contractors were beginning to participate not only in the renewal of their communities but also in the free enterprise system.

Those professions named above have been able to get their start by providing the related services that were generated by all the community development programs that now have been temporarily halted. These include: Section 235 moderate-income homeownership; section 236 moderate-income rental; rent supplements; public housing; public housing modernization; and nonprofit sponsor aid.

Ironically, the Department of Labor's Manpower Division has funded the Chicago plan for $1.7 million for recruiting and training minorities for the construction industry. Eventually, if the moratorium persists, we will have these newly arrived minorities properly trained but nowhere to work.

Effectiveness of Section 236. Like any program that will have a significant impact on any area, the multifamily programs under section 236 require a certain amount of time before their real effectiveness can be seen.

Sponsoring groups need first to learn what the guidelines require and such rules first require a certain length of time to become known by communities attempting to initiate their own renewal. Long hours of planning are required for all members of a community group to organize, set their goals, and begin to get the proper resource persons to help them implement their goal. Usually such resource people are members of the same community who have been exposed to or participated in other similar programs.

Our emphasis is that once a program is first initiated by the government and the moment the occupants have fully occupied their units, a long timespan has actually occurred. Needless to say, a complete evaluation of such programs and the impact of solving urban and housing problems will require an evaluation that will require time. The Vietnam war was not stopped because at any one point in its long duration to undergo further study, rather more expenditures were allocated, more men committed, more bombing intensified until the war was solved.

Similarly, the urban and housing programs must not be suspended or terminated for re-evaluation, but they should be allowed to continue and evaluation undertaken as they proceed. Under no condi-

tions should programs be ended unless specific, detailed programs that are proposed to replace those now in operation are spelled out.

Block grants to local governments under special revenue sharing are too vague, with no guarantee that such funds will be channeled toward the programs now under the moratorium.

Furthermore, such a plan under special revenue sharing assumes local governments are equipped and capable of initiating and administrating programs similar to those now under HUD. Presently HUD has had the opportunity in its lifetime to build up the manpower, the experience, and the capability to handle such programs. If the administration's intentions go unchallenged, the HUD experience and personnel will be wasted.

Lastly, it assumes that local governments are motivated in dealing with the social problems within their communities and not promoting a "deal" with special interest groups, such as private developers that will not really respond to the problems of low and moderate income families.

Under Federal programs the spirit of local, State and Federal government, checks and balances are assured; under the bloc grants, the Federal Government could "wash its hands" of the utilization of such funds. Specifically in our Chicago area, such checks and balances over local government are mandatory to assure that the programs to be substituted will continue to do what they are presently doing.

Presently under investigation is a title six complaint of civil rights violation against the Chicago Department of Urban Renewal and filed by the community of United Latins. Such documentation and testimony has been submitted separately.

Briefly, however, such a complaint describes the hard efforts of a Latin community group to construct mixed income housing in their community. Twenty percent of the dwelling units of the project were to be under section 236. However, the usual workings of local government officials insured that the awarding of the project after bid submitted went to a group that was a last minute entry and whose representation of the local community is questionable.

To place the responsibility of providing services for those segments of our people in need in the hands of local governmental officials, whether elected or appointed, would be a catastrophy. U.S. Attorney James Thompson's recent convictions of a segment of local officials is representative of the form of government in our midst.

Section 236 is a good program and needs only for local government to provide real estate tax relief to insure its complete success. Needless to say that to assess property occupied by poor people in a similar manner as that of higher income people is ridiculous.

What is needed is added funding rather than reductions; more local flexibility for HUD regional offices rather than restrictions made nationally; and tax relief from local government.

Necessity for continuation of section 235. The 235 program has enabled many people in our society to also have an opportunity to fulfill their dream of ownership of a home.

The opportunity to own property is an inherent point of the American Constitution and the 235 program allowed those of lower incomes to have that possibility.

What was wrong in the program was the totally unrealistic ceilings of price limitations as imposed on the maximum evaluations. Recently we have witnessed the Administration giving 85 percent of the United State's exported 3 billion board feet of lumber to Japan. Now, with a lumber shortage and prices skyrocketing, the cost to build a single family house has increased by $1,200 in the past 6 months.

I dare any builder to try to build a four-bedroom home now, plus the cost of the land, under FHA minimum property standards for under $24,500, make a profit, and make it of an acceptable quality.

The 235 program should have at least allowed for inflation adjustments, as well as new labor, union and material cost increases. Those who discredit the 235 program because of shoddy construction should consider the numbers that were built properly despite such difficult cost limitations.

Unfortunately, all home building at all income levels has a bad record with regard to construction quality. This has led State Representative Schickelman from Arlington Heights to introduce legislation to safeguard that builders have established a reserve to deal with necessary repairs after occupancy has occurred. And this was a result of the case histories of moderate- and high-income properties through conventional loaning procedures.

I, personally, as an architect, have been hired by a group of high-income buyers of $45,000 condominium units to oversee and insure that the developers repair faulty conditions and complete the work, after 1½ years elapsed after occupancy.

To kill the 235 program because of some unfortunate cases is a mistake. The Department of Defense did not scrap the entire military spending budget when the F–111 fighter planes encountered their numerous problems that cost the lives of men.

Summary: In conclusion, we are very concerned at the cutbacks evidenced by the Administration's policies. More and more we read in the papers of further reductions of social programs.

We question if the President is really in tune with our problems and even if he is properly trying to deal with them. Certainly, the appointment of Mrs. Anne Armstrong from Texas as the President's advisor on Spanish-speaking affairs does not reflect any concern for our people * * * if anything, it is an insult not to have a Latin in that role. We of the Spanish-speaking community do not recognize her as an "expert" or a "spokeswoman" for our problems.

We hope and urge that Congress is more sympathetic and that it assumes once again its role as written in the Constitution for its power to legislate laws, programs and spending.

Thank you very much.

Let me just say also that it is almost symbolic that I am one of the few Latins that will testify here and that the impact of the FHA programs and the HUD programs have almost been zero with regard to the Latin community.

The designation of model cities areas has been done on a localized level and the impact in our community has been of such a nature that we have very little to report as to what benefits we have derived from such programs.

However, we are very concerned by what we have heard. We have heard, prior to the hearings with respect to the mentality of the Administration with regard to the moratorium and the anticipated cutoffs.

Secondly, it is the feeling amongst many community groups that these hearings are going to be merely a method of further pounding into the ground the FHA programs and thereby underscoring the need to totally discontinue it.

Now, I have no means at all of patting the FHA program on the back. It is not a program that needs to stand up and cheer and neither, I feel, should it be a program that should be entirely dismantled.

One of the basic situations I think is the case history that I have submitted in my prepared statement and it is in that regard and that is one of the reasons why I am on this panel with regard to community renewal.

Mr. John Asuncion is a Mexican-American with four children who happens to be making something like $15,000 a year. As a result of that, he doesn't qualify for 236 housing.

He had been previously displaced twice by certain municipal programs, one of which happened to be the creation of the University of Illinois Chicago Circle Campus and he had to uproot from his old community and seek another place in which to live and raise his children.

Four months ago, in the middle of January, two private developers came in and bought 11 buildings on the block of Elaine Place and Lakeview.

They did everything within the law, perfectly acceptable, of using their role as developers; however, because as private developers, there are no guidelines, no criteria imposed upon private developers, they went right ahead.

As a result of their actions, 250 families were given eviction notices.

Furthermore, this was in the middle of the winter and that means that those people trying to seek housing are unable to find the type of housing or the types of housing that are within their income range.

That happens to be the off cycle in which apartments are available.

Secondly, the children have had to be pulled out of school. Friendships were destroyed and they are going to be outsiders in some other community.

The point that I am trying to make is that the need of creating guidelines for private developers is very important because at least with EPA there are studies and guidelines and requirements controlling the situations.

There are certain types of impact studies which should be utilized to determine whether a highway is going to disrupt the ecology or disrupt the patterns of migratory birds, etc.

However, there are no guidelines for private developers if they are creating an impact on the sociological fabric of the community.

Now, that is the point I am trying to make, Senators, is that the Latin community is not specifically interested in dispersing itself among other communities. We are interested in creating a very strong, viable community within our own area and we fear that the

disruption, the discontinuation of some of these FHA programs will give us little recourse available to ourselves upon which to build and utilize the programs that our black brothers have utilized, however many problems have resulted out of them.

We have little recourse in using other programs.

Secondly, we are terrified that the mentality coming out of the Administration for the type of special revenue sharing which it will, the Federal Governmn will wash is hands of and say, "Here is a bloc grant of money."

And then the local governments are going to be there administering their own programs.

Well, if FHA is incapable or HUD is incapable of administering regional programs in dealing with this incredible backlog of complaints, how capable will the local governments be in being able to handle such complaints or the allocation of such funds?

That is our concern to us.

Furthermore——

Senator STEVENSON. If I could just interrupt you at that point to state: The special revenue in the past has not included housing.

Mr. LOPEZ. I realize that.

Senator STEVENSON. Special revenue sharing for community development has not embraced the housing programs.

Mr. LOPEZ. Well, maybe they should, maybe it should.

Senator STEVENSON. Well, the complaints we have heard today, which you have referred to, have been about the housing programs. Now, those would not be embraced at least by the Administration's proposal last year for community revenue sharing. We don't know what will be proposed this time.

I am suggesting that I think it might be possible to structure it so that it is a sensible bloc grant program in which we consolidate existing programs, provide more latitude for planning at the local level, but nonetheless retain Federal standards, the application procedures, and certain important Federal objectives to be met.

Then one of those requirements, which was put in the bill at my insistence, was a requirement for citizen participation.

I wouldn't call this revenue sharing because I am opposed in principle to revenue sharing, that is both general revenue sharing, and most of the special revenue sharing programs I have seen but in this case last year we did come up with what I think is a pretty sensible bloc grant program.

I think you could end up with a better orchestrated and more responsive program for community development, more attuned to local needs.

Now, I don't mean to get into a debate with you. What I meant to make sure of is that you understand what it was supposed to do and so that you understand that the community development bloc grant or revenue sharing program, whatever you want to call it, was not a housing program. It was a community development program.

Now, I think that raises another question and I am jumping ahead now.

You have all made the point that housing is just one element of the human environment and maybe there are ways in which the

Federal Government either directly or with the assistance it gives to States and localities, could help to create more comprehensive programs for the improvement of the human condition.

We tend to zero in on one condition, on one element or another of that condition; housing and so on. Yet it is the totality that we are striving for.

Mr. McNeil, you were saying somewhat the same thing. We all agree with the goals that you set out in your statement but we don't now have the mechanisms to make them possible.

Now, that is what we need at the moment. If you have, all of you, further suggestions about what the mechanism really should be to bring about this total improvement of the urban condition, we would welcome them.

Mr. BUTLER. Senator——

Senator STEVENSON. I interrupted Mr. Lopez. Let me first make sure that Mr. Lopez is finished or has a chance to finish his statement, then we will get back to you, Mr. Butler.

Mr. LOPEZ. Maybe we can go on that point. I don't mind being interrupted.

That is our concern specifically. Right now we have heard a series of testimonies concerning the ineffectiveness of the FHA program.

I am an architect. I happen to have been hired by a group of homeowners who are in an extremely high income range. Some of them handle their affairs differently but as I say, they are in a comparatively high income range with respect to the other people in my community.

Now, they have bought townhouses in the range of $45,000. These townhouses are only a year and a half old and they have hired us with the goal of overseeing the developers and the architects to insure that the completion and the quality of all of the items in those townhouses be such that the work is done in a proper manner and completed properly.

Now, we go in and find that there have already been building code violations. Well, the point I am trying to make is that, yes, the FHA 235 program and the 236 program have had construction defects.

I believe that is the reason why Representative Eugene Schickelman of Arlington Heights is introducing legislation, hoping to require builders to post bonds so that those funds will be utilized for the repair of the homes.

It implies that all construction is shoddy and I am concerned because of the type of testimony that we have been hearing here today that it is going to pummel the total FHA program into the ground and we are going to then revert back to the revenue sharing which is supposed to come in the block grants which do not have housing in its priority list, in their priority lists, and as a result, we are going to be under the—and I will finish in just a moment.

Senator STEVENSON. That is all right. Go right ahead.

Mr. LOPEZ. So as I understand it, the local government that is going to administer these block grants, I feel they are totally incapable of handling them.

I just want to take one step further——

Senator STEVENSON. If I may just again make one point here, please.

Every single witness and both of the Senators have said that there are defects in the program and principally it seems to be in the administration of the program, and every last witness wants to improve the program and wants to continue the commitment to decent housing.

There has not been one word of evidence so far before this hearing to support a discontinuation of the Federal commitment to decent housing.

Mr. LOPEZ. All right. It is just that there happens to be a great deal of apprehension and suspicion as to what the nature of the hearings will be, Senators.

Presently, at this very moment, the Crisis in Housing Coalition, which is a group of community organizations and I believe you have got an invitation stating that there will be a series of workshops beginning tonight, tomorrow, and Sunday in which we are going to provide a series of alternatives coming from the people and their duly elected representatives.

I feel that this is a significant step. We will listen to what the alternatives will be and they will originate right out of these workshops.

Now, the community of Latins tried to initiate their own multifamily housing program at Racine and Polk a couple of years ago. Here was a vacant piece of property cleared by the Chicago Department of Urban Renewal and it sat there and sat there.

Now, many people in the room will tell you that this has been a long tradition in the department of urban renewal's history. They went to the department and requested that they be given the direct sponsorship for multifamily housing for the Latin community in that area.

Well, Mr. Hill and his associates said, "Let us put it out under a proper package of bidding procedures."

Well, after the guidelines were formulated under the multifamily housing for bidding procedures, after they were established, they went with a developer and in fact in the testimony you will see that there is a civil rights suit filed against the department of urban renewal because, prior to the bid opening, the developers mysteriously pulled out of the package and there are accusations that there were threatening phone calls which were made to the developers as well as to some of the faculty members at the University of Illinois with advice coming from the community of Latins.

Now, that happens to be the sad history of the way things happen in the city of Chicago.

If you see the way the headlines have been lately and the success of the U. S. attorney James Thompson with regard to our local politicians, you will know that we are terrified that local programs left in the hands of local officials are going to continue under the type of mentality that we have had in our midst.

Mr. MCNEIL. My great concern would be, Senators, that we carefully distinguish the difference between apples and oranges.

Granted, there may be some serious problems with the 235 program. I think the thing that needs to be aired and the reason there were some tremendous fears in the Chicago community prior to this week and, of course, even now, with the real gut issues that affect

millions of people, maybe 2 million or 3 million people in the inner-city communities, the fear was that our concerns would not be heard.

I can talk about Woodlawn, of course, and Cecil Butler can talk about Lawndale and there are Woodlawns and Lawndales all over the country. We call them the inner-city communities but the real question is that they are decaying, they are deteriorating. There is vacant and abandoned properties. There is vacant land and we have got to talk about some kind of housing by someone to place something there for poor people or low and moderate income people.

Now, we talked about a housing program and we would have to say that right now it appears that there is not a national policy that is concerned about the inner-city communities.

Somebody is going to have to come up with this national policy; very possibly Congress. They are the implementers as such and certainly the Chief Executive, probably he can be cajoled, suggested to or aided in coming out and going in some direction with respect to all of the poor people all over the country.

Thirdly, we obviously can give some more concern to HUD and to FHA when we talk about the point that must be made in terms that there must be a kind of a comprehensive development.

People sometimes say that you probably don't miss the chickens or the water until it is gone, but that was conceptually the program of Model Cities, of HEW, of OEO in terms of working together; first developing housing, then developing health, manpower in terms of developing a total community, as Cecil referred to.

When you build a development, the people there can afford it but right now, with this ridiculous moratorium, there is nothing happening.

Now, this becomes tragically ironic when you think of the fact that even before the moratorium things were just plodding along, but you could imagine that in 2 or 3 years, we could come up with some of the developments we had talked about.

Now, in the absence of these programs, the people will just be out in the streets asking questions and I think this is the kind of question that the Chicago community wanted to make sure got heard here.

What about the inner-city communities?

Senator STEVENSON. I, too, think it is ironic when a C5A crashes or overruns, we just build more of them, but when the meager commitments that we make don't produce an urban renewal or rebirth instantly, we, or at least some of us, tend to give up.

There is discussion in Washington about housing allowances as an alternative to the present subsidized housing programs.

How do you, all of you, feel about the concept of housing allowances?

Mr. BUTLER. Well, Senator, I would have to say that, speaking on behalf of the community of Lawndale, housing allowances would not be very functional because there is not the availability of standard housing in the community that would make an expenditure of those funds worth while.

I think, if I may return momentarily, to the whole concept of building economic systems in the community: At some point it seems to me that in the background and the history of housing legislation

in this country and the history of so-called community development programs, there should be a learning process at some point that would give us the knowledge to go forward with some kind of a program that attempts to integrate the elements of an economic system that can create viable communities.

Now, by that I mean that when you have a mass exodus of industry and commerce from a community, as we experienced in Lawndale and other communities experienced in this city, housing allowances and in the construction of low income housing is nothing but a stop-gap measure and it is never going to really start you on the road to the solution of the problem of community deterioration and abandonment.

What has to happen at some point is that there has got to be a program developed that makes it feasible and beneficial to the elements of this country that make a total comprehensive system, however unsatisfactory it might be, that applies to communities.

We can't segregate all of the lower income people into one section of the city or a specific location and expect that system to operate and a community to exist there.

There has got to be some sharing of all of the burdens of society throughout the total economy in the metropolitan area and until that is done, it is not likely that any, you know, one element stop-gap measure is going to produce any real results.

Senator STEVENSON. How do you feel about the site selection criteria as an effort to disperse housing?

Mr. BUTLER. Well, I think that as long as it is subject to the whims of the builders and the people who control the production, it is not going to be very meaningful.

It is another standard that is going to get lost in the wash.

Senator STEVENSON. At the moment it has been preventing the construction of housing in the minority concentrated areas.

Mr. MCNEIL. I would like to refer to one of your earlier points on housing allowances.

If these housing allowances could take the form of a subsidy to the tenant or to the individual and the money come directly to him instead of, as we have now, some artificial income limit; if that were the case, I could see it, with proper constraints, being developed into a meaningful alternative.

However, I do again of course return to Cecil's point that you would then have to have a comprehensive package and just one alternative would not be enough.

I think Congress and whomever is talking about it should give some serious consideration to coming out to the communities and actually give some graphics on how a housing allowance or how a subsidy to the tenants would work.

I think that has some rather pregnant possibilities in terms of long-range developments.

Mr. LOPEZ. I would like to comment on the housing allowances.

From what I have seen of the experimental programs in, I believe, Pittsburgh and Springfield, and I can't remember the last one, where they have utilized this experimental program, the report that I read says that it is hoped that with the direct housing allowance to the

families, that the landlords will be then able to upgrade their property.

What assurances are there—I have a feeling that some of the biggest millionaires in the area happen to be slum landlords and I don't believe that further channeling of rent money to the landlords for the rental levels that they are charging and then with the difference between that and what the person can afford, that he can afford 25 percent of his income, that that is going to insure such rehabilitation of the units as contemplated.

Second, the Labor Department has just given a grant of $1.7 million for the training and recruitment of minority groups to participate in the building programs.

If the direct allowance is going to be the sole program available, that means that you are using only existing housing stocks and there will be no new construction.

There are countless numbers of related fields that are affected by the construction of new housing and this $1.7 million program will be for naught.

Senator STEVENSON. Well, that is one of the concerns about the housing allowances, that it will increase the demand without increasing the supply and the result will be principally higher rents.

Senator Sparkman, do you have any further questions?

Chairman SPARKMAN. No, Mr. Chairman.

I have been looking up some other matters.

I heard the direct statements and we have got one more panel to hear from and we must conserve time.

Mr. LOPEZ. I would like to make one concluding statement.

We are very, very concerned about the type of mentality that is affecting the multifamily and other types of programs that affect our housing in our communities.

Lately, in the past few weeks, the President appointed Mrs. Ann Armstrong as his consultant on Spanish-speaking affairs. We feel this is an incredible insult to our community if this is the type of person that is advising him on Latin problems and affairs.

If this is the type of mentality that is coming, I really beseech Members of Congress, Senators and Members of the House of Representatives, that you resume the role that you have been given by the Constitution to augment, implement and legislate the programs that you have done, which you have done since 1937 with regards to housing and not let the President take the reins of housing programs in his own hands.

Chairman SPARKMAN. I would like to break in there to assure you that we will do that.

Mr. LOPEZ. Very good.

[The complete statement of Mr. Lopez follows:]

STATEMENT OF FIDEL LOPEZ, LATINO STRATEGIES FOR THE 70'S, LAKEVIEW LATIN AMERICAN COALITION

The following case history is an example of the struggle of one small group of people who attempted to preserve their neighborhood as a well balanced community.

On the northside of Chicago is a community named Lakeview. This area embraces a complete cross-section of racial and ethnic groups within its

100,000 population. Similarly, a variety of income levels exist, with extremely high income people living along the lakefront on Lake Shore Drive. However, the majority of the people are middle to low income.

ELAINE PLACE

Elaine Place is a one block street one-half mile from the lake and contained, until recently, a series of three and four-story well built brick apartment buildings. Within the units lived a mixture of black, Latin, white and Oriental families, all having very good relations with one another.

About four months ago, in the middle of winter, two developers had bought eleven buildings on Elaine Place having about 250 units, and those families renting the apartments were issued eviction notices.

The apartments were slated for deconversion and were aimed, after extensive renovation, towards the young professionals that were quickly moving into the vicinity. In fact, the area was witnessing a unique real estate boom and tremendous speculation was occurring. "New Town" was labeled as the place for the young, single, middle to high income person to live. These "Swingles" liked the proximity of the Loop as well as the lake and are slowly displacing the established families of the area, mainly because of their ability to pay considerably higher rents.

The units on Elaine Place are to have all the frills that appeal to the "Swingles" market; exposed brick interiors, fireplaces, two-story high living rooms. Rents would at least be doubled from the present levels which are affordable by the present tenants.

What do these people do in the middle of winter when told to leave?

A typical example is Mr. John Asuncion. A Mexican-American, married with four children, Mr. Asuncion had lived with his family on Elaine Place for seven years. The family was quiet, well-liked and respected and the rent for their apartment had only jumped from $120/month to $135/month in those seven years.

To be evicted in the middle of winter means that the availability of apartments, particularly for those of narrow means, is limited. The cycle of availability occurs in early spring and early fall. To be evicted, if one is of a limited income range, means the family might have to relocate to a completely different community, thereby severing social ties, pulling the children from school in the middle of the school year, having to start anew in a new school environment, leaving friendships behind, being an outsider again.

For John Asuncion, a normally quiet person, it became the last straw; he had previously been uprooted from his neighborhood seven years ago when the University of Illinois built its Chicago campus.

Fortunately for John and the other 250 families, a community organization, *The Lakeview Latin-American Coalition*, was nearby and ready to provide help.

While the developers were perfectly within the law in their free enterprise business activities, there are no protections available to the John Asuncions of America. Private development has no obligations for relocating families, there are no guidelines that require income or social mix, and E.P.A. has no requirements that provide for social or community impact studies.

The Lakeview Latin-American Coalition (with the aid of local governmental representatives) pressured the developers into studying the possibility of setting aside at least 25 units on the block so that some of the families could move back and preserve a little of the character that once existed.

Four months later, the Illinois Housing Development Authority, after countless meetings with the developers and the community, provided a $75,000 grant which would enable 25 units to be affordable to some of the evicted families. The grant is available from funds drawn from the unusual interest of IHDA funds which normally would be loaned to developers.

NEED FOR COMMUNITY SOLIDARITY

The point that is essential here is that, strong community organizations arise only after a community has had the chance to take root. Had it not been for the Lakeview Latin-American Coalition, the families would have been totally dispersed and a well integrated mini-neighborhood would have ceased to exist.

Governmental programs, such as Model Cities, provided some of the essential services which strengthen a community. Furthermore, a strong community has

the ability to become a not-for-profit sponsor of new multi-family apartment units such as those formerly available under Section 236.

Community participation breeds community pride and eventually stability. The unavailability of government programs for housing and community services means that the fight to combat transciency, blight and decay will be slowed down and the core of the cities will revert back to the incredible slums that appeared to be incurable prior to the start of the following programs that have now unfortunately been ended: Urban renewal; Model Cities; Rehabilitation loans; Neighborhood facilities; Basic water and sewer facilities; Public facility loans; Open space grants.

NECESSITY FOR CONTINUATION OF HUD PROGRAMS

If continued funding of the above HUD programs had been allowed, the situation at Elaine Place may never have occurred.

While the buildings are in good condition, code enforcement programs would have insured that the buildings not be allowed to slowly deteriorate and fall prey to speculators. Rehabilitation loans would have allowed the owners to improve their properties and, furthermore, conservation programs would have preserved the character of the community.

What is important is that minority people, particularly Latins, want to remain in their communities. The inertia generated by FHA housing programs was slowed down by the strict HUD site selection criteria. This "well intentioned' move was supposedly to prevent "ghettos" from occurring and also to disperse low and moderate income households as well as minorities throughout other communities. We believe such a decision hindered rather than stimulated or even solved the housing shortages.

The Latin community was just beginning to learn the rules of developing housing under the FHA programs. Also, our community was just beginning to develop its own resource people to initiate such programs. Now, under the moratorium, the rules are changed!

Of significance is that related areas were being affected by the FHA housing programs. Minority real estate brokers, developers, mortgage financiers, architects, engineers and contractors were beginning to participate not only in the renewal of their communities but also in the free enterprise system.

Those professions named above have been able to get their start by providing the related services that were generated by all the community development programs that now have been "temporarily halted". These include: Sec. 235 moderate-income home ownership; Sec. 236 moderate-income rental; Rent supplements; Public housing; Public housing modernization; and Non-profit sponsor aid.

Ironically, the Department of Labor's Manpower Division has funded the *Chicago Plan* for $1.7 million for recruiting and training minorities for the construction industry. Eventually, if the moratorium persists we will have these newly arrived minorities properly trained but nowhere to work.

EFFECTIVENESS OF SECTION 236

Like any program that will have a significant impact on any area, the multi-family programs under Section 236 require a certain amount of time before their real effectiveness can be seen.

Sponsoring groups need first to learn what the guidelines require and such "rules" first require a certain length of time to become known by communities attempting to initiate their own renewal. Long hours of planning are required for all members of a community group to organize, set their goals, and begin to get the proper resource persons to help them implement their goal. Usually such resource people are members of the same community who have been exposed to or participated in other similar programs.

Our emphasis is that once a program is first initiated by the government and the moment the occupants have fully occupied their units, a long time span has actually occurred. Needless to say, a complete evaluation of such programs and the impact of solving urban and housing problems will require an evaluation that will require time. The Viet Nam war was not stopped because at any one point in its long duration to "undergo further study", rather more expenditures were allocated, more men committed, more bombing intensified until the war was "solved".

Similarly, the urban and housing programs *must not* be suspended or terminated for re-evaluation, but they should be allowed to continue and evaluation undertaken as they proceed. Under no conditions should programs be ended unless specific, detailed programs that are proposed to replace those in operation are spelled out.

Block grants to local governments under special revenue sharing are too vague, with no guarantees that such funds will be channeled toward the programs now under the moratorium.

Furthermore, such a plan under special revenue sharing assumes local governments are equipped and capable of initiating and administrating programs similar to those now under H.U.D. Presently H.U.D. has had the opportunity in its lifetime to build up the manpower, the experience, and the capability to handle such programs. If the Administration's intentions go unchallenged the H.U.D. experience and personnel will be wasted.

Lastly, it assumes that local governments are motivated in dealing with the social problems within their communities and not promoting a "deal" with special interest groups, such as private developers that will not really respond to the problems of low and moderate income families.

Under federal programs the spirit of local, State, and Federal government, checks and balances are assured; under the block grants, the federal government could "wash its hands" of the utilization of such funds. Specifically in our Chicago area, such checks and balances over local government are mandatory to assure that the programs to be substituted will continue to do what they are presently doing.

Presently under investigation is a Title Six Complaint of Civil Rights violation against the Chicago Department of Urban Renewal and filed by the Community of United Latins. Such documentation and testimony has been submitted separately.

Briefly, however, such a complaint describes the hard efforts of a Latin community group to construct mixed income housing in their community. Twenty percent of the dwelling units of the project were to be under Section 236. However, the usual workings of local governmental officials insured that the awarding of the project after bid submitted went to a group that was a last minute entry and whose representation of the local community is questionable.

To place the responsibility of providing services for those segments of our people in need in the hands of local governmental officials, whether elected or appointed, would be a catastrophy. U. S. Attorney James Thompson's recent convictions of a segment of local officials is representative of the form of government in our midst.

Section 236 *is* a good program and needs only for local government to provide real estate tax relief to insure its complete success. Needless to say that to assess property occupied by poor people in a similar manner as that of higher income people is ridiculous.

What is needed is added funding rather than reductions; more local flexibility for H.U.D. regional offices rather than restrictions made nationally; and tax relief from local government.

NECESSITY FOR CONTINUATION OF SECTION 235

The 235 program has enabled many people in our society to also have an opportunity to fulfill their dream of ownership of a home.

The opportunity to own property is an inherent point of the American Constitution and the 235 program allowed those of lower incomes to have that possibility.

What was wrong in the program was the totally unrealistic ceilings of price limitations as imposed on the maximum evaluations. Recently we have witnessed the Administration giving 85% of the U.S.'s exported 3 billion board feet of lumber to Japan. Now, with a lumber shortage and prices skyrocketing, the cost to build a single family house has increased by $1,200 in the past six months.

I dare any builder to try to build a four-bedroom house now, plus the cost of the land, under FHA Minimum Property Standards for under $24,500, make a profit, and make it of an acceptable quality.

The 235 program should have at least allowed for inflation adjustments, as well as new labor, union, and material cost increases. Those who discredit the

235 program because of shoddy construction should consider the numbers that were built properly despite such difficult cost limitations.

Unfortunately, all home building at all income levels had a bad record with regard to construction quality. This has lead State Representative Schickelman from Arlington Heights to introduce legislation to safeguard that builders have established a reserve to deal with necessary repairs after occupancy has occurred. And this was a result of the case histories of moderate and high income properties through conventional loaning procedures.

I, personally, as an architect, have been hired by a group of high income buyers of $45,000 condominium units to oversee and insure that the developers repair faulty conditions and complete the work, after one and one-half years elapsed after occupancy.

To kill the 235 program because of some unfortunate cases is a mistake. The Department of Defense did not scrap the entire military spending budget when the F.111 fighter planes encountered their numerous problems that cost the lives of men.

SUMMARY

In conclusion, we are very concerned at the cutbacks evidenced by the Administration's policies. More and more we read in the papers of further reductions of social programs.

We question if the President is really in tune with our problems and even if he is properly trying to deal with them. Certainly the appointment of Mrs. Anne Armstrong from Texas as the President's advisor on Spanish-speaking affairs does not reflect any concern for our people . . . if anything. It is an insult not to have a Latin in that role. We of the Spanish-speaking community do not recognize her as an "expert" or a "spokeswoman" for our problems.

We hope and urge that Congress is more sympathetic and that it assumes once again its role as written in the Constitution for its power to legislate laws programs and spending.

STATEMENT OF THE SPANISH COALITION FOR HOUSING

The Spanish Coalition for Housing has documented (31) cases of housing abuses inflicted on Latino families through homes bought through FHA programs mainly 203 and 235.

The central issue is the participation of FHA insured programs in the selling of homes with major multiple building code violations, creating a windfall or is it a boon doggle for aggressive slum profiteering real estate agencies and mortgage houses—savings and loans of some "Repute".

The central issue for Latinos is a clear cut case of Federal programs designed to benefit the "Private Entrepreneur" with no consumer protection whatsoever.

The Latino families in good faith have invested "in a home" in good faith to make a better life for their families—only to be seriously frustrated through the predatory slum profiteers and their "cronies"— the city Building Department who coincidentally finds major violations shortly after Latino families move in.

Specifically:

1. Any program in housing by design should be consumer oriented and not entrepeneur or profit oriented for special interests. There should be consumer guarantees to families and not just mortgage insurance for the profit maker.
2. Families who have a documented case of abuse should be properly recompensed through alternative adequate housing and financially renumerated according to the expenses incurred.
3. Contracts should be in Spanish and English according to the needs of the home buyer.
4. A homeownership counseling service should be implemented at no cost to the home buyer.
5. Latinos should be hired at all levels of all Federal agencies—as it stands Federal agencies are following a double standard in compliance with EEOC regulations. There seems to be a type subtle Jim Crowism against Latinos many under guises of lack of education etc. This has got to stop. An example is the presence of only (30) Latinos in the Social Security Administration Midwest

Area—in the fact of well over 1.7 million Latinos in the Midwest. HUD, HEW, even EEOC are not in any better condition either.

6. Latinos should be contracted by HUD and other Federal agencies to run their own programs.

Senator STEVENSON. The next and final panel for the day is on administrative reform in housing programs.

The panelists are Joseph Nowicki, past president of the International Association of Real Estate Appraisers; John Hyman, Chicago Council of Lawyers; Tom Maher, building inspector, Richton Hills; Henry Dwyer, staff counselor, Bickerdike Redevelopment Corp.

Mr. Maher, we will begin with you, if we may, and I will have to repeat the caution that we are running out of time. So if you can, would you please summarize your statement so that we may have some time left for questions and answers?

STATEMENT OF THOMAS F. MAHER, BUILDING INSPECTOR, RICHTON HILLS, ILL.

Mr. MAHER. Mine will be very short, Senator.

First of all, thank you, Senators Sparkman and Stevenson, for calling us into this hearing. We thank you for inviting us along with a lot of other people and we welcome you here to Chicago because we do need your help.

I am the full-time building inspector for the Village of Richton Park, Ill., began employment in the Village in November of 1971. Upon taking up my duties as the inspector, I found major problems in both new, and in particular, old construction in these 634 units of single-family dwellings. Approximately 300 units of this subdivision are of the 235 program, and this is where the majority of the major structural and mechanical deficiencies are.

The caliber of inspections made by the HUD-FHA and/or VA inspectors was deplorable, if any inspections were made at all. Flagrant violations exist. Noncompliance with the plans, specifications, engineering bulletins and just poor engineering practices and procedures are some of the common problems.

Some of the deficiencies I observed on houses in which HUD-FHA and/or VA had issued a final compliance inspection report are as follows:

Lack of proper installation of main beams and piers which support the house.

Lack of proper heating systems, with no heat distribution by way of heat ducts to approximately 125 of these homes.

Improper grading of land around the house proper. This causes water retention around the houses, and in particular, water retention in the crawl space area under the house.

Not adhering to the FHA minimum property standards, which our village uses as a building code.

Improper use of materials.

Very poor workmanship and quality control in the field erection of these houses.

Suggestions for correcting some of these problems:

Remove politics from HUD–FHA and VA.

Establish a total career, professional department within HUD–FHA and VA.

Establish a national certification program for all compliance inspectors. This could be accomplished by:

Inspector having a basic background in the building construction industry.

Qualifying by an examination.

Periodic training programs to keep the inspectors informed of new materials, methods and techniques. This training should be sponsored and funded by Federal and/or State moneys.

Salaries commensurate with local building construction industry average annual income.

Minimum 5-year guarantee on all structural and mechanical defects and/or shoddy construction.

Periodic unscheduled and unannounced surprise inspections on all subdivisions containing 50 or more units, using Federal and/or State moneys.

More workable FHA minimum property standards, and building codes using language that will not be misinterpreted.

I was very surprised, not having had any experience with FHA or the VA inspection techniques although I have been in the building industry all my life and I am very familiar with the Chicago building code.

I used to, you know, sort of relate to people and people related to me that, "Boy, if an FHA inspector goes out there and looks at that house, or a VA inspector goes out there and looks at that house, you have no problems."

Like I said, this situation is very deplorable the way it is working now. I don't understand if there was collusion between these entities or what the situation is, but the feedback that I get from the people out in the area that I inspect is that they are not happy with the FHA.

They are very disappointed with the procedures that they used on inspections and they are not satisfied with the help they are getting from "Big Brother," in Washington, Senator Sparkman and Senator Stevenson, to correct these inequities as they see them.

Thank you very much.

Senator STEVENSON. Mr. Hyman.

Mr. HYMAN. Good afternoon, Senators.

My name is John Hyman and I am an attorney with the Northwestern Legal Assistance Clinic which is a poverty law clinic in Chicago and I am speaking today on behalf of the clinic and on behalf of the Legal Aid Society where I worked for some years and on behalf of the Chicago Council of Lawyers, an association of lawyers in Chicago.

[Statement of Jonathan M. Hyman follows:]

STATEMENT OF JONATHAN M. HYMAN, ON BEHALF OF THE LEGAL AID SOCIETY OF CHICAGO AND NORTHWESTERN LEGAL ASSISTANCE CLINIC

In the four years I have practiced law in Chicago, I have concerned myself with the problems of housing for the poor, first as part of a special project in

housing development at the Legal Aid Society of Chicago, and subsequently at the Northwestern Legal Assistance Clinic, operated by the Northwestern University Law School in cooperation with the Legal Aid Society. I've also been a member of the Housing Committee of the Chicago Council of Lawyers. I've been through both the modest successes and the great disappointments that have accompanied the federally subsidized housing programs, and I'm currently working with attorneys at the Legal Aid Society in trying to develop an effective way to deal with the multitude of our clients who find their federally subsidized homes to be seriously defective and even uninhabitable.

The scandals of the Section 235 program, and the further inability of Section 518 to remedy the errors, are perhaps the most spectacular failures of the subsidized housing programs, and are at the present the most difficult to deal with. I will return to those difficulties later, after a summary of some of Legal Aid's experience with the programs.

The Housing Act of 1968 was greeted with high expectations at Legal Aid. Substandard housing is a common, persistent and demoralizing problem for Legal Aid's clients[1] and one of a Legal Aid attorney's most frequent duties is advising clients whose problems stem directly from their substandard homes.[2] It quickly becomes clear to anyone practicing in the field that a substantial amount of subsidy money is necessary even to begin to alleviate the problems. Municipal enforcement of the housing code is often an inadequate solution. Prosecutions are quite lengthy, with the courts granting numerous continuance to owners who appear to be making an effort to comply. If the violations are severe enough to be hazardous, the courts will often order the building to be vacated and boarded up, or the landlord may decide that it is more worth his while to demolish or abandon the building. In either case, the net result is to deprive the needy tenant of housing, rather than to help him. Similarly, the recent innovation in Illinois law which allows tenants of substandard dwellings to withhold rent to the extent they have been damaged by the code violations, *Jack Spring, Inc. v. Little*. 50 Ill. 2d 351, 280 N.E. 2d 208 (1972), is not the answer. It does not directly require the landlord to improve the premises and will not induce a landlord to repair when the cost of the work is greater than he can hope to recoup from a poor person's rent.[3] And if the filterdown process is providing better housing fro Chicago's poor, it is not immediately apparent to the practitioner where that housing has filtered to or whether it is any better than the housing it is supposed to replace. Subsidies of some form or another are the only sensible answer, and that is why the 1968 legislation seemed like such a hopeful sign.

Sections 235 and 236 (12 U.S.C. §§1715z and 1715z–1) have provided some help in the last few years. While the number of applications for 235 assistance far outstripped the available funds, some Legal Aid clients were able to escape from substandard housing. One example is the lady who works to provide a home for her 12 children and grandchildren, but lived for a year without heat, and for several months without even running water, in a rundown Chicago apartment until she was able to purchase a home with the aid of Section 235. The hopes that non-profit groups and tenant organizations would be able to use Section 236 as a rehabilitation device to by-pass landlords who could not or would not make adequate repairs themselves have gone a-glimmering: the program is designed so that it is only "efficient" when hundreds of apartments are involved and contains the contradictory demands that the buildings to be rehabilitated both be in decent shape (to reduce construction costs) and available for virtually no money at all (which usually only happens when buildings are quite run-down). Nevertheless, some rehab projects have been accomplished,

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[1] A study conducted by the Cook County Department of Public Aid indicates that half of Chicago's welfare families live in substandard housing. Cook County Department of Public Aid, *Castles for the Poor*, 1969 at 38.

[2] In 1972, Legal Aid attorneys represented 3,459 clients in landlord tenant matters, 145 clients in housing code violation matters, and 1,729 clients in real estate matters. Many of the landlord-tenant matters, such as evictions, originally arose from disputes over the condition of the rented premises.

[3] The maximum rent allowance provided for public aid recipients by the Illinois Department of Public Aid is $97.00 per month, plus $3.50 per month for water and an amount for heat which varies with the size of the family and type of heat. (The metered gas allowance for a family of five or six is $18.50 per month, 8 months per year.) The latter two amounts may be included in rent if the landlord pays them. I.D.P.A. Categorical Assistance Manual, Sec. 1008. A very limited number of exceptions to this rent maximum are available.

and new construction by limited-dividend developers has provided a small amount of decent housing for Legal Aid's clients.

As the subsidy programs have revealed their limits and now drifted into limbo, Legal Aid's focus has shifted to ironing out difficulties left in their wake. Unfortunately, there is much in the administration of the programs which belies their good purposes and consequently there are many problems for attorneys to deal with. Rents in 236 projects are too high, for instance, and have been increasing in sudden and sizable amounts, making continued occupancy impossible for many needy people. Some of these increases have been blamed on real estate tax increases, but the FHA has apparently approved them without requiring the owners to challenge unreasonably large taxes and without scrutinizing the owner's operation to determine whether other costs might be reduced. Even a "moderate" rent is high in Chicago, but there has been no concerted FHA effort to expand the amount of extra subsidy available through rent supplement or public housing leased-housing programs. The administration of the 235 program has shown a similar favoritism to the traditional powers in the housing markets—developers and lenders—to the detriment of the needy homeowners. It is profitable for lenders to foreclose quickly when a homeowner goes into default: they free their points from that particular loan for immediate reinvestment. A fast foreclosure is devastating to an individual homeowner, however, particularly when his default arises from a temporary reversal that he could overcome with time. One would think the FHA would require the lender to grant some mortgage forebearance in such situations, both to benefit the homeowner and to avoid the necessity of paying out on its mortgage insurance, but instead the FHA has acquiesced in the lenders' rapid turn-over policy.

HUD seems not to realize how important the subsidy programs are for the needy tenants and homeowners who benefit from them. Subsidized housing is often the only decent housing that low or moderate income persons can find, yet HUD permits owners to evict tenants or drive them out with rent increases without allowing them (the tenants) an opportunity to dispute, or even to discover, the reasons for the owner's action. An elementary sense of due process and fair play should require that a decent administrative system be set up to make sure that tenants do not lose their benefits through mistake, deceit or arbitrary action.[4] Any such system would require that the landlord state his reasons and permit the tenants to contest them before an impartial party. HUD has moved in this direction with public housing, after much prodding by the courts, but, in an apparent favoritism to developers, has failed to do so for the moderate income programs. Legal Aid attorneys are engaged in litigation on these issues, but if HUD were doing its job as it should, it would be unnecessary to resort to the courts.

HUD's failure is nowhere more apparent than in its response to the shoddy single family housing it has insured, and sometimes subsidized, under Sections 203, 221(d)(2) and 235 of the National Housing Act. My fellow attorneys and I at the Legal Aid Society and the Northwestern Legal Assistance Clinic have upwards of 50 clients with defective, recently-purchased FHA homes. For reasons discussed below, we find this problem one of the most unyielding for us to deal with. HUD is the only potential agency that could effectively address the problem, particularly by using Section 518 of the National Housing Act (12 U.S.C. Sec. 1735(b)), but it has not helped. We advise our clients to apply for Section 518 aid, virtually as a rote gesture, with no real hope of their getting it. We only know of one client who received some 518 aid, and that was early in the program's history. Although we have been unable to identify all the reasons for HUD's inaction, it seems that the problem is so fundamental that only new legislation will work any meaningful improvements.

Direct government participation in solving these problems is necessary because the traditional remedy—a suit in damages for breach of contract and warranties—is of very little use in most of shoddy housing cases. The congestion in the Circuit Court of Cook County delays trial up to five years when

[4] Unless the landlord's decisions are controlled by such an administrative system, there are bound to be cases where tenants suffer serious deprivations for no good reason. One Section 236 landlord in Chicago refused to renew a tenant's lease because he had an extra bed in his apartment and many visitors. It took federal litigation by Legal Aid to make clear to the landlord that the tenant had polio; the extra bed was therapeutic and helped him to breathe, and the friends visited because the tenant couldn't get out much.

the damages are in excess of $15,000.00 and up to two years for damage claims of a lesser amount. Most of our clients are too poor to afford to make the repairs themselves and then wait years to recoup their losses. They must look to the builders or the sellers for relief, but most of the defects cannot be tolerated while the litigation drags out towards a possibly satisfactory conclusion. The problem is compounded by the fact that many of the potential defendants are judgment-proof, particularly fly-by-night corporations set up just to build 235 homes and sellers of existing housing who were of moderate means themselves. In the case of existing housing, the buyer's legal position is further weakened by the lack of clear law establishing an implied warranty that the building is in substantial compliance with the building code or is fit for residential use.[5]

A series of individual suits is also an inefficient strategy for a legal aid office to engage in. Any legal aid office faces an inexhaustible supply of clients, each with a problem more difficult and serious than the last, and the present housing scandal is no exception. If administrative procedures could be modified so that most injured home buyers could obtain relief without resort to litigation, legal aid offices would not have to divert a substantial amount of attorney time to handle a large number of lengthy, factually detailed but essentially repetitive law suits. We are currently filing such individual suits, of course, when no other remedy is available, but we hope Congress will be able to modify the present programs to provide a more effective solution.

Various governmental agencies often share in the blame for housing defects, primarily because of inept or corrupt inspections which allowed the mortgages to be approved even though substantial defects existed. But both the local and federal governments have insulated themselves from ordinary tort liability for these errors.[6] And it appears that the federal government will also be exempt from any liability that might be claimed pursuant to its statutory duty to assure the soundness of homes prior to issuing mortgage insurance for them.[7] Thus, even if the delays of traditional litigation could be accepted, such litigation is not a meaningful approach to secure relief from the government.[8]

Section 518 was evidently designed to fill these gaps in the law and provide meaningful relief to homeowners. It is not entirely clear to us why it has failed. It might be due in part to a lack of adequate funding, although this does not explain why so few requests have borne fruit or why FHA administrators have not claimed poverty as the reason for their inaction. Perhaps the FHA has fallen victim to some law of bureaucratic behavior which makes it impossible for an organization formerly devoted to greasing the machinery of the mortgage market to respond to its own mistakes and help individuals who are in deep trouble.

A large part of the blame, in any event, must be placed on FHA's own administrative regulations for the program and Congressional willingness to let the FHA be sloppy. As they presently exist, the Section 518 procedures are everything an administrative system should not be: unclear, secretive, unreviewable, and most likely arbitrary and lawless. It can hardly be said that any standards for the program exist at all. The FHA Commissioner may grant relief under Section 518(a) when he "determines it is appropriate and neces-

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[5] Such warranties exist for new housing, *Schirro* v. *W. E. Gould & Co.*, 18 Ill. 2d 538 (1965) ; see also *Hanavan* v. *Dye*, 4 Ill. App. 3d 576, §281 N.E. 2d 398 (3rd Dist., 1972).

[6] Federal government: *United States* v. *Neustadt*, 366 U.S. 696 (1961), interpreting the Federal Tort Claims Act, 28 U.S.C. Sec. 2680(h).

Local government: The Illinois Tort Immunity Act, Ill. Rev. Stat. (1971) Ch. 85 provides:

"Sec. 2–105. A local public entity is not liable for injury caused by its failure to make an inspection, or by reason of making an adequate or negligent inspection, of any property, other than its own, to determine whether the property complies with or violates any enactment or contains or constitutes a hazard to health or safety."

[7] *Davis* v. *Romney*, 41 L.W. 2446; *Jackson* v. *Romney*, No. 775–72 (D. Col., February 7, 1973) 41 L.W. 2429.

[8] There are some exceptions to the Illinois Tort Immunity Act. If a local government has liability insurance to cover the mistakes of its building inspectors, it may be held to have waived the immunity provided by the Act. *Sullivan* v. *Midlothian Park District*, 281 N.E. 2d 659 (1972). This would make it subject to the common law, although it is unclear what that is. If the inspection was willfully and wantonly faulty, the local government might also be liable, since the Tort Immunity Act only protects it against "inadequate" or "negligent" inspections. But substantial proof problems stand in the way of using that basis for liability, and many faulty inspections are undoubtedly merely "negligent" and thus still protected.

sary." 24 C.F.R. Sec. 200.510. In determining whether to grant Section 518(b) assistance, the Secretary is called upon to consider "such other matters as he deems material." 24 C.F.R. Sec. 200.527(c).[9] There are no apparent time limits within which FHA must make a decision, and no indication of the types of cases given priority, if indeed any are. It is not made known who makes the decision on an application, and there is no procedure to scrutinize and challenge the basis for his decision, which should be the first item included in any decent administrative procedure.[10] The victimized home owner is further set adrift by the refusal to provide relief as of right (24 C.F.R. Sec. 515) and by the denial of judicial review (12 U.S.C. Sec. 1735(b)(c)). Clarifying the standards, establishing time limits and priorities, and opening up the decision-making process would not solve all the problems, but these modifications would contribute to a rational solution and would allow the FHA to start treating the victims of shoddy housing with an open and even-handed fairness.

Mr. HYMAN. Now, in my statement here, I have alluded to the difficulties with respect to the 518 program.

Although I think it would be a mistake to focus exclusively on those, thus in our written statement I have presented, I have not done so, because the major problem as has been expressed many times here this afternoon is providing a lot of money for housing in the poor areas of urban America.

Now, we face that problem every day as attorneys representing poor people. It is very frustrating to try to force a landlord to bring his building into compliance with the building code and just to make him comply with the law and then find that the result is to deprive your client of housing because the landlord abandons the building or else he rehabilitates it and raises the rent so much that the tenant cannot live there any longer.

However, turning to the 518 program, as subsidized programs seem to have petered out a little bit, we are now facing a lot of clients who have suffered from the administrative failures of the program.

It is very difficult, to say the least, for us to represent them adequately.

The traditional remedies that are available to someone who purchases a home are not available at all to these persons.

Very often the sellers are judgment proof or if they're not judgment proof there are delays in the lay to such an extent that it makes it unrealistic to expect any meaningful relief from the people who are really at fault; the builders or the sellers.

Similarly, both the local and Federal governments have been very successful in insulating themselves from any legal liability for the faults that they might be responsible for.

You cannot sue the Federal Government for the damages because the Federal inspector is negligent or even deceitful in his approval of the building.

Similarly, with some exceptions, you can't sue the local government either.

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[9] Even when the regulations provide more explicit guidance, they are much too restrictive. For Section 518(b) aid, for instance, the Secretary is to consider the "extent to which the defects represent a clear and present danger to the health and safety of the occupants." 24 C.F.R. Sec. 200.527(a) This was too much, or rather, too little, for the United States District Court in Washington. *Bailey* v. *Romney*, Civil Action No. 1854–71 (D.D.C. December 18, 1972). It is a vivid example of the parsimonious way HUD has interpreted the Congressional mandate.

[10] One of our clients insisted that her new 235 home was not bolted to its foundation. She kept insisting even after the FHA had determined several times that it was. At a subsequent inspection the FHA decided that indeed it was not.

Now, this means that the only recourse that we can look to is section 518, but section 518, in the year or so that we have been trying to deal with it, is a piece of paper. Weadviseour clients to apply for 518 assistance although many of our clients have bought used housing under section 203 and they are not even eligible for 518 assistance.

However, those that are eligible, we advise them to apply but we have no real hopes that something is going to come of it.

It does not seem to be a program that operates at all.

Now, Senator Sparkman noted earlier that there were 80, 518 applications in process in the area. I think that statement is an indication of one of the major porblems we have with 518. It is about the worst kind of an administrative system that I can imagine for dealing with this kind of a problem that affects people on a day-to-day basis.

It is unclear how it operates. The standards are vague or virtually nonexistent. It is secretive in its operations. We don't know who is making the decisions or where or when they are making them, or what they are basing them on. It is unreliable.

Congress, when it passed the legislation, saw fit to exclude the determinations of the Secretary from judicial review and I suspect that within the workings of the FHA, it operates on a rather arbitrary and perhaps even lawless basis.

This is everything that an administrative system should not be and one very good reform would be to rationalize the whole system of how 518 applications are handled.

Open it up. Set down the regulations much more clearly. Allow the people who have been victimized by these programs to have some kind of input and in some kind of a way to check on how their applications are coming along and on what facts it is based.

We have clients who insisted, one in particular, she insisted that her 235 home was not bolted to its foundation and the FHA inspector said, "Of course it is bolted to the foundation."

Well, she persisted and largely because she had become somewhat of a cause celibre, they looked again at her house and decided that indeed she had been right, but there is no administrative system for a challenge to the kind of fact-finding that the FHA is supposed to be doing, and that should be a very fundamental basis of any administrative system.

Now, I have a copy of the legislation that was recently proposed by Senator Stevenson and that addresses itself to some of these problems. I think a lot could be done within the FHA itself by strengthening and clarifying its regulations.

Right now the regulations are hardly worth the paper they are written on and both the Congress and the FHA have to make the system a lot more like a kind of an administrative system that we should really have and that hopefully we do have in other areas where people are affected by the Government.

Thank you.

Senator STEVENSON. Thank you.

We would welcome the specific suggestions that you might like to give us about how to improve section 518, not now, but later, at your convenience.

Mr. HYMAN. Right.

Chairman SPARKMAN. Let me say just this.

I believe you said in your statement that you knew of only one person that had been awarded damages under section 518.

Mr. HYMAN. Yes.

Chairman SPARKMAN. I believe the HUD report that I referred to a while ago showed that there were, during calendar year 1972, 47 applications approved.

During the calendar year of 1973, through the month of January, eight had been approved.

I know nothing about it except just reading it from the report.

Mr. HYMAN. Right.

Our example is selective, because it is the clients that we have come to us, this deals with just the people who happen to come to us, of course.

Chairman SPARKMAN. I realize you said you knew of only one.

Mr. HYMAN. Right.

Chairman SPARKMAN. I just thought I would put that in for the record.

Mr. HYMAN. Right.

Senator STEVENSON. You knew of only one.

What percentage would that be roughly, of the applications for 518 reimbursements?

Mr. HYMAN. Well, that is hard to say because I don't have the figures in front of me.

I would say that we are representing presently upwards of 50 clients who have both 203 and 235 homes. Perhaps less than half of those have 235 homes and so we are talking about 1 out of 20 or so of our clients.

Senator STEVENSON. Good.

Mr. Nowicki.

STATEMENT OF JOSEPH NOWICKI, PAST PRESIDENT, INTERNATIONAL ASSOCIATION OF REAL ESTATE APPRAISERS

Mr. NOWICKI. By way of introduction, I might state that I have been involved in evaluating properties in the inner-city for over a period of 60 years and I have evaluated something like over 2,000 units including personal interviews with some of the people.

Now, I have been asked to talk about appraisals and an appraisal involves a well-defined process of reaching a conclusion as to value and the attached format which I have given to you will give you a complete rundown as to what appraisals should or should not contain.

The most important consideration in arriving at a conclusion as to value is by market analysis because it reflects the reactions of typical buyers and sellers in the marketplace.

Market analysis involves a study of the economic level of the community, the age, the trend, and various other factors but most important is the study of sales in the specific community.

Use of data from another community with a higher economic base can be totally misleading.

Poor appraisals are generally the result of incompetence, because of:

1. Use of some unqualified appraisers,
2. Failure to analyse the economic level of the community,

3. Use of inadequate market data, or
4. Improper analysis of market data,
5. Lack of appraisal experience,
6. Lack of any formal appraisal education,
7. Failure to recognize the general condition of the property.
   (*a*) After a property has reached an age of 40–50 years, it needs new wiring, new plumbing, and generally a new heating plant, as major repairs or rehabilitation.

It appears to me that those responsible for implementing the programs were carried away "to do a job" in the central city, without regard for prudent practices. Previously, certain communities were "red lined" as extremely high risk areas when the new programs were started. Properties were no longer rejected in these areas and social lending practices became the norm. Age of the neighborhood, condition, trend in the area, etc. were soft pedaled and as a result defaults increased greatly.

Appraisal is not the only factor which has caused a breakdown of a community. People are a far more important factor, for example:

1. Lower income families are generally not very sophisticated in the purchase of real estate. They are usually more concerned with the monthly payment than with the total purchase price.

2. Many are totally unaware of the responsibilities of the ownership of real estate. Repairs are neglected to a point where the abandonment stage is reached.

3. Vandalism in the inner city is a major cause of property abandonment. Repairs made in the morning are usually nullified by evening.

4. ADC families are generally the poorest housekeepers and produce the most vandalism due to the absence of a father.

5. Gang control of a community is a social disaster. Shakedowns, robberies and shoplifting force businessmen out of a community. Tribute levied from school children discourages school attendance.

6. Breakins, burglary, muggings and purse snatchings discourage responsible families from maintaining their homes, with a resultant greater rate of abandonment.

RECOMMENDATIONS

1. All Federal staff appraisers should be required to avail themselves of appraisal education.

2. Federal guidelines should be set up, as minimum qualifications for Federal appraisers.

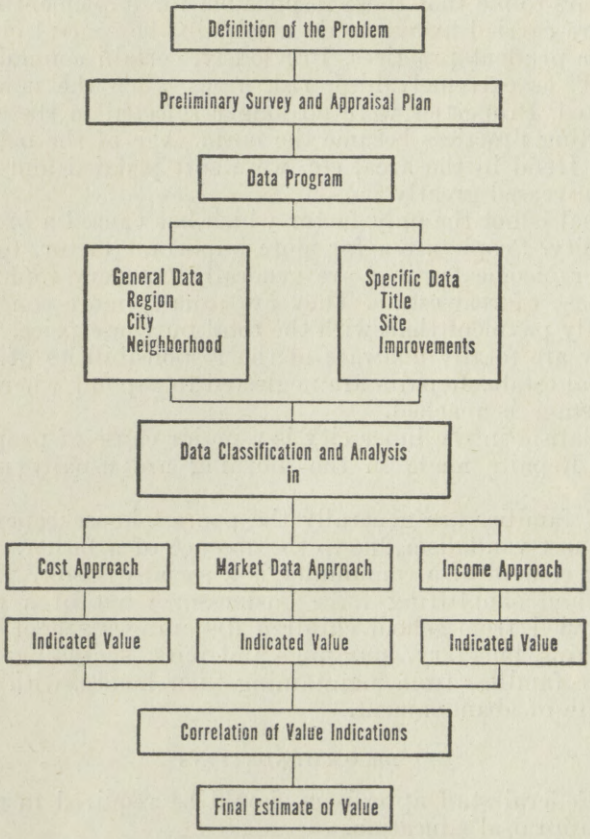
3. Licensing bill introduced in Illinois may be of some benefit.

4. Increase the fees to attract more qualified independent appraisers.

5. The Society of Real Estate Appraisers has already offered its services to FHA to review their present operations and make suggestions. We have made arrangements to review the operations of the regional offices located in Newark, N.J., Philadelphia, and Detroit.

6. More time should be given to properly implement a program to assure its success.

The Appraisal Process



From the AIREA text book, *The Appraisal of Real Estate*

"The Appraisal Process and How To Plan an Appraisal"

Purpose of lecture is to show that the appraisal process is an orderly one which must be planned in advance.

Further outlined are the basic steps that make up the appraisal process.

I. DEFINE THE PROBLEM

A. First step is to write out a concise statement of the problem.
   1. Any ambiguity should be removed at the beginning.
   2. Right answer can be found only if problem is correctly stated.
B. Identify property to be appraised.
   1. Indicate location by legal description and by mail address.
   2. Specify property rights involved.
C. State the purpose of the appraisal.
D. Define the value or price involved.
E. State date as of which appraisal estimate is desired.

II. THE APPRAISER'S PRELIMINARY SURVEY

A. First step is to estimate highest and best use.
   1. Make analysis of site.
   2. Make analysis of the improvements.
   3. Make analysis of the neighborhood.
B. Decide which of the three approaches will best suit—
C. List type of data needed.
D. List sources of data to be obtained.
E. List personnel required.
F. Estimate time required.
G. Estimate cost involved.
H. Fix fee.
I. Get written commitment from client.

III. PLAN THE APPRAISAL

A. Make an outline of your appraisal report.
B. Outline work to be done in gathering and processing.
   1. Market data
   2. Cost data
   3. Income data
C. Assign duties and time schedules for any who are assisting in making appraisal.
D. Study trends affecting property.

IV. APPLY THE COST APPROACH

A. In this approach the appraiser obtains a preliminary value estimate by adding his estimated value of the land to his estimate of the depreciated reproduction or replacement cost of the building and equipment.

B. The theory of the cost approach starts with the assumption that the replacement cost is the upper limit of value.

C. (A later lecture will cover in detail)

V. APPLY THE INCOME APPROACH

A. The income approach is concerned with the present worth of future benefits of the property.

B. The gross income is analyzed and a study made of operating costs and the net income computed.

C. Risk is taken into consideration and a selection made as to an appropriate method of capitalization.

D. Depreciation is estimated and provision made for maintaining the capital fund.

E. Data is correlated and an income approach estimate is made.

F. (Later lectures will cover in detail).

VI. APPLY THE MARKET DATA APPROACH

A. In the market data approach, the appraiser considers sales and other market data of comparable or nearly comparable properties.
B. (Later lectures will cover in detail.)

VII. CORRELATE THE THREE APPROACHES

A. Final step in the appraisal process is to correlate the three estimates of value derived by cost, income, and market data approaches.
B. Appraiser considers purpose of appraisal, type of property, and adequacy of data in each approach.
C. Decide upon a final estimate and list supporting reasons.
D. (To be covered by later lecture.)

VIII. WRITE THE APPRAISAL REPORT

A. (To be covered by subsequent lecture.)

IX. DIAGRAM OF APPRAISAL PROCESS

Market Data Approach—Residential Property

LESSON OBJECTIVES

1. To understand the nature of market data.
2. To recognize characteristics of market data for comparative purposes.
3. To learn major elements and points of comparison.
4. To develop systematic and orderly procedures of processing data.
5. To appreciate the relationship between the data found in the market and the three approaches to value.

GENERAL SCOPE OF SUBJECT MATTER

I. Introduction

A. Market data approach involves a process of comparing market data.
   1. Prices paid for similar properties.
   2. Prices asked by owners.
   3. Offers made by prospective purchasers.

B. Market data represents the actions of users and investors. It is based upon principle of substitution; that is, a prudent buyer will not pay more to buy or rent a property than it will cost to buy or rent a comparable substitute property.

II. Application of the approach

A. Requires the comparing and rating of the property with other like properties.
   1. Necessary to assemble relevant data.
   2. Necessary to measure this data against the corresponding data about the subject property.

B. Recognizes similarities and dissimilarities.
   1. Economic conditions.
   2. Price levels of real estate in general.

C. Major points of comparison.
   1. Time.
   2. Location.
   3. Physical characteristics.

D. Process in a systematic and orderly procedure.

E. Sources of data.
   1. Office files.
   2. Public records.
   3. Atlases and survey maps.
   4. Lease records.
   5. Published news.
   6. Classified ads and listings.
   7. Realtors, appraisers, and bankers.
   8. Direct interview.

III. The appraisal plan

A. Varies according to the activity of the appraiser.
B. A matter of personal preference.
C. Keep data current.
D. Various file systems may be used.

IV. Motivations and conditions of sale; disqualify those sales not made at arm's length, or where the favorable or unfavorable terms of sale and/or financing affected the price

V. Gross income mutipliers

A. An element which reflects economic conditions, but is essentially a comparison.
B. Involves estimation of value by multiplying the gross income by a factor.
C. No fixed multiplier; each property is different.
D. Use as a general guide.

VI. Sales data

A. Procedure followed in qualifying and analyzing sales data:
   1. Number of sales.
   2. Period of time covered.
   3. Terms on which properties were sold.
   4. Length of time properties were offered (rate of turnover).
   5. Motivating force.
   6. Degree of comparability.

B. Other factors which should be noted:
   1. Time.
   2. Neighborhood and location.
   3. Site and land improvements.
   4. Building.
   5. Income.

VII. Listings or offers to sell

A. Are potential market prices to be considered?
B. Analyze in the same way as actual sales.
C. Tend to set ceiling of market price.

VIII. Offers to purchase

A. Tend to set the floor of market price.
B. Key factors.
   1. Terms.
   2. Motivating force.

IX. Summary

A. Market data approach is a process of comparing:
   1. Prices paid.
   2. Prices asked.
   3. Prices offered.
   4. Also, rentals.

B. This process tends to produce an answer within a bracket rather than a precise figure.
C. Often is more convincing and realistic than the other two approaches.
D. This approach necessitates:
   1. Assembly of data.
   2. Classification of data.
   3. Analysis of data.
   4. Adjustment of data.
   5. Application of data by use of units of comparison.
   6. Sound judgment and common sense.

Questions

1. Upon what basic principle does the market data approach rest?
2. Why has the name of the approach been changed from "the comparison approach"?
3. What does the application of the market data approach require; that is, what is the method used?

94-280—73——7

Mr. NOWICKI. Thank you very much.

Senator STEVENSON. Your full statement will be placed in the record, Mr. Nowicki, and we certainly will read it. Thank you very much.

Mr. Dwyer.

[Mr. Dwyer's statement follows:]

STATEMENT OF HENRY DWYER, BICKERDIKE REDEVELOPMENT CORP.

Gentlemen: I have been employed by the Bickerdike Redevelopment Corporation since January, 1972. Before undertaking the task of counseling and sales I worked as a volunteer with Bickerdike for 3 months. I have supervised the move-in of over 30 families, and assumed the responsibility for follow-up counseling for an additional 30 families.

If today you had the opportunity to tour the 1600–2400 blocks of West Ohio street, you would have seen 17 new single family homes sponsored by Bickerdike. They are not unlike the other 45 homes sponsored by Bickerdike on Chicago's NW side. Their owners are former renters in the community, well motivated, and working class. The Northwest Community fought hard to bring the 235 program into succesful operation. These are the fruitful results.

The area is fortunate in having an active community organization, and its housing arm, Bickerdike, able to work through the details with all concerned in this redevelopment program—from builder to buyer. Area residents around the new homes have also benefitted from the morale building impact of these homes, and have gone to lengths to fix up their buildings and invest for the future.

IMPORTANCE OF COUNSELING THE INDIVIDUAL BUYER

In order for the entire area to have benefitted, the individual buyers have had to be successful. These new homeowners are pioneers in investment in this community—they have been the first group to have had an opportunity to buy newly constructed housing of any quantity in over 50 years.

Bickerdike provided counseling services because: the community demanded good housing and good buyers; it agreed to provide buyers for the builder in charge of construction; prospective buyers had nowhere else to get housing information.

Bickerdike staff sees the prospective buyer many times before and after the house is completed:

at community meetings, explaining the opportunities under HUD program,

in filling out an applciation questionnaire, to determine quickly and accurately what eligibility standards are met easily, how credit problems may be resolved, and what the impact of homeownership would be on the family budget,

in gathering loan application information,

in evaluating lots, and inspecting homes,

in watching the hous get built, meeting neighbors.

in understanding all the financial conditions, the operation of the subsidy and how it could change, taxes, insurance, etc.

in getting complaints and defects fixed,

at recertification time, or when other questions or problems arise.

COUNSELING—WHOSE RESPONSIBILITY?

Bickerdike received cooperation, and was encouraged in its counseling role by builder, mortgage houses, and HUD. Neither have builder, mortgage house, or HUD assumed a counseling role. They have maintained the freedom to choose informed buyers, and to counsel within well defined limits.

The 235 program has carried homeownership to more people than ever before. Buyers under this program are like any other—they expect and are willing to work for a quality product. The administration of a federal housing program has created the need for *new lines* of communication to the first time buyer:

New homeowner responsibilities—Somebody has got to explain how the house works. It can't all be written down, and builder and broker have limited con-

tact with the buyer. New construction has additional gadgets that apartments 50 years old just don't have—like grease traps under sinks, gas forced air furnaces with filters that require regular cleaning (instead of space heaters), sump pumps, and so on.

New homeowner terminology—Many financial safeguards written into the program to protect the owner, or the financer, have a language all their own. Explaining the difference between FHA insurance and fire insurance to a new owner can be a time consuming process unless the owner has already gotten an introduction to HUD, and its special insurance programs. The purpose of escrow accounts are also widely misunderstood, not to mention discount points.

No accessible information—There are many more people seeking information about HUD programs than will qualify or continue to be interested. When brokers or agents have sat down with clients, there are often uncertainties in the eligibility of a client, and it could take months to find out by actually submitting to HUD. Adaptive changes at HUD sometimes contradicted earlier eligibility requirements, adding to broker-buyer confusion.

New homeowner vulnerable to abuses—Many complaints of abuses heard here today will be laid to builders—poor siteing and materials or workmanship. The new homeowner is also vulnerable to misunderstanding the broker in what it is he is buying, or what his total cost will be. Home improvement specialists too, have advertised *FHA-approved* storm doors, awnings, and the like. Phony inspectors track in and out of new homes, sometimes seeking to sell unnecessary code improvements or preparing theft.

SUMMARY AND RECOMMENDATIONS

It is not enough to advise a prospective homeowner of his legal liabilities and responsibilities and call that counseling. Homeownership comes all in a fabric—there are ten major points in Bickerdike's outline for counseling (see appendix). The cost of counseling is not great compared to the investment a buyer is making in purchasing a new home.

Bickerdike assumed the responsibility for counseling owners of its 64 homes. It did this to fill the need. In the absence of strong local community organization, HUD might easily take on the role of counselor.

Based on Bickerdike's successful experience with the 235 program, the following should be implemented:

(1) Re-enactment of a subsidy program so that low-moderate income families can purchase new construction.

(2) Creation of a Homeowners Bureau, perhaps using a portion of the FHA premium pool to help protect the investments guaranteed by HUD. Such a Homeowner's Bureau would make maintenance and debt counseling available for the like of the mortgage insurance, and provide homeownership information services.

(3) Bring some personal contact into the underwriting process. It is all done on paper now. While this may help to establish uniformity, errors of interpretation are difficult to correct, and have discouraged many fine prospective buyers.

(4) Encouragement of community sponsorship of housing where not in conflict with other municipal authorities.

(5) Agreements with local taxing authorities, so that tax estimates are realistic.

(6) Continuing federally sponsored rehabilitation programs.

A GROUP COUNSELING COURSE FOR PROSPECTIVE HOMEOWNERS

I. NATURE OF THE COMMUNITY

A. Resources—transportation, jobs, medicals, schools, social and legal services.

B. Identity—political subdivision, police, renewal community, church and civic groups.

C. History.

II. SHELTER

A. Rent and Homeownership—Pros and Cons.

B. Costs and responsibilities of Homeownership.

III. BUYING A HOME IN THE CITY

A. The builder.
B. The home.
C. The neighborhood.
D. The terms on which you buy.

IV. MORTGAGES AND CONTRACTS

A. What a contract is.
B. What a mortgage is/what are the costs.
C. Banks and FHA.

V. INSURANCE

A. FHA Insurance.
B. Fire, Extended Coverage, and Homeowners policies.
C. Mortgage and Disability Insurance.

VI. TAXES

A. Real Estate Taxes—your assessed valuation.
B. How you pay.

VIII. YOUR CREDIT

A. Bankruptcy.
B. Judgment and Collections.
C. Your mortgage payments and your credit rating.
D. When to say NO.
Examples of time-payment cost
Your budget
Doing it yourself, what you can do

VIII. HOME MAINTENANCE

A. Moving in.
B. Keeping records.
C. Inspecting and cleaning.

IX. HOME IMPROVEMENTS

X. YOUR NEIGHBOR

Mr. DWYER. Thank you.

Senator STEVENSON. Does Bickerdike Redevelopment Corp. receive any FHA or HUD financial assistance for your counseling services?

Mr. DWYER. No, it receives no Federal funding whatsoever from the Government.

It is privately funded although there have been counseling programs written in the legislation, the money while appropriated, has been limited or not available.

Senator STEVENSON. Let me just address a couple of questions to both Mr. Maher and Mr. Nowicki on the subject of appraisals which we have heard a great deal about today.

Do you have any feeling about the value of fee appraisers as opposed to salaried civil servant appraisers?

My impression is that much of the difficulty in the past has been in connection with fee appraisers, low fee appraisers perhaps.

Now, I don't know whether that is still a problem but is the one preferable, Mr. Maher, in your opinion, to the other, for appraisal by governmental agencies as opposed to a private or business firm?

Mr. MAHER. As I stated in my remarks, as far as the deficiencies are concerned, and to how you possibly could correct them, I would say that the fee appraisers, in my experience, leave a lot to be desired.

I would like to see that system changed.

They leave a lot to be desired, Senator.

I would say the full-time professional career type individual is the best bargain, in my estimation.

Chairman SPARKMAN. Let me say in that connection at one time I was a fee appraiser.

That was back about 1934 when the Home Owners Loan Corp. was established.

Of course, that was a hurry-up program and they appointed two men from each county, or at least from our county. One of them was to be the appraiser and the other, I think, was to pass on questions of title and so forth.

I appraised hundreds of houses and, of course, that was about the only way it could be done then.

They couldn't have had other types of appraisals.

I have often said that if you ever saw me coming into a house, if you ever see me coming into a house and kind of press down with my right foot, I am checking to see how firm the floor is.

Senator STEVENSON. I saw you doing that this morning and now I know you were casting a very professional eye on the houses.

Mr. Nowicki, you are a fee appraiser. How do you feel about that proposition?

Mr. NOWICKI. Well, I won't make any distinction between one or the other. Actually, it is a question of who makes the choices in employment of fee appraisers.

There are all types of appraisers. There are those who call themselves appraisers who are not qualified and generally FHA might have used in the past real estate salesmen as appraisers and they have had no formal education and that is why I stressed that so much, because it is necessary that they do get education in exactly what they are doing and what they have to do.

Now, just to fill out a form, to do that and present it as an appraisal, it is not an appraisal as such.

It is a question of who makes the choices.

Chairman SPARKMAN. In my case, I got the message in the form of a telegram from our two Senators in Washington so it was a political appointment.

However, let me say that I don't think that I ever had a single one fall down on me.

I really worked at it.

Senator STEVENSON. How long does it take, on the average, to appraise a house, a new house or old house? Does it depend on the size of the house also?

Mr. NOWICKI. No, it depends upon the amount of data that is available and it depends upon how much of an inquiry you have to make as to the community itself.

I would say that an appraiser who is qualified can readily handle between four and five appraisals a day if he is qualified.

There are methods and means of making appraisals and one of the factors that can be used is securing market data which I stressed so strongly, and there is an organization which the society has promulgated which is now in operation, known as the SRE Market Data

Center, which reports the sales of property throughout the entire country and it can be limited, of course, to each particular area and information of this type is available, which would assist the appraiser in coming to a conclusion as to value which would be more accurate.

SenatorSTEVENSON. Mr. Maher, do you generalize about the amount of time that you take on your inspections?

Mr. MAHER. Let's see, and I am just getting involved with this, but our local office just realized that with a recommitment on FHA or VA loan status, that the local building departments have to get involved with a reinspection or recertification and like I say, they just became cognizant of this actually last year, March of 1972, when it became effective.

So, let's speak to this kind of inspection where it is a reinspection type thing.

Between the paper work and the field inspection per se, and let's consider traveling time and I am local now, let's consider an hour for the inspection and 1 hour for the paper work, if there are no problems.

Now, I would say that that is fair estimate of the time involved.

Senator STEVENSON. For yourself?

Mr. MAHER. Yes, sir.

Senator STEVENSON. That is what you would spend?

Mr. MAHER. Yes.

Senator STEVENSON. For comparable work, in your experience with respect to the FHA inspectors, how long would it take them to do it?

Mr. MAHER. You mean how would they do it?

Senator STEVENSON. Yes. How long would they take, do you have any way of knowing?

Mr. MAHER. Well, I will relate it to a specific problem and this relates to a Mr. Cadit who happens to be the chief property manager for the State of Illinois.

He has been with the VA. He has been very cooperative with me and I related the story that an inspector on a fee basis went out and inspected 18 homes, single-family homes, on a particular tract development in 45 minutes.

Now, this is a rough inspection.

Senator STEVENSON. Yes, pretty rough, I would say.

Mr. MAHER. And it takes me 20 minutes and he made 18 inspections in 45 minutes. Incidentally, he is no longer with the VA.

Now, I think that is part of the problem as I see it just locally with respect to the fee inspectors or fee appraisers going out and getting $7 per inspection and it is a hurry-up situation, just get it down and I think actually that I got this information secondhand, as far as what chronologically happened.

Actually, all the inspector did was to spot the house on the lot, make sure that the house was on the lot. Don't write up a report unless you make sure that the house is on the lot. That is all the individual did.

Senator STEVENSON. Well, it is now time for Sesame Street.

I wish we could continue, because every one of these panels has been fascinating, educational and very helpful and yet in some ways very disturbing.

We see all kinds of potential for fulfilling commitments and all kinds of reasons to, but yet the administration is failing at the moment to fulfill that commitment.

Chairman SPARKMAN. Has attention been called to the fact that you have introduced a bill specifically to cover 203 houses as well as 221's and 235's?

Senator STEVENSON. Yes, sir.

Chairman SPARKMAN. And you had a similar section in our bill of last year also.

Senator STEVENSON. Yes, it was approved in the committee and by the full Senate as part of the housing law.

Chairman SPARKMAN. That will be passed again, I am sure.

Senator STEVENSON. I need that assurance and, if Senator Sparkman says that it is going to pass, it will pass.

Thank you very much.

We will reconvene at 9:30 tomorrow morning in the same place. Mr. MAHER. Thank you, Senators.

[The hearing was recessed until 9:30 a.m., Saturday, March 31, 1973.]

OVERSIGHT ON HOUSING AND URBAN DEVELOPMENT PROGRAMS

SATURDAY, MARCH 31, 1973

U.S. SENATE,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
Chicago, Ill.

The subcommittee met, pursuant to recess, at 9:30 a.m., in Studio A, Television Station WTTW, 5400 North St. Louis Street, Senator John Sparkman (Chairman) presiding.

Present: Senator Sparkman, Senator Adlai Stevenson, III.

Senator STEVENSON. The hearings of the Senate Subcommittee on Housing will now come to order.

We are commencing the hearings without Senator Sparkman. He has been detained but will be along, I expect, very shortly.

Our first panel this morning is on housing needs in the Chicago area. The panelists are Pierre de Vise, project director, Chicago Regional Hospital Study.

Lawrence B. Christmas, assistant director, Northeastern Illinois Planning Commission, and vice president, Illinois Chapter, American Institute of Planners.

Professor Brian Berry, professor of Urban Geography, Center for Urban Studies, University of Chicago.

Mr. G. Philip Dolan, executive director, Beverly Area Planning Association.

Let us start with Pierre de Vise, and I will have to ask all of you gentlemen, if you would, to condense your statements as much as possible in order to leave some time for questions and answers.

[The complete statement of Mr. de Vise follows:]

FEDERAL HOUSING IS PACKED IN HOUSING SURPLUS AREAS, IS KEPT OUT OF HOUSING SHORTAGE AREAS, AND REINFORCES THE DUAL HOUSING MARKET IN METROPLITAN CHICAGO

(By Pierre de Vise, Project Director, Chicago Regional Hospital Study)

This statement was prepared in part from data supplied at the author's request by the Chicago area Office of the Department of Housing and Urban Development. Their full cooperation in supplying the data is gratefully acknowledged. The author is solely responsible for the use made of the data, and for their interpretation.

FEDERAL HOUSING IS PACKED IN HOUSING SURPLUS AREAS, IS KEPT OUT OF HOUSING SHORTAGE AREAS, AND REINFORCES THE DUAL HOUSING MARKET IN METROPOLITAN CHICAGO

The bottom has dropped out of the housing market in Chicago's older black communities. As a result, over a fourth of the housing was abandoned and

demolished since 1960, and vacancies are topping 10 percent. Even such housing bargains as public housing and subsidized housing are faltering in these communities. Vacancies in Chicago's largest projects have zoomed from zero to between 8 and 17 percent in the last four years. About half of the 9,000 apartments built under 221(d)(3) in these communities defaulted in these same four years.

Chicago's loss of population and overbuilding in the rest of the metropolitan area are the main reasons for this massive housing surplus in the black inner city. The housing industry responded to the challenge of Chicago's loss of half a million whites and gain of 300,000 blacks by building 110,000 new housing units, most of them on Chicago's white northside. Since Chicago had a net population loss of 200,000 people, it could not possibly use all this new housing without something giving. What gave was the housing in the black inner city. This housing was vacated by blacks drawn to the more attractive housing of racially changing areas emptied by whites who were attracted by the new housing being built on Chicago's white northside and the suburbs.

A whopping 344,000 units were built in the suburbs. Thus in Chicago and suburbs combined, developers put up 454,000 houses and apartments during the 1960's. This represents an increase of 23 percent in the metropolitan area's housing, or twice the 11.5 percent gain in population.

A decade of overbuilding in the city and suburbs has left seven square miles of devastation on Chicago's west and south sides. Nor is housing construction slackening in the face of this catastrophic evidence of a housing surplus. The housing industry established record construction levels in four of the last five years. Last year's record of 63,000 new units was 50 percent above the high levels of ten years ago (43,000 units).

The only restraint shown by suburban developers is in building for blacks. In the decade, only 20,000 blacks joined the 500,000 whites in the exodus from Chicago to the suburbs. Within the six-county metropolitan area, 61 percent of the whites but only 10 percent of the blacks live in the suburbs. The great majority of blacks are being denied the advantages of the better housing, jobs, stores and schools available in the suburbs.

If there is any housing need in metrooplitan Chicago, it is moderate income housing in the suburbs available to blacks, particularly in Northwest Cook County which is the gravity center of new suburban jobs. Yet when we look at the geography of federal housing in metropolitan Chicago, we see that the vast majority of the area's 43,000 public housing units and 15,000 221(d)(3) units is concentrated in the black inner city. The next ring of racially changing communities shows a concentration of two-thirds of the city's 2,200 single-family 235 units. There is then a wide band of no-man's land that extends 20 to 30 miles from Chicago's black areas with not a single public housing or 236 housing unit. The only multi-family federal housing available in all of suburban Cook County are four projects of 221(d)(3) housing in black sections of South Cook County.

We must go beyond the commuter suburbs north to Waukegan and west to the Fox Valley before we see a resurgence of subsidized housing (all 236 projects) with about 500 units in DuPage County, 900 units in Kane County, 1,100 units in Lake County, 200 units in McHenry County and 400 units in Will County. Most of the projects are located in white communities and are almost totally in white occupancy.

In the Section 235 program of owner-occupied housing, Chicago and South Cook County each have about a fourth of the area's 7800 units. About 200 units are scattered through the 1000 square miles of the housing shortage quadrant of North, Northwest and West Cook County and DuPage County. The four peripheral counties have between 600 and 1200 units each, with major concentrations in Waukegan, the Fox River towns and Joliet.

Federal housing programs follow the same locational tendencies identified earlier in private housing, except more so. Thus, in the metropolitan area, only 28 percent of the most highly valued 235 owner occupied units are in the city while 99.7 percent of the lowest status public housing units are in the city. In between these two extremes, we find that 73 percent of the Section 236 units, and 88 percent of the Section 221(d)(3) units are in Chicago.

The lopsided distribution of federal housing has resulted in the packing of public and subsidized housing in housing surplus areas in the inner city, thereby compounding vacancies, defaults and abandonment. No multifamily housing has

been built in the north and west suburbs which constitute the only area where a shortage of housing may be said to exist, namely of moderate and low-income housing for blacks. In the bipolar distribution of projects in the mostly black inner city and in mostly white industrial satellites 20 to 40 miles from Chicago, most of the projects are all black or all white, thereby conforming to the dual housing market prevailing in the private sector.

TABLE 1.—HOUSING UNITS BUILT UNDER FEDERAL HOUSING PROGRAMS IN THE CHICAGO SMSA: MARCH 1973

County subpart	Public housing		Sec. 221d3		Sec. 236		Sec. 235	
	Number of units	Percent	Number of units	Percent	Number of units	Percent	Number of units	Percent
Cook	43,015	99.7	13,713	90.7	4,983	75.2	4,475	57.3
Chicago	43,015	99.7	13,260	87.7	4,983	75.2	2,181	27.9
North Cook	0		0		0		116	1.5
West Cook	0		0		0		5	.1
South Cook	0		453	3.0	0		2,173	27.8
Du Page	0		0		500	7.5	93	1.2
Kane	125	.3	431	2.8	622	9.4	584	7.5
Lake	0		577	3.8	522	7.9	1,238	15.8
McHenry	0		0		0		568	7.3
Will	0		392	2.6	0		866	10.7
SMSA	43,140	100.0	15,113	100.0	6,627	100.0	7,824	100.0

Source: Status Reports, Chicago Area Office, Department of Housing and Urban Development.

TABLE 2.—HOUSING UNITS BUILT UNDER FEDERAL HOUSING PROGRAMS IN THE CITY OF CHICAGO, BY COMMUNITY AREA: AUGUST 1972

Community area	Public housing	Sec 221d3	Sec 236	Sec 23
1. Rogers Park	814	0	0	0
2. West Ridge	16	0	0	0
3. Uptown	2,245	2,520	270	1
4. Lincoln Square	63	0	0	0
5. North Center	435	0	0	0
6. Lake View	905	1,245	0	3
7. Lincoln Park	1,334	285	485	1
8. Near North Side	4,109	640	0	0
9. Edison Park	0	0	0	1
10. Norwood Park	2	0	0	0
11. Jefferson Park	2	0	0	0
12. Forest Glen	1	0	0	0
13. North Park	9	0	0	0
14. Albany Park	219	61	0	1
15. Portage Park	11	0	0	0
16. Irving Park	20	29	0	0
17. Dunning	2	0	0	0
18. Montclare	4	0	0	0
19. Belmont Cragin	2	0	0	0
20. Hermosa	3	0	0	0
21. Avondale	5	0	0	0
22. Logan Square	28	0	37	9
23. Humboldt Park	197	91	0	45
24. West Town	636	431	202	22
25. Austin	12	23	0	24
26. West Garfield Park	188	0	12	8
27. East Garfield Park	362	217	138	5
28. Near West Side	7,343	48	312	2
29. North Lawndale	770	664	318	6
30. South Lawndale	485	0	0	1
31. Lower West Side	210	0	0	4
32. Loop	0	36	0	0
33. Near South Side	1,503	592	249	0
34. Armour Square	1,077	0	0	1
35. Douglas	4,957	1,075	384	0
36. Oakland	2,927	0	682	0
37. Fuller Park	437	0	0	58
38. Grand Boulevard	4,608	6	137	0
39. Kenwood	330	494	217	0

See footnote at end of table.

TABLE 2.—HOUSING UNITS BUILT UNDER FEDERAL HOUSING PROGRAMS IN THE CITY OF CHICAGO, BY COMMUNITY AREA: AUGUST 1972—Continued

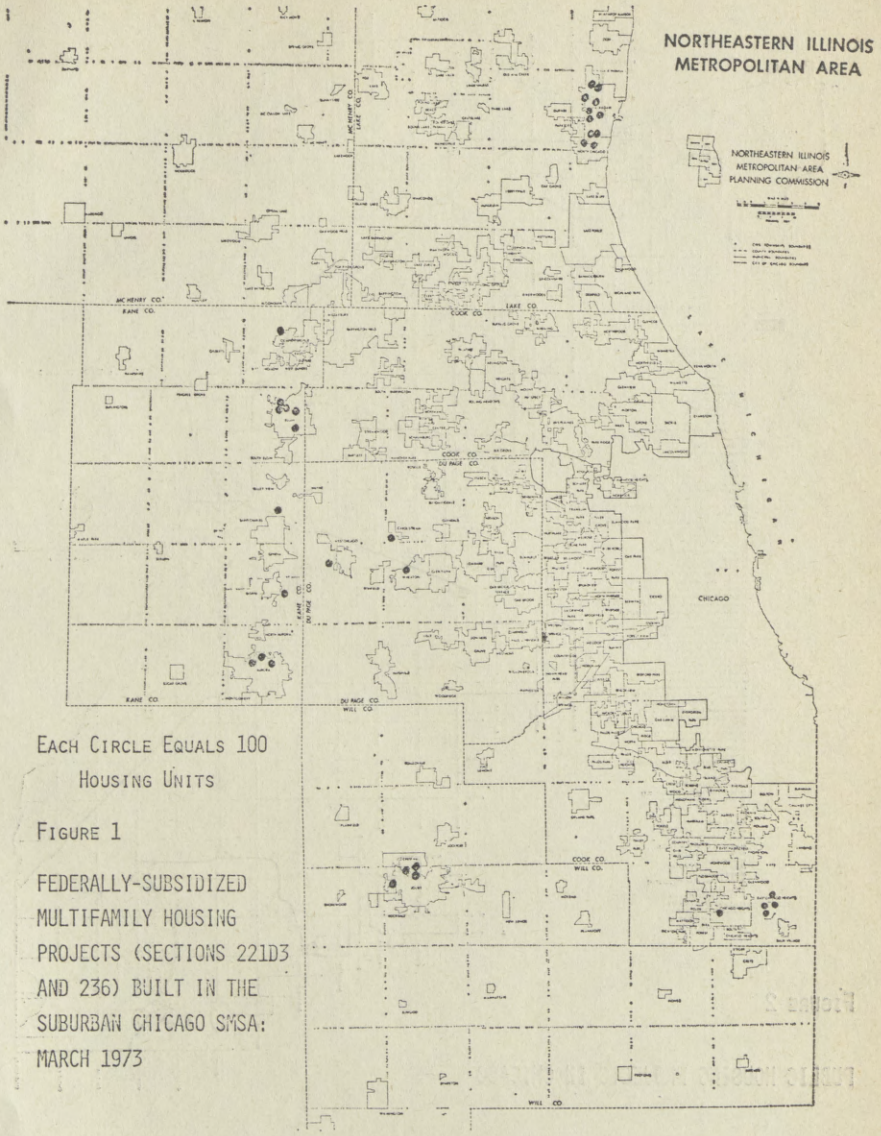
Community area	Public housing	Sec 221d3	Sec 236	Sec 235
40. Washington Park	1,798	203	0	1
41. Hyde Park	72	182	0	0
42. Woodlawn	482	826	0	27
43. South Shore	68	74	205	36
44. Chatham	11	37	42	27
45. Avalon Park	2	0	0	38
46. South Chicago	297	0	357	32
47. Burnside	0	68	0	32
48. Calumet Heights	0	0	0	28
49. Roseland	134	874	0	193
50. Pullman	0	260	0	27
51. South Deering	476	0	0	41
52. East Side	0	0	0	2
53. West Pullman	0	0	180	57
54. Riverdale	1,982	787	0	8
55. Hegewisch	0	0	0	0
56. Garfield Ridge	614	24	0	25
57. Archer Hieghts	0	0	0	0
58. Brighton Park	0	0	0	8
59. McKinley Park	0	0	0	3
60. Bridgeport	152	0	0	8
61. New City	19	0	0	160
62. West Elsdon	2	0	0	0
63. Gage Park	0	0	0	0
64. Clearing	0	0	0	0
65. West Lawn	1	0	0	0
66. Chicago Lawn	3	0	0	2
67. West Englewood	4	25	0	195
68. Englewood	606	353	421	113
69. Greater Grand Crossing	16	931	334	75
70. Ashburn	0	0	0	0
71. Auburn Gresham	2	158	0	79
72. Beverly	0	0	0	4
73. Washington Heights	0	0	0	167
74. Mount Greenwood	0	0	0	0
75. Morgan Park	3	0	0	261
Total	43,015	13,260	4,983	1,841

Source: Chicago area office, Department of Housing and Urban Development.

TABLE 3.—NEW HOUSING PERMITS ISSUED IN THE CHICAGO SMSA, FOR CHICAGO AND SUBURBAN RING, BY YEAR: 1960–72

Year	Chicago			Suburbs		
	Homes	Apartments	Total	Homes	Apartments	Total
1960	4,016	10,907	14,923	22,097	6,614	28,711
1961	3,430	10,829	14,259	20,985	8,533	29,518
1962	3,110	9,394	12,504	18,927	9,947	28,874
1963	2,663	6,308	8,971	17,074	11,412	28,486
1964	2,438	7,588	10,026	16,428	11,032	27,460
1965	2,620	7,071	9,691	18,277	12,334	30,611
1966	2,063	9,083	11,146	16,332	11,076	27,408
1967	1,714	9,966	11,680	20,135	16,359	36,494
1968	1,546	14,194	15,740	22,133	20,331	42,464
1969	869	10,245	11,114	17,527	22,793	40,320
1970	1,188	6,677	7,865	13,282	17,055	30,337
1971	1,947	8,866	10,813	23,841	28,307	52,148
1972	1,376	4,100	5,476	22,787	29,220	52,007

Source: "Survey of New Building," Bell Federal Savings and Loan Association.



EACH CIRCLE EQUALS 100
HOUSING UNITS

FIGURE 1

FEDERALLY-SUBSIDIZED MULTIFAMILY HOUSING PROJECTS (SECTIONS 221D3 AND 236) BUILT IN THE SUBURBAN CHICAGO SMSA: MARCH 1973

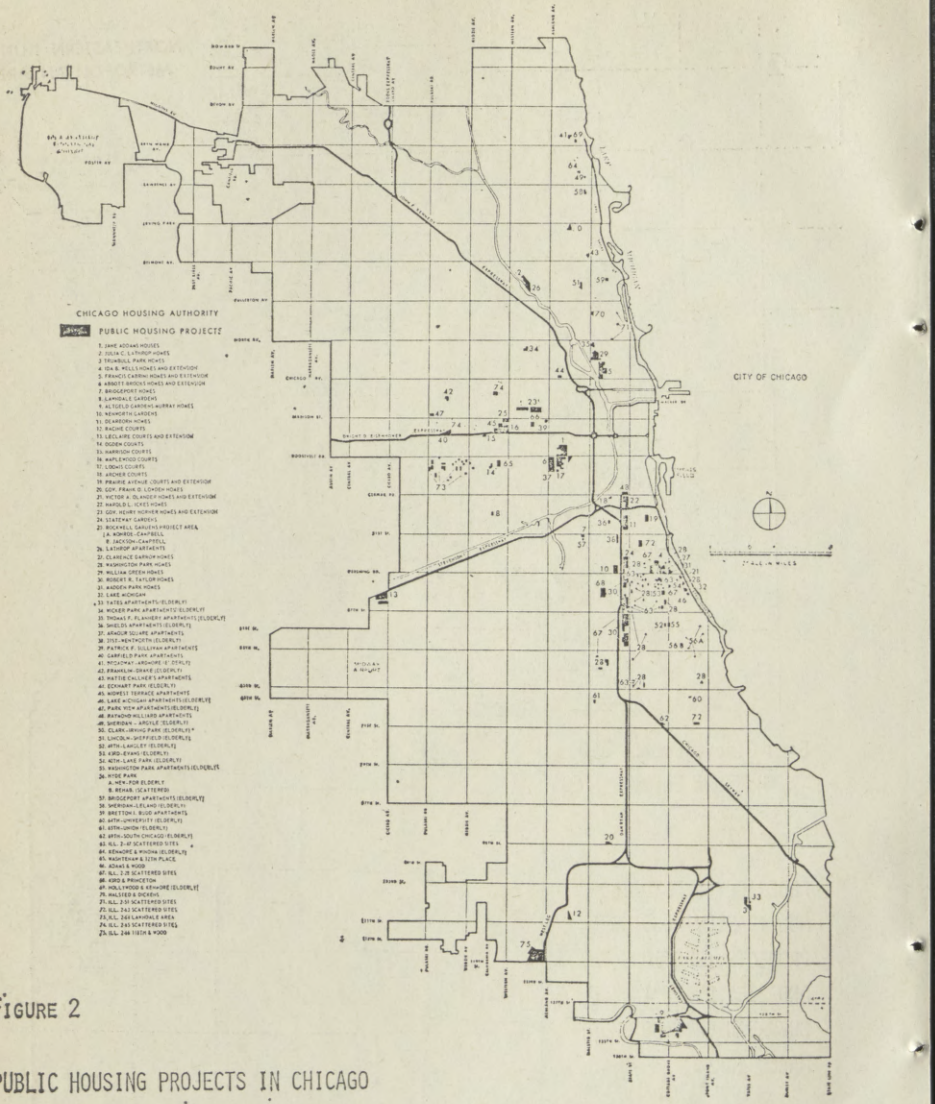


FIGURE 2

PUBLIC HOUSING PROJECTS IN CHICAGO

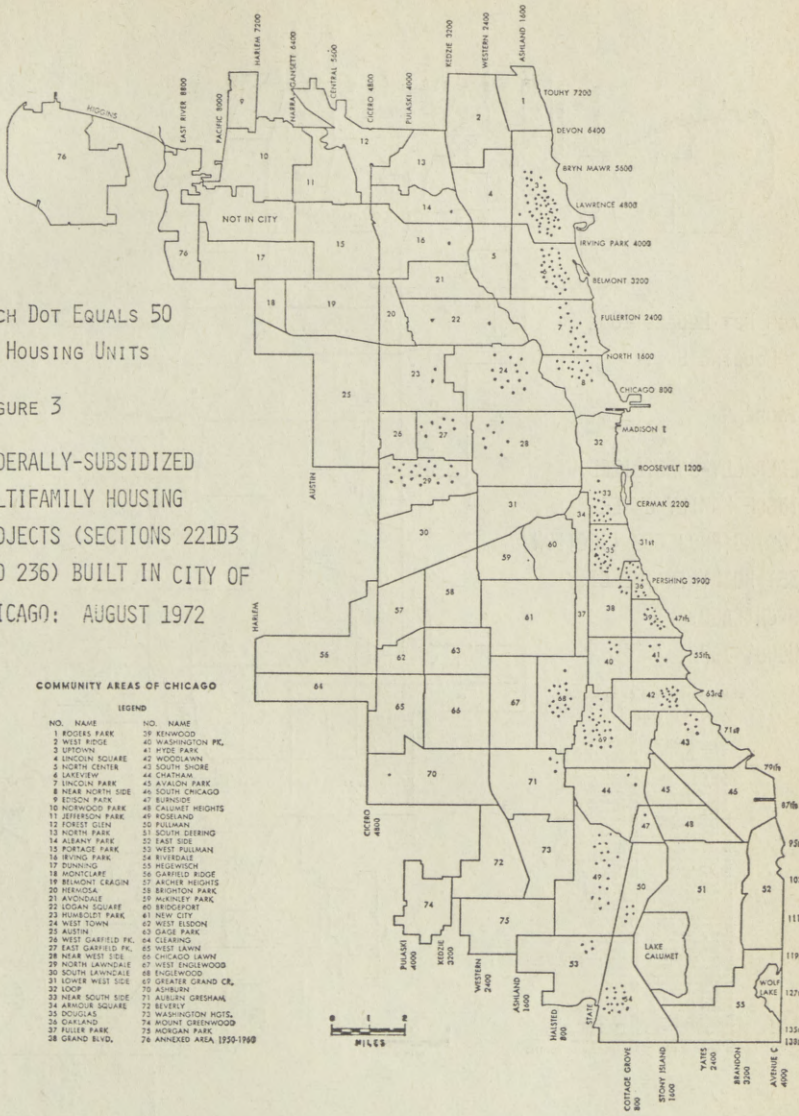


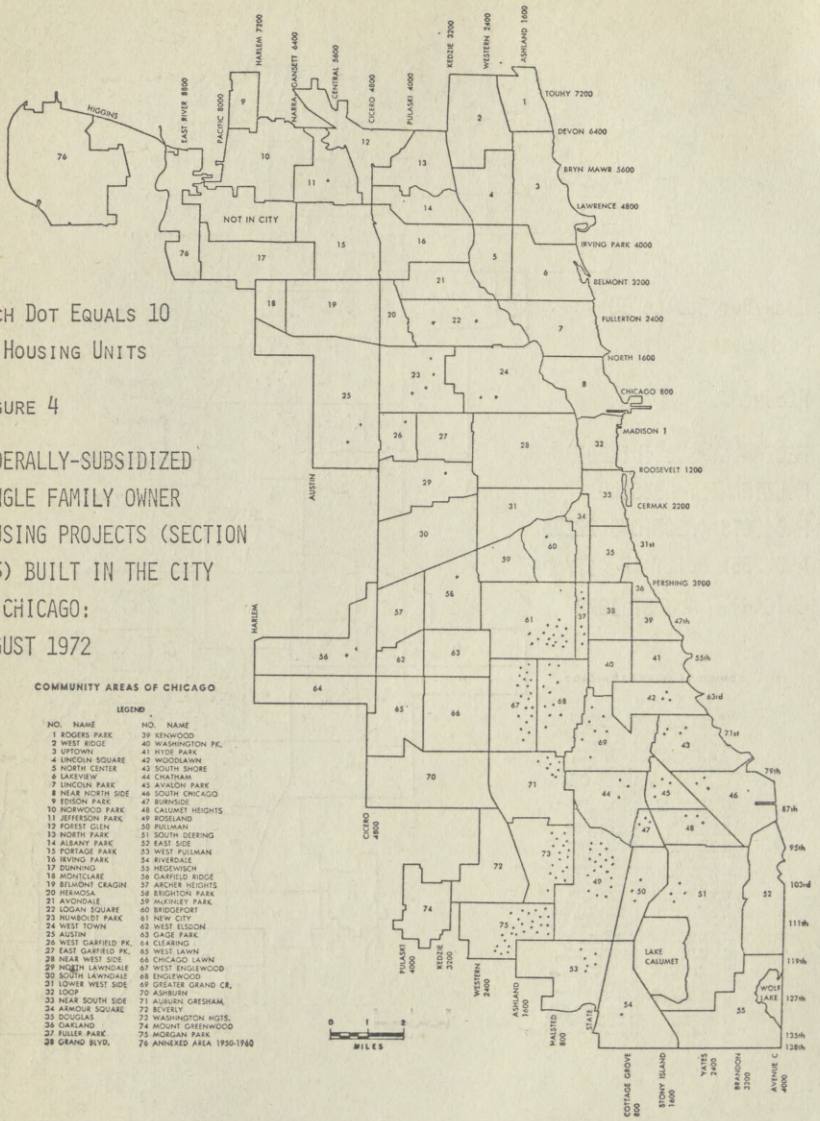
FIGURE 3

FEDERALLY-SUBSIDIZED MULTIFAMILY HOUSING PROJECTS (SECTIONS 221D3 AND 236) BUILT IN CITY OF CHICAGO: AUGUST 1972

COMMUNITY AREAS OF CHICAGO

LEGEND

NO.	NAME	NO.	NAME
1	ROGERS PARK	39	KENWOOD
2	WEST RIDGE	40	WASHINGTON PK.
3	UPTOWN	41	HYDE PARK
4	LINCOLN SQUARE	42	WOODLAWN
5	NORTH CENTER	43	SOUTH SHORE
6	LAKEVIEW	44	CHATHAM
7	LINCOLN PARK	45	AVALON PARK
8	NEAR NORTH SIDE	46	SOUTH CHICAGO
9	EDISON PARK	47	BURNSIDE
10	NORWOOD PARK	48	CALUMET HEIGHTS
11	JEFFERSON PARK	49	ROSELAND
12	FOREST GLEN	50	PULLMAN
13	NORTH PARK	51	SOUTH DEERING
14	ALBANY PARK	52	EAST SIDE
15	PORTAGE PARK	53	WEST PULLMAN
16	IRVING PARK	54	RIVERDALE
17	DUNNING	55	HEGEWISCH
18	MONTCLARE	56	GARFIELD RIDGE
19	BELMONT CRAGIN	57	ARCHER HEIGHTS
20	HERMOSA	58	BRIGHTON PARK
21	AVONDALE	59	MCKINLEY PARK
22	LOGAN SQUARE	60	BRIDGEPORT
23	HUMBOLDT PARK	61	NEW CITY
24	WEST TOWN	62	WEST ELSDON
25	AUSTIN	63	GAGE PARK
26	WEST GARFIELD PK.	64	CLEARING
27	EAST GARFIELD PK.	65	WEST LAWN
28	NEAR WEST SIDE	66	CHICAGO LAWN
29	NORTH LAWNDALE	67	WEST ENGLEWOOD
30	SOUTH LAWNDALE	68	ENGLEWOOD
31	LOWER WEST SIDE	69	GREATER GRAND CR.
32	LOOP	70	ASHBURN
33	NEAR SOUTH SIDE	71	AUBURN GRESHAM
34	ARMOUR SQUARE	72	BEVERLY
35	DOUGLAS	73	WASHINGTON HGTS.
36	OAKLAND	74	MOUNT GREENWOOD
37	FULLER PARK	75	MORGAN PARK
38	GRAND BLVD.	76	ANNEXED AREA, 1950-1960



EACH DOT EQUALS 10 HOUSING UNITS

FIGURE 4

FEDERALLY-SUBSIDIZED SINGLE FAMILY OWNER HOUSING PROJECTS (SECTION 235) BUILT IN THE CITY OF CHICAGO: AUGUST 1972

COMMUNITY AREAS OF CHICAGO

LEGEND

NO.	NAME	NO.	NAME
1	ROGERS PARK	39	KENWOOD
2	WEST RIDGE	40	WASHINGTON PK.
3	UPTOWN	41	HYDE PARK
4	LINCOLN SQUARE	42	WOODLAWN
5	NORTH CENTER	43	SOUTH SHORE
6	LAKEVIEW	44	CHATHAM
7	LINCOLN PARK	45	AVALON PARK
8	NEAR NORTH SIDE	46	SOUTH CHICAGO
9	EDISON PARK	47	BURNSIDE
10	NORWOOD PARK	48	CALUMET HEIGHTS
11	JEFFERSON PARK	49	ROSELAND
12	FOREST GLEN	50	PULLMAN
13	NORTH PARK	51	SOUTH DEERING
14	ALBANY PARK	52	EAST SIDE
15	PORTAGE PARK	53	WEST PULLMAN
16	IRVING PARK	54	RIVERDALE
17	DUNNING	55	HEGEWISCH
18	MONTCLARE	56	GARFIELD RIDGE
19	BELMONT CRAGIN	57	ARCHER HEIGHTS
20	HERMOSA	58	BRIGHTON PARK
21	AVONDALE	59	MCKINLEY PARK
22	LOGAN SQUARE	60	BRIDGEPORT
23	HUMBOLDT PARK	61	NEW CITY
24	WEST TOWN	62	WEST ELSDON
25	AUSTIN	63	GAGE PARK
26	WEST GARFIELD PK.	64	CLEARING
27	EAST GARFIELD PK.	65	WEST LAWN
28	NEAR WEST SIDE	66	CHICAGO LAWN
29	NORTH LAWNDALE	67	WEST ENGLEWOOD
30	SOUTH LAWNDALE	68	ENGLEWOOD
31	LOWER WEST SIDE	69	GREATER GRAND CR.
32	LOOP	70	ASHBURN
33	NEAR SOUTH SIDE	71	AUBURN GRESHAM
34	ARMOUR SQUARE	72	BEVERLY
35	DOUGLAS	73	WASHINGTON HGTS.
36	OAKLAND	74	MOUNT GREENWOOD
37	FULLER PARK	75	MORGAN PARK
38	GRAND BLVD.	76	ANNEXED AREA 1950-1960

Mr. DE VISE. Thank you.

Senator STEVENSON. Thank you.

Mr. Christmas.

Mr. CHRISTMAS. Senator Stevenson, I am here today as a member of the American Institute of Planners and as a staff member of the Northeastern Illinois Planning Commission, representing that organization's director, Mathew Rockwell.

I will submit two statements, one for each organization.

[The statements follow:]

A STATEMENT OF HOUSING NEEDS BASED ON INFORMATION PROVIDED BY THE NORTHEASTERN ILLINOIS PLANNING COMMISSION

(Presented by Lawrence B. Christmas, AIP Assistant Director of NIPC and Vice-President, Illinois Chapter of the American Institute of Planners)

THE NATURE OF THE HOUSING SHORTAGE

The Chicago region shares with the rest of the State of Illinois a shortage of sound housing appropriately priced for households who are classified as moderate and low income. Agencies and governments in this area, at the federal, state, regional and local level, are cooperating in an effort to bring about a workable solution to this problem and specific proposals are forthcoming in the not-too-distant future.

CURRENT NEEDS

Although no official agreement has been reached on the magnitude of the need, various indicators can be applied to illustrate the dimensions of the problem. The indicators used here, apply specifically to the Chicago region but many of the conclusions are equally applicable to the rest of the state.

Based on the 1970 Census and other data on population, family size and income, we estimate that of the total 2,295,000 households in the region, over 562,000 fall in the moderate or low income category. This is equal to one in four households and it consists of 251,000 moderate income and 311,000 low income. These are housholds who are eligible for housing assistance either in low income public housing or in moderate income 221d3, 235 and 236 housing.

Among the low income households well over half or about 57% are elderly. The remaining 43% are evenly divided between households with an employed head of family—about 21%—and households receiving public assistance—about 22%—including assistance for medical reasons.

Among moderate income households, the overwhelming majority—about 91%—are households whose family is gainfully employed and only a small portion—about 9%—are elderly. No one in this group, of course, receives public assistance.

Not all households who fall in the moderate or low income category would necessarily need housing asssitance. A good many do, however, and the data eloquently illustrates this point.

Many moderate and low income households are faced with any one of the following problems.

1. Live in substandard or overcrowded conditions.—According to the 1970 Census nearly 69,000 housing units in the Illinois portion of the region and 7,000 in the Indiana portion lack some or all plumbing. An additional unspecified amount consists of units with all plumbing but structurally unsound. We estimate that of these nearly all—or about 65,000 in the Illinois region—are occupied by moderate or low income families. This includes units lacking plumbing and units with all plumbing but structurally deficient. In addition, the census indicates that over 180,000 units are overcrowded, but not necessarily unsound. We estimate that by adding about 37,000 units for moderate and low income families this overcrowding could be relieved.

2. Pay more than they can afford for housing.—Census data indicate that nearly 333,000 renter households earning less than $10,000 per year pay 25% or more of their income for rent. Not all these households qualify for housing subsidies but many of them do. Assuming that rent should not exceed 25%

of total income, we estimate that nearly 60,000 of the 333,000 are either moderate or low income households and pay an excessive portion of their income for housing.

3. Do not have the opportunity to live close to their place of employment and often must reverse-commute unreasonably long distances to work.—Census data show that over 206,000 employees reside in the City of Chicago but work outside the city, throughout the six county area. Many of them have chosen to commute from city homes to suburban jobs. Others are the second or third working member of the family and may not choose to live outside the city even if the opportunity was offered. But a substantial number, estimated at about 40,000, in the moderate and low income category find it costly and inconvenient to commute from city homes to suburban jobs. This can be attributed both to the high cost of maintaining and operating a reliable automobile and to the inconvenience of using public transportation which is structured for the convenience of the suburban commuter but not the city commuter.

FUTURE NEEDS

It can be anticipated that the region will continue to grow and prosper. Our estimates indicate a 17% population increase between 1970 and 1980 from 6,979,000 to 8,175,000 people. Similarly employment will increase by 11% during the same period from 3,177,000 to 3,530,000 jobs. Since most of the growth is forecasted for the suburban areas of the region, we can anticipate that the housing shortage will also grow. This can not be avoided as long as new employment opportunities are created, as they have been in recent years, where moderately priced housing is in short supply and where efforts to provide public assisted housing or moderately priced market units have been rejected.

Based on these factors, we can estimate that the housing shortage will affect an additional 50,000 household sbetween now and 1980.

LIMITED ACCOMPLISHMENTS

Some improvements have been made in housing during the last two decades. Substandardness and overcrowding have been reduced and over 67,000 new units of subsidized housing for moderate and low income families have been built in the region. This level of effort however, falls well below what is necessary to meet the need. The subsidy programs, for example, have provided needed units that may not have otherwise been available. Subsidy programs, however, suffer from important shortcomings:

1. they are too limited in scope.
2. they tend to concentrate moderate and low income families in areas where such families already constitute too high a proportion of the population,
3. they have produced in some cases housing of low quality and, most important,
4. they have not been able to overcome the high cost of land prevailing in the region.

Even so and in spite of these shortcomings, they did provide badly needed units. The elimination of these programs will be a major setback in the efforts to resolve the housing shortage.

The limited accomplishments in the solution of the housing shortage can be attributed to a variety of factors including:

1. Fragmented and uncoordinated efforts by some municipalities and inaction by others. For example over 80% of all public housing and housing subsidized through 221d3, 235 and 236 is located in the City of Chicago. Yet over 50% of the region's population is now residing in the suburbs.

2. Lack of adequate public resources to meet the needs of low and moderate income families. For example, between 1950 and 1970 over 190,000 mostly moderately priced units were lost in this region through all demolition including highway construction and urban renewal or conversion but about 67,000 subsidized units were reconstructed during the same period. In terms of actual dollar resources, less than $900 million were spent for direct housing subsidies in 1971 but nearly $6 billion (5.8) in indirect subsidies to home buyers through Federal income tax deductions (according to a paper submitted to Housing Subcommittee of the Committee on Banking and Currency by Clay Cochran and George Rucker).

3. Continued economic and racial segregation in housing. We estimate that in 1970 nearly 90% of all the region's moderate and low income families lived in only 9 of the 257 municipalities. Of these, well over 70% are in the City of Chicago alone. In addition, nearly 89% of all minority families live in the City of Chicago.

CONCLUSION

The alternative to a continuing crisis is the provision of housing consistent with the need estimates already mentioned and according to a coordinated regional plan designed to:

1. Rehabilitate substandard units,
2. Provide households who pay more than they can afford for housing either with direct housing allowances or with new units that they can afford,
3. Build new units of the type price range and location necessary to:
   relieve overcrowding;
   Serve the need of household heads commuting excessive distances to work.

The work program of the Northeastern Illinois Planning Commission and the services of the planning profession will continue to do their share in finding solutions to the state and the regional housing problem. The current freeze on federal housing programs must simply be regarded as one more obstacle in solving this problem.

HOUSING POLICY STATEMENT, ADOPTED BY THE BOARD OF DIRECTORS, ILLINOIS CHAPTER, AMERICAN INSTITUTE OF PLANNERS

March 29, 1973

1. Recognizing the need for federal housing assistance to low and moderate income families, we:
   a. promote the concept of subsidies to encourage the construction, rehabilitation and conservation of housing units for low and moderate income families;
   b. endorse the continuation of the housing allowance experiment;
   c. support the inclusion of social services to such families; and
   d. endorse giving assistance to communities having such housing.
2. We regret the current moratorium, and urge a speedy reintroduction of subsidized programs at the federal level with a full level of funding.
3. At the same time, the Institute questions whether existing federal housing subsidies do, in fact, accrue to those most in need or accomplish the objectives established by the programs themselves; we advocate an evaluation of subsidy programs in terms of their effectiveness in providing assistance to disadvantaged families, and offer our assistance to undertaking such a program.
4. As the housing market is related to regional, social and economic patterns, we urge the continuation of housing planning at the *metropolitan and regional level* and the development of implementation means such as Metropolitan and Regional Housing Authorities.
5. We will work as individuals, chapters and a national organization to encourage local governments to develop local housing programs and priorities, which utilize a portion of revenue sharing funds to meet the needs of low and moderate income families.
6. Recognizing the importance of housing and its environment as all levels of society, and our role in influencing private development and ownership, we:
   a. affirm the importance of continued residential growth in concert with environmental concerns:
   b. promote the use of sewer and utilities as a means to achieving desirable growth patterns;
   c. reject the use of exclusionary zoning to prevent residential growth;
   d. urge that housing be planned in context with total community development and services; and
   e. will pursue all avenues to promote housing choice by type and location.
7. We urge the reevaluation of a taxing and financial policies as these affect housing.

8. We recognize the role that mobile homes are serving in meeting housing needs and urge the development of mobile home standards and planning for their accommodation.

9. Recognizing the very large issue of discrimination in housing, we will take affirmative action to:

a. expand housing choice throughout metropolitan areas through fair share housing plans and by ending exclusionary zoing;

b. increase the access to all housing for all individuals and families;

c. amend the non-discrimination clauses in state and federal housing laws to include the prohibition of discrimination based on sex, marital status and family status;

d. unite with local chapters and other groups to investigate and work against practices of discrimination in housing; and

e. AIP will pursue litigation in the courts against specific cases of exclusionary zoning.

Mr. CHRISTMAS. Now, the effect of the current interruption of the Federal housing program can best be measured by considering the Northeastern Illinois Planning Commission's statement.

The 1970 census tells us that one in four families in a six-county area have incomes making them eligible for moderate or low income housing, in the region of 7 million persons. This represents more than a half million households.

Fortunately, the majority of these families have been able to find adequate housing at reasonable costs; 67,000 of these families have found subsidized housing for better or worse and that is, I would agree with Pierre de Vise in many cases the housing was misplaced.

We are still left, however, with 65,000 housing units that lack plumbing or are considered structurally unsound. In fact, we estimate, in order to solve the overcrowding problem, the doubling up situation, there should be probably 37,000 more housing units constructed for the moderate and low income families.

We estimate that as many as 60,000 households have incomes which would qualify them for subsidized housing but they now pay 25 percent or more of their income for rent and 25 percent, of course, is a common standard for determining what is the maximum that a moderate income family should have to pay for housing and still be able to meet today's food, clothing, and medical budgets.

An additional number of persons can be considered ill housed because their present home is too far from their place of work. We have estimated that some 40,000 moderate income households fall in this category.

Finally, additional housing needs for the moderate and low income family are forecast as a result of further regional growth here and we estimate a regional population increase of some 17 percent in the decade from 1970 to 1980.

The Federal housing programs we have known in the past provided much needed housing for many families, but we all know that the programs could be greatly improved.

First, there needs to be a much greater degree of financial commitment if we are to meet the needs I have just indicated.

The addition of 21,000 units in the right-county area, that is 21,000 units of subsidized housing in a 2-year period from 1970 to1971 or 1970 and 1971, has not been sufficient to close the gap.

Second, the quality of housing construction must be guaranteed and the attention to careful location, site and density planning, have to be increased.

The need figures suggest in addition to new construction and rehabilitation, some form of housing allowance will be appropriate in certain instances, otherwise some families who now occupy adequate houses or apartments will only be able to do so at the cost of the food, clothing, and medical care budgets, and my conclusion is the obvious one.

That rather than a freeze, we need an acceleration but with better quality housing programs and more planning as to the location, density, and environment of the housing units.

The American Institute of Planners' position statement that I have submitted elaborates further on these things.

I welcome your committee's attention to this most serious matter, both as to the families' needs and on behalf of those communities who conscientiously are seeking a solution to the housing problems but which want to do so in the context of improving their total community environment.

Senator STEVENSON. Thank you.

Your total statement, Mr. Christmas, will be entered into the record.

Professor Berry.

STATEMENT OF PROFESSOR BRIAN BERRY, PROFESSOR OF URBAN GEOGRAPHY, UNIVERSITY OF CHICAGO

Professor BERRY. Senator Stevenson, let me continue some of the remarks of Mr. DeVise and Mr. Christmas.

What we have seen in the past decade is the operation of a very efficient suburban housing industry which has delivered 1.8 new housing units for every 1 new household coming into the Chicago metropolitan area.

In effect, the suburbs have created 175,000 new housing units in excess of the rate of demand. This permitted very rapid decentralization of the white community from the central city into suburbia and through a filtering mechanism, the transfer of over 125,000 housing units in the central city from the white to the black occupancy, at a time also when an additional 27,000 new housing units, half of which were supported by Federal funding, were being created within the central city for black occupants.

In other words, a rate of growth of supply for the black community in the decade of approximately 150,000 housing units at the time that the rate of growth of demand in the black community was of the order of 87,000 housing units.

So that the surburban fringe and the surburban frontier of new housing construction, delivering 1.8 new housing units for each 1 new household translated through a filtering mechanism in large measure into the delivery of 1.75 previously unavailable housing units, to the black community, for every 1 new household within the black areas.

One consequence of this was the abandonment, the net loss of 60,000 housing units as Pierre de Vise has mentioned within the traditional black residential areas of the central city.

We can see then a direct link through the filtering mechanisms in the housing market between the rate of growth of new housing construction, the transfer of properties from one income group and from one ethnic group to another, and the accelerated abandonment of the core areas of the central city.

My analysis of these materials over the past decade suggests that to the extent that there is an ability to pay, the existing market, private housing market is the most efficient means of delivering housing to those who need it.

There is a specific and limited subgroup incapacity in terms of inability to gain access to the private housing market.

Mr. Christmas has mentioned something on the order of 60,000 to 70,000 units, approximately half of which involve the elderly, poor, and the other half of which involve the welfare poor and so on.

The issues that arise here are then whether or not that incapacity is overcome by federally sponsored construction of new units or by federally financed mechanisms to enable these families to gain access to the construction otherwise delivered in the private housing market and these represent critical alternatives because we have shown that the Federal Government is a very poor entrepreneur with any building industry.

There is also, and perhaps more seriously, a distributional incapacity which flows from the dual character of Chicago's housing market, which remains the most highly segregated housing market in the country.

One segment of the housing market for whites, one segment of the housing market for blacks, and other minority groups, and an absolute inability of those people condemned to the minority segment of the housing market to gain access to the fruits of the private housing market in suburbia; a private housing market which is, in those areas to which jobs and businesses are decentralizing and at an accelerated rate.

Now, it seems to me that this is perhaps the more critical issue that arises in Federal housing politics; not to freeze, not the Federal freeze, but the freeze that arises from the continuation of a web of discrimination that continues to deliver housing within the framework of not one unified housing market but two housing markets, one for white suburban—one for suburban whites and one for central city minority groups.

Thank you.

[Professor Berry submitted the following material for the record:]

THE UNIVERSITY OF CHICAGO,
DEPARTMENT OF GEOGRAPHY,
Chicago, Ill., April 4, 1973.

Senator ADLAI E. STEVENSON,

Committee on Banking, Housing & Urban Affairs, Subcommittee on Housing and Urban Affairs, U.S. Senate, Washington, D.C.

DEAR SENATOR STEVENSON: I am pleased to enclose a copy of my written testimony to be included in the printed Hearings of the Subcommittee on Housing and Urban Affairs of the Senate Banking, Housing and Urban Af-

fairs Committee, following up my verbal remarks of Saturday, March 31. Also attached is a statement by Home Investments Fund of Chicago about the ability of Chicago's minority population to buy into suburbia that I would like to be part of the printed record as an attachment to my written testimony.

Sincerely,

BRIAN J. L. BERRY,
IRVING B. HARRIS,
Professor of Urban Geography.

STATEMENT OF BRIAN J. L. BERRY AND IRVING B. HARRIS, PROFESSOR OF URBAN GEOGRAPHY, THE UNIVERSITY OF CHICAGO

Between 1960 and 1970, 481,553 new housing units were built in Metropolitan Chicago, permitting accelerated suburbanization of white families from the central city, rapid filtering of the housing stock and improvement of housing conditions for most central city residents, additionally producing a surplus of abandoned housing in the city center. In 1970, 257,590 of the new units were occupied by white homeowners and 146,029 by white renters, another 13,849 by black homeowners and 27,153 by black renters, and 27,934 of the units were vacant. It was because the number of households in the metropolitan area in the decade increased by only 285,729—143,174 white homeowners and 25,797 white renters, 45,065 black homeowners and 49,573 black renters, a ratio of 1.7 new housing units to each new family—that the massive chain of successive housing moves was initiated as families occupied homes vacated by the new suburban homeowners and renters, and so-on down the chain of housing values (and, particularly, progressively inward from the suburbs to the core of the city). One consequence was that many families were enabled to improve their housing condition dramatically during the decade, while downward pressure was exerted on the prices of older housing units, and discriminatory pricing of identical units—black paying more than whites—was eliminated. Not only was there a dramatic improvement in the housing condition of Chicago's central-city minorities, as over 128,000 units were transferred from white to black occupancy, but 63,000 of the worst units in the city could be demolished at the time that tens of thousands of additional undesirable units were being abandoned. The Chicago region thus provides a classic example of filtering mechanisms at work, and as a result surpluses rather than deficits characterized Chicago's housing market in 1960's, an important fact that serves as the backdrop against which the efficacy of federal housing programs must be judged and housing needs measured.

The evidence is provided in Tables 1–3. The massive growth of the suburban housing stock is shown in Table 1. In the decade, 352,057 new housing units were constructed, largely for whites. In the entire six-county metropolitan area, only 4,188 out of 223,845 new homes were sold to blacks, and only 3,712 out of 111,290 new apartments were rented to blacks. In addition, some 3,208 blacks purchased homes previously owned by whites, and 2,153 blacks moved into apartments previously rented by whites. In contrast to the net increase of 287,000 white families in suburban Chicago, only 13,261 new black families were able to obtain residences in suburbia, and many of these residences were in or contiguous to suburban "mini-ghettos." The web of discrimination that limits geographical access to suburbia is responsible for one of the types of unmet housing need to which I will return later, inadequate access by minority residents with the capability to pay within reasonable proximity of the growing job centers of suburbia.

Contrast this picture with that of the central city shown in Tables 2 and 3. There was a net decline of 41,500 white homeowners and 76,900 white renters in the central city in the 1960–1970 decades as whites fled in fear of black neighbors to the "safety" of segregated suburbia, or left the Chicago region altogether. Net increases in the central city black population consisted of 37,669 new homeowners (more than doubling of black home ownership in the decade), and 43,708 new renters.

The complex dynamics of white-to-black filtering were as follows: some 128,829 units were transferred from white to black occupancy, allowing net increases over new construction of 28,008 in black home ownership and 20,267 in black rental of good-quality flats and apartments. In addition, 63,000 black

families were able to move into better-quality housing from dilapidated and other units that were demolished in the decade within the area of the 1960 ghetto, and finally, there was a net increase by 1960 of 17,554 units vacant in the black residential area of 1970, contributing to abandonment.

These facts lead me to question the argument that there has been and is a major housing shortage in Chicago for those able to pay. To the extent that people have been able to participate in Chicago's private housing market, the normal market mechanism of filtering has delivered increasing supplies of improved-quality housing to all and has both permitted and impelled the demolition of the worst housing in the worst neighborhoods. To the extent that unmet need can be demonstrated, it therefore applies to those subgroups beset by incapacity and thus by financial inability to participate in the private market on an equal footing.

In the Metropolitan Chicago area as a whole, therefore, two types of unmet housing need are suggested:

(a) Those *financially afflicted*, including the elderly poor, the welfare poor, and the sick and infirm poor, unable to participate in normal housing market channels on any basis, and thus left the dregs unwanted by any market participant; and

(b) Those *institutionally afflicted*, dominantly minority-group members who have been unable, due to the web of discrimination that still afflicts Chicago's highly-segregated housing market, to gain access to suburban residences close to the Metropolitan Area's new and expanding job centers.

In the first case, the problem is one of financial access; in the second, one of geographic access. To the extent, then, that there is an unmet housing need in Metropolitan Chicago, it is limited to those households excluded from normal housing market channels through poverty, age or infirmity, or prevented from exploring a wide range of options in spite of ability to pay because of the discriminatory practices that maintain the stranglehold of dualism on Chicagoland's housing stock. The two cases are linked to the extent that minority residents of the central city are denied suburban jobs by the lack of job-related housing, and therefore are condemned to a life in substandard, overcrowded circumstances in neighborhoods abandoned by even the working poor. A more effective antidiscrimination policy in housing is needed to bridge the gap of institutional access, giving expanded federal support to organizations such as the Leadership Council for Metropolitan Open Communities, with its legal-action program that seeks redress in the courts for proven discrimination in housing. Such a policy could do much to reduce unmet need by bridging the chasm of dualism in suburban housing markets.

On the other hand, a dual policy is needed to meet central-city needs. First, continued federal support for new *suburban* housing starts is essential, to maintain filtering at high levels. Second, complementary financial mechanisms should be encouraged that permit the demonstrably financially afflicted to gain access to the surplus of good-quality, inexpensive older filtering housing that an active suburban housing market will deliver to central city residents. The *rightly discredited* federal ventures into sponsorship of new low-income housing construction should not be revived, all special-interest pleas notwithstanding, because other simpler means can be found to fill unmet needs within the framework of a dynamic housing industry, without the necessity for an inefficient and too-easily corrupted Federal involvement in housing entrepreneurship.

TABLE 1.—CHANGES IN THE SUBURBAN HOUSING STOCK, 1960–70

	1960 stock	New construction 1960–70	Withdrawn from stock 1960–70	Net change in stock 1960–70	1970 stock
Total housing units	812,652	352,057	83,980	+268,077	1,080,729
Occupied housing units	740,508	335,135	29,841	+305,294	1,045,802
Owner occupied	551,170	223,845	26,275	+197,570	758,740
White owners	555,480	219,657	34,998	+184,669	740,179
Black owners	8,690	4,188	[1] (3,208)	+7,396	16,086
Renter occupied	176,338	111,290	576	+110,714	287,052
White renters	167,964	107,578	4,859	+102,719	270,683
Black renters	8,374	3,712	[1] (2,153)	+5,865	14,239

[1] Net increase over new construction due to transfer of units from white to black occupancy.

TABLE 2.—CHANGES IN THE CENTRAL CITY'S HOUSING STOCK, 1960–70

	1960 stock	New construction 1960–70	Withdrawn from stock 1960–70	Net change in stock 1960–70	1970 stock
Total housing units	1,214,598	129,496	134,988	−5,492	1,209,106
Occupied housing units	1,157,409	118,484	[2] 138,039	−19,555	1,137,854
Owner occupied	396,727	33,745	[2] 34,115	−370	396,357
White owners	360,117	24,084	65,609	−41,525	318,592
Black owners	36,610	9,661	[1] (28,008)	+37,669	74,279
Renter occupied	760,682	84,739	[2] 103,930	−19,191	741,491
White renters	564,029	61,298	138,220	−76,922	487,107
Black renters	196,653	23,441	[1] (20,267)	+43,708	240,361

[1] Net increase over new construction due to transfer of units from white to black occupancy.
[2] These 138,039 units were demolished in the decade. Of the demolitions, 63,000 were in areas occupied by black residents in 1960, and 75,000 in white areas.

TABLE 3.—DYNAMICS OF CHICAGO'S DUAL HOUSING MARKET

	White market	Black market
Occupied housing units in 1960	924,146	233,263
New construction 1960–70	85,382	33,102
Demolitions 1960–70	75,000	63,000
Housing stock in 1970 of 1960 market areas	934,528	203,365
Housing stock in 1970 of 1970 market areas	805,699	314,640
Transfers from white to black market 1960–70	[1] (−128,829)	[1] +111,275

[1] Difference between these figures represents a net increase in vacancies in black residential areas of 17,554 units by 1970, a growing surplus of property associated with abandonment.

HOME INVESTMENTS FUND,
Chicago, April 2, 1973.

FAIR HOUSING FIVE YEARS AFTER THE FAIR HOUSING ACT

Five years ago Congress passed the Federal Fair Housing Act of 1968, which outlawed all discrimination in housing. In Home Investments Fund's view this law has enabled Chicagoland's minority families to seek out and obtain housing in non-segregated areas largely without harassment or other restrictions. But so far only a small number of minority families—about 500 a year—do so. Clearly this number is too small to affect the pattern of Chicago metropolitan segregation.

TABLE I.—RESIDENCE PATTERNS IN NORTHEASTERN ILLINOIS, 1970

	1970 population	Percent Negro
Cook County	5,492,369	21.55
City of Chicago	3,366,957	32.74
Suburban Cook County	2,125,412	3.80
Du Page County	491,882	.33
Kane County	251,005	3.52
Lake County	382,638	5.19
McHenry County	111,555	.03
Will County	249,498	6.82
Suburban northeastern Illinois	3,661,990	3.55

Source: NIPC, "Suburban Factbook."

Metropolitan housing patterns will not change until large numbers of minority families move to the existing predominately white suburbs. In addition, minority families must be included as founding citizens of Chicago's new suburbs. During the next decade two-thirds of metropolitan growth will take place in "new growth" suburbs—those being developed in currently unpopulated

areas. Unless these suburbs are integrated from the start, the metropolitan pattern of segregation will continue to be severe.

Over the years several myths unfavorable to open housing have persisted. HIF believes that the existence of these myths makes many people reluctant to participate in open housing. Minority families may be fearful of moving to the suburbs; brokers, bankers, and builders may avoid cooperating fully with open housing; and white suburban home owners may be wary of accepting black neighbors.

But HIF's five-year experience with open housing, during which we have helped 300 minority families move successfully to previously all-white suburban communities, shows that fears about open housing are ungrounded. The facts available today show that the unfavorable myths about open housing are no longer true, if they ever were.

First Myth.—Minority families do not earn enough money to live in the suburbs.

Fact.—About 150,000 Chicago minority families could meet the income requirements for a wide range of existing suburban housing. During the period 1960–1970 the number of minority families with incomes over $8,000 tripled to include about half the minority families in Illinois. The median income for Chicago's black families is $7,883 and the mean income is $8,774. Chicago's Spanish population has a median income of $8,369 and a mean income of $9,195.

TABLE II.—INCOME OF MINORITY FAMILIES IN ILLINOIS, 1970 AND 1960

Family income	1970 (percent)	1960 (percent)
$8,000 to $8,999	7.0	5.2
$9,000 to $9,999	6.3	3.6
$10,000 to $14,999	22.5	6.6
$15,000 to $24,999	11.9	4.9
$25,000 or more	1.8	.1
Total over $8,000 income	49.2	16.8

Source: 1970 Census PC (1)–C15.

Second Myth.—Suburban housing is too expensive for minority families.

Fact.—It is true that much suburban housing is too expensive for many minority families, just as it is for many white families. It is also true that housing in all price ranges is not found in all communities. But the facts show that using the standard of 2–2½ times annual income for purchase price, more than 600,000 existing suburban houses do fall within the price range of 150,000 Chicago minority families.

TABLE III.—VALUE OF SUBURBAN HOMES AND INCOME OF CHICAGO MINORITY FAMILIES—1970

Value	Homes in suburban Chicago	Range of income required	Chicago Black families	Chicago Spanish families
$15 to $19,999	117,129	$8 to $8,999	17,180	4,731
$20 to $24,999	138,991	$9 to $11,999	41,615	10,746
$25 to $34,999	193,026	$12 to $14,999	28,173	6,543
$35 to $49,999	110,767	$15 to $24,999	29,102	5,416
$50,000 and over	58,453	$25,000 or more	4,051	1,044
Total	618,366	Subtotal	120,121	28,480
Total for all minority families			148,601	

Source: 1970 Census PC (1)–C15; 1970 Census HC (2)–44.

Third Myth.—There is no such thing as segregation. Blacks and other minority families live clustered together because they choose to.

Fact.—While many minority families do want to live near each other, many others prefer to exercise their right to live in non-segregated areas. Minority families have responded enthusiastically, and in increasingly large numbers,

to HIF's message about open housing. During 1972, 1,200 minority families contacted HIF for assistance in obtaining open housing. This was triple the number of families who called in 1968, when HIF's program began.

HIF does not think that all black families are happy with their present housing. A 1967 survey shows that Chicago's blacks consider housing to be their number one problem.[1]

HIF does not think that minority families change housing because of an ideological desire to integrate a neighborhood. Instead they move to white areas because they want improvements in housing, schools, open space, recreation, and employment opportunities. As evidence of the dissatisfaction with current housing conditions, a 1971 survey shows that 72 per cent of Chicago's blacks think that basic services are better in white or integrated areas than in black areas.[2]

Fourth Myth.—Real estate brokers, home builders, and bankers will lose the business of their local white customers if they deal with minority families.

Fact.—Since 1968, HIF's minority clients have dealt with dozens of real estate brokers, home builders, and bankers in obtaining listings or mortgages. HIF's experience, and the continued cooperation of businesses with its program, proves that dealing with minority customers has no measurable effect on the cooperation of white customers. On the contrary, brokers, bankers, and builders are learning that it makes sense financially to compete for the business of the 1,500,000 minority people in the metropolitan area.

HIF has helped minority families buy or rent housing and get mortgage loans for homes in these communities:

Addison
Arlington Heights
Aurora
Bellwood
Bensenville
Bloomingdale
Bolingbrook
Broadview
Buffalo Grove
Calumet City
Carol Stream
Chicago Heights
Clarendon Hills
Country Club Hills
Deerfield
Dolton
Downers Grove
Elk Grove
Elmhurst
Evanston
Flossmoor
Glen Ellyn
Glencoe
Glendale Heights
Glenview
Glenwood
Hanover Park
Harvey
Hazel Crest
Highland Park
Hoffman Estates
Homewood
LaGrange
Lake Zurich
Lansing
Lincolnwood
Lisle
Lombard
Matteson
Maywood
McHenry
Mount Prospect
New Lenox
Niles
North Aurora
Northbrook
Oak Park
Olympia Fields
Palatine
Park Forest
Park Forest South
Richton Park
Rolling Meadows
Schaumburg
Skokie
South Holland
Villa Park
Westmont
Wheaton
Woodridge
Wilmette

CONCLUSIONS—WHAT STILL NEEDS TO BE DONE

1. We must treat open housing as a metropolitan-wide problem rather than solely as a "city" concern.

2. The public at large, especially suburbanites, must see that in the long run open occupancy will provide for the greatest economic and social health of the entire metropolitan community. Fair housing will also provide the only long-term solution to the problem of neighborhood stability.

3. The suburbs must accept and plan for some increase in racial and economic integration.

4. Blacks and other minorities must have greater access to suburban housing. Minorities must be actively encouraged to move to suburbs, and more moderate and low income housing must be made available in those areas.

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[1] Militancy for and Against Civil Rights and Integration in Chicago-Summer 1967, University of Chicago.

[2] Factors Affecting Housing Choice for Black Families in Chicago, 1971, Leadership Council.

5. Businessmen must take the lead in realizing that open housing does make sound business sense. The business community, like the rest of us, must understand that the imagined risks of supporting open housing are much less than the known costs of opposing it. Segregated housing has guaranteed changing and deteriorating neighborhoods, unemployment among minorities, and a shortage of labor in the growth areas of the suburbs.

6. Existing laws must be enforced more vigorously so that real estate brokers, home builders and bankers meet their obligations. And perhaps new laws may be needed to require suburban employers to see that open housing is guaranteed for minority workers at their new locations.

Senator STEVENSON. Thank you, Professor.

Mr. Dolan.

STATEMENT OF PHILIP DOLAN, EXECUTIVE DIRECTOR, BEVERLY AREA PLANNING ASSOCIATION

Mr. DOLAN. Thank you, Senator Stevenson, for the opportunity of allowing our community a chance to bring its statistics to your attention.

Already this morning we have heard much about the poor and the disadvantaged communities. This is a very important aspect of the hearing, I am sure. I speak today about a middle class and upper class community that has been damaged by Federal HUD programs and we feel the hurt of the Federal programs.

We want to bring our complaints then in a microcosm of Chicago and, in fact, using our community as a laboratory for all urban problems, to demonstrate how white people do flee, why they flee, and demonstrate, in fact, that if we cannot be relieved from the conceptually proper but practically destructive Federal pressures that hold a dagger to the heart of our community, our area will not survive as a viable community within a very major urban area.

Now, if we cannot survive, then, because of the Federal pressure, then no community in America can survive.

Chicago then, as most other major cities, will become nothing more than a haven of the old, the poor and the black. However, looking at Beverly Hills, Morgan Park, which is on the southwest side of Chicago, there are 46,000 people with 15,000 dwelling units. 94.3 percent of them are single-family homes and since Chicago has two-thirds of its housing market in apartments, we are indeed a unique community in many ways.

Our income is high. Our schools are excellent in the Chicago public school system and so forth, but looking at our community, we can see the economic and psychological distress that the massive data that has been accumulated at this hearing so far cannot possibly show the well emphasized feeling that the FHA is marvelous in helping American homeownership for middle class blacks is not the program that allows escape from the ghetto but rather the only funding available to foster white flight from the cities.

We will show that the section 235 scattered site housing program has, in the case of our community, almost destroyed a section of that community forcing second and sometimes third generation black families to flee.

It will show thirdly that by a major renovation of the criteria guidelines and that part will later be elaborated upon, that we can

force the national marketplace to encourage the scattering of lower economic groups thereby protecting the tax base of the cities, opening the suburbs and allowing a wider choice of living accommodations for all Americans.

Unfortunately, by the nature of these HUD programs, unscrupulous real estate interests, unscrupulous building companies and unscrupulous security systems salesmen prey like vultures on our community and indeed, with all of these Federal programs of FHA and 235, well suggest that we need other Federal aid fostering new construction within the core of the cities, as you have already heard about, establishing some Federal incentives for the proper training and regulation of housing inspectors.

Finally, we would like to encourage you to increase, by massive proportions, demolition funding to the cities of America to help those cities in their rebuilding of the inner-city areas.

Now, I would like to speak on section 235 housing as an example of the impact it has in our laboratory of Beverly Hills-Morgan Park, and an example of the impact of 235 housing is clearly evident in one section of our community, the Homewood-Esmond area.

This area was characterized by modest homes, open space and excellent schools, integrated since the early 1900's. Within a short time, 211 235 housing units were impacted in the area, bringing 800 new children onto the rolls of Esmond Elementary School.

An addition was finally built on the playground, reducing play space to zero.

The impact on the high school has yet to be felt. Since section 235 guidelines call for families to have three or more children, it is no wonder that our city's school boards are increasingly in financial trouble, when there is impaction in certain areas.

Without being antipoor, marginal buyers often cannot afford, nor can they realize the importance of proper home maintenance.

In Chicago, thousands of housing units are abandoned each year. Because of the low financial commitment, there is no hesitancy to walk away from these homes that have been financed under the 235 program.

Here we see another problem related to HUD policies. Some loans on used homes that are already 30 years and older are guaranteed for another 30 years.

What we need, instead, is construction of decent new homes and invaluable Federal demolition funding. Our community, for example, could demolish 50–70 homes, build quality housing and be better off for it.

Still another HUD related problem in our community arises from the fact that many of our 235 buyers, as elsewhere, are first-time homeowners. They are ill prepared to meet the requirements of homeownership, budgeting, maintenance, tax and insurance understanding.

HUD recognizes the need to provide counseling to buyers in the law, however, Congress has never funded such counseling programs. Abandonment would be drastically reduced if loans on older homes were restricted, and if new homeowner counseling was avaliable.

The distress to the stable homeowner, created by HUD policies, is dramatic.

Two years ago numerous property owners adjoined vacant playlots. Today, all too many of thoses lots have become dangerous, unsightly nuisances, boarded up, vandalized, abandoned structures.

While the above is most depressing, in another section of our community, there was another case of extreme high anxiety when 25 of 135 homes eventually sold to black residents, however, when it was discovered that each of those new homebuyers had bought through conventional financing, anxiety lessened and there was encouragement to solve area problems together.

In a recent letter to the editor, you can see the point that I am making:

> Thursday, February 22nd, black and white residents on Hale Avenue met for the first time.
>
> With a serious purpose, postive attitude and good humor, we were able to really be very open in our conversation. Some of our fears and problems were brought up for discussion.
>
> We do not suppose that everything surfaced at one meeting and difficulties may develop in the future. However, we made a very significant beginning toward understanding. All were pleased and surprised to learn that our similarities far outweighed any differences we may have. Although we met as black and white homeowners, we left as neighbors.

Switching then to the FHA programs and looking again at Beverly Hills-Morgan Park microscopically we see immediately why middle class families, both black and white, reach a high state of anxiety well before any major problem confronts the area.

Since there has been no real distribution of FHA sales throughout the metropolitan region, FHA impacted sales has come to mean the economic deterioration of neighborhood after neighborhood in Chicago.

On the fringes of our community, as the economic level of the inhabitants has decreased, the businesses that have depended on the middle class sales have been forced to flee to more productive markets.

The disintegration that they have left behind is disastrous.

Looking closely then at our community and moving eastward from the western city limits below 187th Street, or in the 1970's somewhere, through my community over to State Street and beyond, we see a graphic display of this point.

Conventional financing on the far western fringe: 91 percent of homes sales went by conventional; FHA only 9 percent.

Moving then between Western Avenue and State Street, however, one sees that only 22 percent went by conventional financing and 78 percent went by FHA.

Moving east of State Street, 13 percent went conventional and 87 percent went by FHA.

If you want to take a look just within the boundary of Beverly-Hills-Morgan Park and slightly to the east, if we divided the area into thirds, we find the following in one 16-month period: going from Western Avenue to the Rock Island Railroad tracks, there were 104 sales and only 2 FHA, only 2 of these were FHA.

Moving from the Rock Island Railroad tracks to Beverly Avenue/Vincennes Street, there were 77 sales and 36 FHA.

Moving from Beverly Avenue to Racine Street, 187 sales, 158 FHA.

Taking a specific street in a rapid turnover area, we see twice as many turnovers and almost total FHA financing.

Justine Street: sales 35, FHA 29. All purchasers were black, all sellers were white.

The conclusion then is that we come here hopefully not to criticize alone but we come to offer a suggested resolution or at the very least, to offer a suggestion worth investigating further.

Perhaps we might call this program "Fair Housing Scattered Site Allotment Program."

We have seen then how Federal programs have impacted areas, both the FHA and the 235 housing have impacted these areas, creating high anxiety and flight.

We have seen how, given the opportunity, how people of all economic levels, all races, can live together and if given sufficient time, can work out their concerns.

If we look across the map of the United States, we see that every census tract, all land in the United States, is divided by census tracts.

If we were to propose that a census were to be taken, as many people are talking about already, every 5 instead of every 10 years, then we would like to propose for your thought that there be a 5 percent limit, not quota, 5 percent yearly limit in each census tract for all Federal housing programs, per year.

That is 5 percent per year per census tract.

The result we think would be that the national marketplace would force scattered site development, the very same thing that HUD programs have been trying to do but have failed to do.

As each census tract reaches 5 percent, the pressure to make money would encourage the developers onto the next census tract.

Scattered site development would surely occur.

FHA and other programs would move at such a pace; 5 percent each year, that time would allow fear to be checked and understanding to be given a chance.

Secondly, then, in this region, environmental impaction studies are required for many HUD and other governmental programs. Noticeably excluded from review by the Northern Illinois Planning Commission, is single-family housing. Requiring review for environmental impaction alone would not be sufficient to allow the scattering of lower economic or racial families.

We need both the allotment program mentioned earlier and this environmental impaction study for each development.

If time allows, I would like to talk just a minute on real estate practices and how they used the tools of the FHA to help to torpedo certain kinds of communities.

The home sale real estate interests makes its money, obviously, by home turnovers. The national market environment can sustain a certain number of real estate salesmen and real estate brokers but if there is anything unnatural that upsets the market, everybody loses except the real estate salesman, who profits greatly by rapid turnover.

The State of Illinois is partly responsible for part of our problem for the State issues approximately 600 real estate salesmen's licenses per month, and 300 broker's licenses per month, 50 percent

of whom practice in Cook County, resulting in a great amount of pressure to survive. Cutthroat practices and unprofessional conduct is rampant among salesmen who are not members of a board of realtors.

This private industry then rapes unsuspecting communities contributing to widespread concern, tension and high anxiety levels and finally fear.

These people exploit the fears and prejudices and in their own words, they try to break a block.

They use FHA as their tool to help break these blocks, and those practices and the use of impacting, they use the FHA to break the blocks and even the moving companies, we may add, have recently been calling in our communities, contributing to the anxiety levels, and we found in one case that the real estate firm is part owner of the moving company.

We would add that security alarm salesmen on occasion panic people, too, but we have been able to stop all of the real estate solicitation in our community.

We have been able to monitor some of the undesirable real estate activities in our communities and in part we cooperated with the real estate boards to do so, and we would encourage the Federal Government to look into its control over moving companies, for example, as a way to stop and lower the anxiety levels of communities.

Thank you.

[The complete statement follows:]

BEVERLY AREA PLANNING ASSOCIATION,
Chicago, Ill., March 30, 1973.

INTRODUCTION

A. Beverly Hills/Morgan Park, on the far Southwest Side of Chicago, reaching from 87th Street on the North and to 119th Street on the South, and stretching Westward from Beverly Avenue/Vincennes to California Avenue is a community that by itself is a microcosm of the urban problems facing Chicago and other metropolitan centers in America.

Our community does not have the advantage of the monolithic university that can demolish a square mile of undesirable structures to save itself. We must rely solely on our own resources, which are not inconsiderable.

If we cannot be relieved from the conceptually proper but practically destructive federal pressures that hold a dagger to the heart of our community, our area will not survive.

If we cannot survive, then no community in America can survive. Chicago then, as most other major cities, will become nothing more than the haven of the old, the poor and the black.

B. By looking at Beverly Hills/Morgan Park, we can see the economic and psychological distress that the massive data accumulated by this hearing cannot possibly show. We will emphasize the following:

1. That FHA, marvelous in its conception of helping Americans into homeownership and the middle class, becomes not the program that allows escape from the ghetto, but, rather, the only funding available to foster white flight from the City.

2. That the Section 235 scattered site housing program has, in the case of our community, almost destroyed a section of that community, forcing second and third generations of black families to flee.

3. That by a major renovation of criteria guidelines, a part which will later be elaborated upon, we can force the natural market place to encourage the scattering of lower economic groups, thereby protecting the tax base of the

cities, opening the suburbs and allowing a wider choice of living accommodations to all Americans.

4. That by the nature of these HUD programs, unscrupulous real estate interests, unscrupulous moving companies, and unscrupulous security systems salesmen prey like vultures on a community.

5. That other federal help is in order:

A. Foster new construction within the core city.

B. Establish federal incentives for the proper training and regulation of housing inspectors.

C. Encourage a massive increase in demolition funding to American cities.

CONCLUSION

Unless we change the shape of the market place, we cannot hope to do anything to control the speculators, panic-peddlers and vultures. We could not, then, hope to stabilize a community and to allow all Americans equal access to the housing market. Therefore, in order to change the market place, we must change HUD programs. If we can do this, a giant step will be taken to alter the downward trend of American cities.

Senator STEVENSON. Thank you, Mr. Dolan. There is one minor correction for the record that I would like to make.

Congress has appropriated funds for home ownership counseling. It did so in 1972, but you are quite right that very little money has reached Chicago and in fact I believe none until very recently.

I would like to try to start the questioning with hopefully some agreement on just what the facts are about the supply of housing in the Chicago area.

Professor Berry said that there was a surplus in the suburbs. Pierre de Vise said that there was a surplus in the inner city and Mr. Christmas said that there was an areawide shortage.

Could you comment on each other's statements and help me to understand just exactly what the facts are.

Mr. DEVISE. If I may begin, the surplus in terms of production is certainly in the surburbs since 53,452 new housing units were built in the suburbs.

However, in terms of the demand, there is no doubt that the housing surplus area is felt most in the black inner city which lost a fourth of its housing largely through the lack of demand for housing in these communities.

As the blacks in places like Woodlawn and Lawndale were attracted to places like Austin and South Shore where whites were moving out of these communities into communities on the north side and in the suburbs, where most of the new housing was occurring.

So I think that the problem of surplus, in my mind, it is a question of demand.

There is no, in a sense, there is no surplus of housing in the suburbs because that housing is gobbled up by whites moving out of Chicago.

Then, of course, in the context of the total metropolitan area, I think we must face the fact that if there is 70-percent excessive housing units, as our figures indicate, then something has to give.

Then 70 percent of the equivalent numbers are about 157,000 housing units are going to be in excess of supply and this is occurring in the communities where the market is weakest.

This happens to be in the older black ghettos like Woodlawn, where in fact the market is weak for a whole number of reasons,

one of which has to do with the environment available there, the schools, the safety in the streets and so on.

Senator STEVENSON. You say there is a massive housing surplus in the black inner city?

Mr. DEVISE. Well, how would you interpret, sir, a loss of housing of one-fourth of all the older black ghetto housing, specifically in Woodlawn there was a loss of about 35 percent of the housing there, and it's vacancy rate in Woodlawn is now approaching 20 percent.

The vacancy rate for the older black ghetto areas overall is about 10 percent and the decline in that decline in average homes rose about 4,000 between 1960 and 1970.

There is no other way that I can interpret these catastrophic changes other than to say that there is excessive housing supply in the older black ghetto areas.

Professor BERRY. I think the crux of the matter is the filtering mechanism.

We are creating, as I said, 1.8 new housing units for every growth of 1 new household in suburbia. Now, what this does is then commit —those are not figures and what that then permits is a massive decentralization of families, white families from the central city to fill up that otherwise net surplus in housing construction in the suburbs.

The movement of these white households relinquishes entire neighborhoods to minority members in the central city.

The effect is then to transfer substantial quantities of housing that is of better quality than previously occupied by the minority group members, to these minority group ownerships, better quality housing and better quality neighborhoods.

Communities such as Mr. Dolan's are now facing this kind of filtering or transfer pressure. With then the removal of black and other minority group members from their previous walled-in residential areas, the previous ghettos, ghetto-ized areas into the new and expanding areas of the ghetto which I use in a nonmajority sense, but simply as areas of minority group occupancy and there is then a substantial decrease in demand for housing in the areas of previous occupancy.

So the surplus through movement of people is transferred ultimately into a surplus in the oldest neighborhoods of the oldest property and that is at the core of the traditional minority residential areas and the core of the city and abandonment, demolition, vacancy, the declining density, the declining populations are the tail end consequence in the core of the city of the most dynamic part of the housing industry, which is new construction in suburbia.

We might just do a little quick accounting here. In 1960, if we look at the black housing stock in the city of Chicago, the housing stock occupied by blacks in 1960, there were 233,000 housing units occupied by blacks in the city of Chicago.

Now, 36,600 of these were owned and 196,000 were rented.

Of those 233,000, between 1960 and 1970, 63,000 were demolished.

There was an increase of 27,000 units available to the black community through new construction.

Half of that new construction was direct public housing.

In addition, there was a transfer of 123,000 units from white to black occupancy. Most of that transfer was accomplished with FHA mortgage mechanisms.

Now, the net result was that by 1970, 314,000 units, housing units, were occupied by blacks of which 74,000 were owned; in other words, black home ownership in the central city more than doubled during the decade and 240,000 units were rented.

Now, at the same time the movement of the growing black population into those new units and into the filtered units led to:

(A) The vast areas of abandonment in the old ghetto areas and the increase of vacancy of available units, vacancies that are now running between 8 and 10 percent and that are only the precursor to abandonments, tax takeovers and demolitions.

The crux is the filtering mechanism, in understanding where the surplus is being created and where it ultimately comes to rest in terms of physical abandonment of homes in entire neighborhoods.

Senator STEVENSON. Filtering in the sense that the system isn't working to create adequate vacant houses but uninhabitable houses that cannot in their present condition contribute to the supply of decent housing?

Professor BERRY. I disagree with that.

I think that the filtering system is working and there are several pieces of evidence that can be used. First of all, the 123,000 housing units that were transferred from white to black occupany in the decade were substantially better quality homes than those that had been occupied by the blacks who moved into them.

Second, whereas in 1960 there was incontrovertible evidence that the dual mass housing market was producing higher prices for blacks than for whites for identical properties, higher prices resulting in overcrowding and then in all of the consequences of all of the human consequences of overcrowding, those also came into play.

Now, by 1970, there was no evidence at all that there were price differentials for identical pieces of property.

In other words, the white and the black segments of the housing market were delivering identical houses at identical prices.

Now that that aspect has been removed from the picture, was largely the result of accelerated transfer of supply from the white to the black segments of the market.

The fact of a surplus building up in the oldest areas is a surplus that focuses on the crummiest buildings in the crummiest neighborhoods and abandonment is clear evidence of alternatives being available.

Mr. CHRISTMAS. I would like to agree that our differences are more apparent than they are real, and that, in fact, some of the differences we find where we see a high vacancy rate on one hand and yet I saw that there is a shortage, is due to the distribution situation; that where the shortages are it is a case of families that would like to live in these areas, not having the income, not having the family size, not having the color that would qualify them to move into these areas, where there is a surplus and, again, the same situation holds.

So that if we had the time, and I don't think we do, we could demonstrate, I believe, that the situation of imbalance here is true.

There are surpluses, and there are shortages, but in net, the overall situation, I think we could also agree, is one where we do have a substantial amount of substandardness.

We do have a substantial amount of overcrowding and we do have a very high degree of concentration of moderate- and low-income families in housing subsidized and otherwise in areas which do not correspond to where the job opportunities are.

Now, we have talked too much, we haven't talked too much about that, but I think that is perhaps becoming more and more the critical issue.

Now, that relates to the ability of families to improve their economic situation, to get the job that is otherwise not available and to perhaps solve its own housing problems without Federal assistance.

Mr. DOLAN. This is why the moratorium is so dangerous.

The moratorium is great for our community.

The moratorium helped our community stop the impaction of 235 housing but from the inner city's point of view, the moratorium is disastrous as all of these gentlemen are suggesting.

As people move out of the aging parts of our city, what we need is some way to rebuild the inner city to allow housing to be constructed, to bring people back into the city instead of constantly moving out.

With respect to the black Americans on the fringes of our community, in our conversations, they have said that they have moved three and sometimes four times just to escape the disastrous conditions in which they had to live and as we kept crowding up on them, they kept moving to newer and better housing stock.

Senator STEVENSON. We all agree on that proposition.

Mr. CHRISTMAS. We do.

Senator STEVENSON. There is a housing surplus in the inner city but something must be done to upgrade the quality of that.

Mr. DEVISE. I would agree with Professor Berry that the filtering process works and it's a good thing.

It may work for everybody else, but it doesn't work for communities like Woodlawn and for the desperate people who can't leave Woodlawn and must live in extremely unsanitary, unsafe and dangerous communities and that of course is on the doorstep of Professor Berry's own university.

I think we must find an answer for communities like Woodlawn. We can't want 10 or 20 years for that community to die out completely.

Mr. CHRISTMAS. It is not working well in northwest Cook County.

The jobs are there now and we don't have time to wait 10 or 25 years for the housing opportunities to filter down to the people who can occupy those jobs.

Professor BERRY. I tried to focus on two kinds of incapacity. One is financial incapacity that afflicts the people left behind in areas of accelerated abandonment such as Woodlawn.

Here this is an incapacity that afflicts the elderly poor and the welfare poor.

The second kind of incapacity is a geographical one. It is notable that whereas the black homeownership in the central city doubled in the last decade, those 40,000 new black homeowners, because of the dual structure of the housing market, were still condemned to that homeownership within the contiguous expanding area of the ghetto, and were not able to realize their ability to pay in the housing market by making access to or having access to property in suburbia.

We are still in a situation where well under 1,000 black families per year are gaining access to otherwise all-white residential areas in urban Chicago.

I reiterate that this remains a very highly segregated housing market.

Senator STEVENSON. Do you gentlemen see evidence that the migration from the city to the suburbs is beginning to turn around?

Mr. DEVISE. The city of Chicago has lost so many whites that it doesn't have as many whites as before to lose to the suburbs.

There is certainly no turnaround whatever. In fact, last year, for the first time since the Depression, there was an outmigration of blacks out of Chicago, as I said, for the first time since the Depression so that even blacks are considering Chicago community life too dangerous or too expensive or of inadequate quality, with inadequate facilities such as the schools, to remain here.

So, I see no turnaround whatever. Chicago has been losing population every year since about 1957, about 15 years. It is losing whites at a rate of about 50,000 a year.

It was gaining blacks until last year and it is probably a temporary phenomenon that we lost blacks in a net outmigration.

Mr. DOLAN. There is too much evidence, and it seems to be now that the community north of 87th Street on the south side and our own community and others that have been, are now in the southwest quadrant of the community.

Mayor Daley has a very wise rule here and that is that all city employees are required to live within the city.

If we can get all of them in the city, we will have some inmigration to be sure, but if the FHA and 235 program continues on its present course, our people are going to feel the need and the pressure to get out of the way.

We are asking then to get some immediate relief from this dagger of FHA and 235 on some of these communities, some reversal can occur.

I might point out in our community, because of the public relations program, and because of the other things that we are doing, 18 percent of the people who moved into our community last year came from the suburbs back to our community.

First of all, because of the great housing stock and the tree-lined streets, but also because of the transportation and things like that.

Senator STEVENSON. There seems to be a consensus that one of the Federal priorities ought to be upgrading of the housing stock

in the inner-city areas but I believe it was Mr. Christmas who made the point that that is not enough.

Some thought should be given to equalizing the job opportunities also, and I think it is generally agreed that the best job opportunities are in the suburbs, not in the inner city.

How do you give inner-city residents access to those job opportunities in the suburbs unless you also provide them housing opportunities through subsidized housing for low-income people in the suburbs?

Mr. DeVise. The major barrier to occupancy of suburban housing by blacks is not economic segregation but racial segregation.

If we look at the DuPage County, which is the most affluent county in Illinois and the fourth most affluent county in the United States, and if they were in DuPage County—in DuPage County they have a colorblind housing market.

Now, blacks occupy, if it was strictly on ability to pay for the housing, we would find 8 percent of the population instead of 0.3 percent which would be black, so that we don't need to create a moderate income housing in DuPage or northwest Cook County as much as we need to make available existing housing.

There is plenty of existing moderate-income housing available in the suburbs, but they have this colorblind housing market which, if they didn't have it, it would result in 20 percent black population in many of the suburbs.

Senator Stevenson. If I may interrupt you, you made the point that there is no low-income subsidized housing in the suburbs, that it is costly housing.

Mr. DeVise. Yes, indeed, because, of course the programs like public housing and 236 housing would have to be made available to blacks and whites whereas in a private housing market, there is not a strong obligation to do that and in fact what we find is that where 236 housing is actually built in the far out suburbs, and they are no longer suburbs but rather satellites, these projects are almost totally white because of the fact that they are so far from the existing concentration of blacks; 20 to 40 miles from Chicago, and blacks are not going to make this huge move and I attribute that to the fear of the developers that blacks might fly to the subsidized programs in Arlington Heights or DuPage County so that we have no such projects built at this time in suburbia.

Mr. Christmas. I can't agree, Senator, that it is as simple as that.

There is a racial discrimination factor and that is still a very large factor but in the suburbs we watch them develop and we see what the housing market is which they are producing and they are producing a certain kind of housing unit, ones which are designed primarily with the municipal profit motive in mind, that is the improvement of the tax base relative to the cost of services and facilities.

Consequently, there appears to be, if there is a surplus here, it is a surplus of a certain kind of housing unit; namely, the apartment or small house, perhaps one or two bedrooms and very few three bedroom houses and consequently families of even the traditional

American size, much less the sometimes larger families of the lower income groups, simply don't fit into those housing units and the cost, accordingly, is still high.

Suburban land prices are high and I would have to say that the economic factor is very much in evidence here and it is an economic barrier which is partly a market one and partly a contrived condition as a result of the local regulation of land, local building codes, et cetera, and it still is keeping many families who would otherwise find it to their economic advantage to live in the suburbs, unable to find the kind of housing to fit their requirements.

Mr. DOLAN. My question to both of those gentlemen is: What is so advantageous about living in the sterile suburbs?

It is the city that is exciting because that is where the culture is, that is where the education is and that is why we live here in the city where we have cultural intercourse.

I agree that we ought to split open the suburbs for all racial and socio-economic levels. Let's do something for the city, too.

Let's take the aging part and rehabilitate it and build new homes in the city for all of us.

The only reason people are moving out to the suburbs is because somebody has indicated that the jobs are out there but racism is a part of it, too.

Let's make it possible for industry to come back to the city so that the people will feel the need to stay closer to their city.

Senator STEVENSON. It isn't only the jobs. It is the schools, also.

Mr. DOLAN. Yes, the schools and other things also.

The schools, then, if we can have the environmental impact done through HUD or NIPC before projects take place in the community—it is no wonder that the Chicago School Board is broke. It is because they have been building, you know, and blacks have a tendency to be protestants and as they move and the nonuse of parochial schools means that all of the school students come into the public schools so that they have to build classroom after classroom after classroom.

Now, they haven't been able to do it all the time and this puts a strain on the budgetary resources of the schools.

Mr. CHRISTMAS. At the present time, we have more than half of our jobs in the suburbs and yet we have probably 80 percent of the moderate- and low-income families living in the city. This is an imbalance that must be dealt with and—unless we move more people more miles by automobile or move them by a public transportation system, the problem can't be solved.

Hopefully, we should have more jobs in the city and it is a very critical thing and hard to accomplish but it isn't going to redress this imbalance that we have right now.

Professor BERRY. I think there is a reasonable range of conflict and interpretation that we have heard so far. In fact, the suburbs constitute a great and diverse mosaic.

If Mr. Dolan's point is right, I wonder how so many can be so wrong about the preference of living stability.

Mr. DOLAN. I tried it in the suburbs and I didn't like it in the suburbs.

Professor BERRY. It is a diverse mosaic with many types of housing available in many price ranges and I think Mr. Christmas' response was one that related to the cost of constructing low-income housing in suburbia, right now, while at the same time we have many suburban communities with a wide range of housing available which is a very good quality and on which there is a downward pressure on prices at this point.

This is housing that is well within the capacity of central city residents to pay if only they could gain access to the housing stock.

Senator STEVENSON. The average new house now costs in excess of $30,000. Mostly homeownership in the suburbs——

Professor BERRY. Exactly, but we have many suburbs in which the total array of housing stock available is well beneath that limit which applies to brand new housing constructed.

Mr. CHRISTMAS. Let's agree that we are mixing one suburb and another and I think that we could possibly find situations where the filtering down process and the high cost of housing or the filtering down is not working and the high cost of housing is a barrier.

The newer suburbs have rapidly growing populations and the jobs are there out in northwest Cook County, and also in DuPage County, and that is what I have in mind.

It is true that other counties don't have nearly the same situation. There may be individual communities in DuPage County or northwest Cook County where there is some possibility of moderate- and low-income families finding conventional housing but it is the exception rather than the rule, and yet those are the growth areas.

Those are the places where you are getting half a million population increase in a decade and yet you don't have a balanced population.

Professor BERRY. I argue very strongly that the economic argument is very overused as a copout to explain away the continuing web of discrimination that prevents people with the ability to pay, to gain access to this very substantial housing supply.

That web of discrimination exists, it remains.

Mr. CHRISTMAS. Agreed.

Professor BERRY. It is profound. It provides the rationale for the Leadership Council's legal action program and this is indicated by the fact that there are far more cases than there are lawyers who can properly handle them efficiently in a short period of time.

Now, if we are able to crack the web of discrimination we will find that indeed many of these asserted copout economic arguments begin to vanish.

We still have that problem.

Mr. CHRISTMAS. I am afraid we are giving the impression here again that most of the moderate- and low-income families, that an overwhelming percentage of them are black but there is, of course, a large percentage of our minorities which fall into that category, but there is a substantial number of white families and elderly people, a substantial number of young families just having gotten married and having a baby and finding the one-bedroom apartment

isn't going to fit after their second child is born, and finding that they cannot move back to the community in which they grew up.

This is not just racial discrimination at work, it is more than that.

I am not trying to downplay the racial discrimination aspect, but neither can we ignore the economic aspect.

Mr. DOLAN. The Senator is accurate, as each of you are accurate. If you look on our community as a microcosm, as a laboratory, you will find that a portion of the black families do buy through conventional methods but each black you move eastward from Beverly Hills, the incidence of FHA purchasing, and these are homes above $20,000, these are $20,000 to $30,000 homes in our community. Our community ranges from $12,000 to $100,000, and it is one of the few economically integrated communities in the United States.

However, the point is that unless you do open up the suburbs for the kind of low-income housing that we are talking about, we are not going to be even safe.

Now, with respect to the city, I would agree to that point that I would come back time and time again, as you said, Professor Berry, very strongly, that the FHA has got to be altered in the way it is used today in order to save the city and in order to encourage movement or stability back in the city.

Senator STEVENSON. Gentlemen, our time has expired and, infact, we have exceeded the time alloted to his panel.

It has been fascinating and helpful. I regret that Senator Sparkman was unable to hear you. He will, of course, have an opportunity to review the record, he and I both will.

To the chairman, I offer an apology. [At which point Senator Sparkman arrived.]

The chairman has taken another tour of Chicago this morning and this one was an unscheduled tour.

I was to pick him up. I went by his hotel and was told by the doorman that the Senator, Senator Sparkman, had left for the studio with his staff in a bus, so I went on.

Well, the Senator was left behind and he has been touring Chicago in a taxicab with a driver who apparently didn't know the way to Station WTTW.

I apologize.

Chairman SPARKMAN. Apparently is a mild word, but I am glad to be here.

Senator STEVENSON. Thank you and my apologies.

Thank you gentlemen very much.

Our next witnesses are George Vavoulis, Director of the Regional Office, Department of Housing and Urban Development, and Mr. John Waner, Director of Chicago Area Office, Department of Housing and Urban Development.

Gentlemen, I might ask you if you would begin by identifying the men who accompany you.

Mr. WANER. George, would you identify them.

The Senator asked that we identify those men accompanying us.

Senator STEVENSON. Mr. Vavoulis, could we begin with you?

STATEMENT OF GEORGE J. VAVOULIS, REGIONAL ADMINISTRATOR, REGION V, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. VAVOULIS. Senator, to my right is Mr. Joseph Sabella, who is the Assistant Regional Administrator in charge of housing, HPMC programs within the region, at the regional level.

To my left is Mr. Rogan, who is the Deputy to the Area Director in the Chicago Area Office.

Next to Mr. Rogan is Mr. John Waner, who is the Area Director of the Area Office, and next to and on the left of Mr. Waner is Mr. Joe Paige, Legal Counsel for the Chicago Area Office.

Mr. Chairman and members of the committee: I would first like to express my appreciation for holding this hearing in Chicago, and giving us an opportunity to be present here this morning.

I also would like to express my appreciation to the television station for carrying these hearings live so that hundreds of citizens beyond what are in the studio here can hear these hearings and participate in the thinking of what I feel is a very excellent democratic process in our American way of life.

For the record again, I am George J. Vavoulis, Regional Administrator of the U.S. Department of Housing and Urban Development appointed to my post here in Chicago on February 1, 1971.

I administer HUD program activity in region V in the States of Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin. In each of the six States there is a HUD area office which directly executes and manages our program activity in community development, planning, and housing.

There are also four insuring offices in this region which handle insured housing programs in a part of the State. These offices are located in Cincinnati and Cleveland, Ohio; Springfield, Ill. and Grand Rapids, Mich.

The Chicago area office, directed by Mr. John Waner has responsibility for the administration of the insured housing activity in the 19 northern counties of Illinois in addition to all other HUD funded activity. The Springfield insuring office is responsible for the insured housing activity in the remainder of the State.

Of course, the foundations for the day-to-day decisionmaking on local program questions, such as those dealt with in the Chicago area office devolve directly from departmental policy as established at the Washington level. Recognition of this overall relationship between such development of policy and the carrying out of policy here in the field prompts a few observations about major decisions recently made by Secretary Lynn regarding the administration of the subsidized housing programs.

Certainly the hard reality of the January 8 suspension of subsidized housing programs has had an effect in this area. But as Secretary Lynn has made clear, the reasons for instituting this suspension stem from the very problems we are struggling with at the operational level, as well as from the increasing evidence, and criticism from many sectors, that the present program structure

is not yielding effective results even with the most professional management. In view of this condition, the Administration believes that it does not make sense to continue business as usual, particularly when that business already involves existing subsidy commitments for HUD programs estimated at between $62 billion and $90 billion over a 40-year period.

As you know, the Secretary is undertaking a comprehensive review and evaluation of these housing programs. This review will enable HUD to identify alternative approaches and to develop sound policy recommendations. Moreover, while this evaluation is taking place and notwithstanding the suspension, we expect that subsidized housing starts under HUD programs during calendar year 1973 will be about 274,000 units. This compares with about 252,000 units for calendar year 1972. Even without regard to prospective policy recommendations, the present pipeline of approved applications and program commitments will result in a starts rate through fiscal 1974 at close to the current rate of subsidized housing starts.

Further, as the President has stated, although new activity under the subsidized housing programs will be suspended, commitments that have been made under these programs prior to their suspension will be honored. Moreover, we are taking steps so as not to penalize certain builders who, although not protected under accepted HUD procedures, expended funds in reasonable expectation of receiving subsidy reservations. In administering the suspension of these programs, we are striving to be equitable and fair to all persons concerned.

Our discussion today of problems in administering federally assisted housing in Chicago should provide a microcosmic view of many of the problems confronting federally assisted housing generally, including some of the factors which prompted the suspension. If I may, I would like to highlight some of the principal actions in what I believe to be an outstanding and successful effort by Mr. Waner and his staff during the past year and a half, with our support, to correct some of the shortcomings which existed in the administration of housing programs in this area. First, however, I would like to put some of the national facts and figures into a regional perspective.

In the past calendar year the FHA process assisted in the purchase of more than 80,000 single family units here in region V. The mortgage amount was more than $1,360 million. In that same period, 46,500 units for rental markets were approved for a mortgage insurance total of about 879 million.

In regard to subsidized programs we also have a large volume. Nationally, in the past 4 years, more federally assisted housing was built—over a million units—than was built during the previous three decades.

In this region, we anticipate approximately 40,000 subsidized single- and multifamily-starts in 1973, compared with 54,000 in 1972.

A great deal of emphasis has been placed on the housing problems of our major cities, particularly as they relate to subsidized housing. Let me give you some additional regional figures.

In the six-state Chicago region, we had insured more than 70,000 homes under section 235 as of December 31, 1972. Of these, 5,700 have gone into default. (In the Chicago area office jurisdiction, more than 10,000 homes were insured under 235 and 800 have gone into default. Thus we see that regionwide defaults represent just over 8 percent of the homes involved and in Chicago less than 8 percent.) Between the inception of the program and December 31, 1972, more than 85,000 units of 236, have been placed under firm commitment.

Under section 518, formal complaints requesting assistance have been received to date on 217 units. A complete breakdown on these have been furnished to the committee in response to your questions of February 28.

These figures by no means indicate that there is no problem for us to be concerned with. While the total percentage may be small, the importance of the problem to the individual homeowner who may have structural problems with his home is no less significant. We recognize the legitimate concern of every individual in this situation and are committed to seeking every possible remedy for each individual and for all prospective users of our programs.

When the Chicago area office became operational in September 1971, multitudinous problems were experienced by FHA insured homeowners with construction defects, shoddy workmanship and legions of other varied irregularities. I am sure you are aware of changes in national HUD policies and procedures such as new project selection systems, affirmative marketing programs, etc., so I will talk from a regional and area office perspective.

Remedies for the problems and complaints fall into two general categories, preventive measures and corrective measures.

In the area of preventive measures, we have sought to tighten management of the programs at all levels of operation.

Within the region we have continuously evaluated the performance of the field offices and provided technical assistance where required to assure quality performance. Early in this fiscal year my staff established a housing control room to monitor allocation of housing resources, use of manpower, and construction start activity.

One of the first decisive actions taken by the Chicago area office was to create the Consumer Services and Public Affairs Division, the function of which is to serve the public by taking prompt and necessary corrective action on all complaints. This complaints unit established by the area office was one of the first of its kind to be organized in any HUD office.

We have moved quickly on corrective actions. Based on reports of alleged bribery, kickbacks and other irregularities involving both HUD employees and private individuals doing business with the Chicago area office, an immediate and thorough investigation of all such allegations was ordered. Leads and evidence of alleged criminal violations were submitted to the HUD Regional Inspector General, the Federal Bureau of Investigation, and the Federal Grand Jury by way of the U.S. Attorney for the northern district of Illinois.

The Federal Grand Jury has returned numerous indictments of individuals employed by HUD, and individuals doing business with

HUD. Indicted employees have been suspended, and indicted private individuals have been suspended from participation in HUD programs. The investigations are continuing, and additional indictments will be sought until all programs within the jurisdiction of the Chicago area office have been purged of criminal activity.

The Chicago area office has also established new procedures to assure that homes are in compliance with code standards prior to insurance. Certificates of inspection are required from the city of Chicago for major structural systems and for compliance with codes. The area office also has established "ad hoc" committees of mortgage bankers, savings and loans, builders, realtors, and attorneys to discuss problems and policy and procedures to be used to provide a quality product.

Back in 1969 and 1970, when the Chicago Office was administering only FHA mortgage insurance, its heavy workload necessitated the hiring of fee appraisers for single-family work. Subsequently, after the expanded HUD Area Office was created, it was recognized that many of the problems being encountered in the housing programs were a direct result of both a lack of training, experience, and expertise, and, in many instances, dishonesty of fee appraisers. Accordingly, all use of fee appraisers in the city of Chicago was terminated.

In response to the public outcry over shoddy workmanship and construction defects in FHA insured homes built in several large subdivisions, special task forces were formed to investigate homeowners complaints and cause builders to make necessary repairs. These task forces have been sent into Rainbow Valley, Country Club Hills, Valleyview, Forest Heights, South Elgin, Appletree, and other subdivisions, in an effort to bring about the correction of legitimate defects on a high priority basis. In most instances, defects have been corrected in a timely manner to the satisfaction of the homeowner. Repairs and correction of defects continue in those subdivisions not yet fully satisfied. Everything possible is being done by available staff to expedite the completion of this work.

Perhaps the most lamentable aspect of these and other difficulties that have arisen under the present housing programs is their failure to serve effectively and efficiently the intended beneficiaries under the legislation establishing these programs.

The Department's experiences with subsidized housing have given us a better perspective on the magnitude of problems with the assisted housing programs. Housing problems in our cities are related to and exacerbated by other problems: the breakdown of city services, crime, vandalism, racial segregation. One lesson we learned is that programs alone cannot solve all of these problems.

As alluded to earlier, our experience has also produced increasing evidence, supported by criticism from many sources, that the present program structure is not yielding effective results even with the most professional management. In the current review of the programs, Secretary Lynn will be making use of that experience to develop a better program to meet the nation's housing needs.

We hope that these oversight hearings will assist us in focusing attention on housing problems and developing better solutions to those problems.

I would like to say this, Senators, since Secretary Lynn has taken over his responsibilities, he has requested of the Area Directors within the regions and also the Regional Administrators, and we have already submitted to him, facts, information, data, recommendations, suggestions on how to develop a better housing program.

In Washington, D.C., in the HUD Offices, he is gathering together a committee from throughout the nation and these are the professionals within our department, to evaluate that information so that he can recommend to the various committees that have the responsibility to make the laws which we have to administer our responsibilities under, what he hopefully feels will be the kind of a program that will better serve the needs of the people.

They can also play a major role in contributing to greater community understanding of housing problems. We are pleased to be a part of your efforts in this way.

We look forward to the coming months as a time to pause and evaluate our progress in the field of housing and to chart a better course for the future. We welcome any suggestions resulting from these hearings which may help us to pursue our mutual goal of "decent, safe and sanitary housing for all Americans."

This completes my prepared statement, Mr. Chairman. I will be happy to answer any questions you may have to the best of my ability.

Thank you.

Senator STEVENSON. Thank you, Mr. Vavoulis.

Mr. Waner.

Mr. VAVOULIS. I would like, before Mr. Waner speaks, in order to give further credibility to the statements that he might make, to point out that Mr. Waner was born and raised in the city of Chicago, that he has been a junior civil engineer—his experience includes junior civil engineer with the Cook County Building and Zoning Department.

He is a heating specialist. He has been a general contractor. He served as Federal Housing Administration Director for the Chicago area.

He prides himself on being a paid-up, card-carrying member of Local 130 of the Chicago Journeymen Plumbers Union.

Many of you will remember him as the Republican candidate opposing Mayor Daley back in 1967.

I mention these things because week after week on Saturdays, being a newcomer to the city of Chicago, Mr. Waner has taken me through the neighborhoods. We have rapped on doors and visited with people who own 235 homes.

We have looked at the highrises, looked at the various neighborhoods.

I have been in the Woodlawn area at least three times and once under a conducted tour and the thing that has impressed me is his knowledge of the city, his explanation of what is happening to the neighborhoods and more particularly, as we have gone through, his

being able to point out to me the structural defects and also the better construction practices that one builder uses as against another.

Senator STEVENSON. Thank you.

Mr. Waner.

STATEMENT OF JOHN WANER, DIRECTOR, CHICAGO AREA OFFICE, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. WANER. Thank you, Senator Stevenson.

It is certainly my pleasure to meet with you for the first time after all these years. As I listened to the television broadcast yesterday, I was glad to see that Senator Sparkman at one time was a member of the building profession as a real estate appraiser.

Perhaps we can be, at least on common ground there so far as building construction is concerned.

I have prepared a text here that I was prepared to read, however, George Vavoulis, in his presentation—and we hadn't compared notes—covered a good percentage of what I would like to talk about here.

But the fact remains that upon assuming my duties as director of the Chicago Office, the office was deluged with complaints. Confrontations with community groups, that stormed our offices in numbers, demanding that FHA programs be terminated.

Many of these groups were demanding reimbursement for repairs that are not covered under the existing laws or regulations.

The Chicago office personnel were subjected to harassment and the total office operations were disrupted by these demonstrators in violation of the Federal regulations.

In addition, my own personal residence was picketed by members of some of these groups.

We were subjected to name callings, innuendoes, and other disruptive tactics. It is my considered opinion that the objective of some of this harassment has been to intimidate the Chicago area office into adopting a policy of refusing to insure mortgages in racially related areas in the city, stop the FHA, gentlemen, in cold language, because of resistance to minorities who take advantage of the FHA insurance to expand their housing opportunities in their endless search for better housing.

I must hasten to add at this point that many of the complaints that we have received, and that you have heard here in some of the testimony, are justifiable.

However, it has been the policy in the Chicago office, since I became director, that I and members of my staff will meet with any representative group from any community, but I have the responsibility of administrating approximately 80 programs in 102 counties of the State of Illinois, and jurisdiction over FHA programs in the 19 northern Illinois counties.

This necessitates my meeting with thousands of officials, village board managers, presidents, builders, realtors, Congressmen, their aides, and in some instances, with the Senators.

I will not be pressured into subjecting employees of my office to attend meetings where they are treated with the utmost disrespect.

For the record, we have met with representatives of many community groups in an orderely manner and we have contributed to the solution of some of the problems in these communities.

I have visited many construction projects. I have talked to owners and I have, personally, corrected some of the problems that I found on some of these projects.

Because of my experience as a heating contractor, and if you want me to, I will go into that a bit further, but upon taking office we immediately established reforms with and through the cooperation of the Regional Administrator and some of them were drastic.

However, you know, when the complaints were pouring in, drastic action had to be taken. Gentlemen of this committee, you have copies of the directives involved and if you haven't, I have some 34 directives that I put into effect in order to eliminate the old maxim in the construction industry that said, "Let the buyer beware."

We were the first consumer-oriented FHA office in the region.

We are completely aware of some of the mistakes that have been made; misrepresentation and collusion that has existed and as Mr. George Vavoulis stated, we have taken immediate action to try to correct some of the irregularities that we found existed in our office.

I have been informed that the local inspector general could have gone on a vacation with the amount of complaints that were registered with him until we took over in the Chicago area office, and it is a matter of record that Jim Thompson has been pretty busy indicting some of the real estate people and many others who were engaged in practices that were suspect insofar as FHA operations were concerned.

The Federal grand jury has returned numerous indictments and I am sure that there will be more coming and as these investigations continue in many instances we continue to supply them with the necessary information in order for the district attorney to make a proper presentation to the grand jury.

Moreover, gentlemen, you are aware of the moratorium on subsidized housing that is currently in effect and that evaluation of these programs is now currently being conducted.

I know that out of this, some solution will come to meet the many housing needs that I find we have here in Chicago and I must admit that I do disagree with some of the comments made by the gentlemen on the panel preceding me, where they said that we have a surplus of housing within Chicago.

Our own EMAD [1] section indicates in effect that we need some 140,000 additional housing units to house our elderly over 62 years of age and, of course, we need additional housing units for the low- and moderate income families.

We need thousands upon thousands of housing units within the city of Chicago.

The fact that these projects may have vacancies is only because they are absolutely substandard in my opinion and we do need quality housing.

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[1] Office of Economic and Market Analysis, Chicago area office.

I am privileged to appear before this distinguished committee and I sincerely hope that as a result of this and perhaps other meetings with our legislators throughout the State of Illinois and in Washington, we will all make some sort of a contribution in helping solve these difficult problems that we have.

Senator STEVENSON. I thank you, Mr. Waner, and both of your statements are encouraging.

If you will give us the text you referred to, we would be glad to enter it into the record, Mr. Waner.

Mr. Chairman, do you have any questions?

Chairman SPARKMAN. Well, you go right ahead.

Senator STEVENSON. Mr. Vavoulis, do I take it from your statement that you support the President's so-called "moratorium"?

Mr. VAVOULIS. Well, I don't know whether I referred to it as a moratorium. I would like to think of it in terms of a statement that Secretary Lynn has made before the various committees and that is that with the volume of complaints and the disruptions that we are faced with and the frustrations that I am faced with, in the Regional Office, that what the Secretary is saying and the President is saying is, "We need some breathing time to reevaluate these programs and to find a better delivery system in order to accomplish a better housing program for America."

They have always stated, and I think this came out when Mr. Lynn, Secretary Lynn, was being questioned on his confirmation, that he is not opposed to a housing program; that it is one of the highest priorities of this administration.

I believe that. I have to concur that we need local, State, Federal involvement, private enterprise involvement and more particularly we need citizen involvement in order to develop the kind of program that will better serve our citizens.

Senator STEVENSON. Let me just make one comment for our record to clarify a point.

You said, "federally assisted starts for calendar year 1973 would be about 274,000 units in spite of the moratorium, compared to only 252,000 units in 1972."

I believe if you will check the record you will find that there were closer to 350,000 subsidized housing starts in 1972, not 252,000, and that the housing goal calls for 700,000 units in fiscal 1974.

Mr. Waner, let me ask you the same question. You just finished saying that we need thousands upon thousands of new housing, "better quality," I think was your expression, "housing units in Chicago."

Do you support the President's moratorium?

Mr. WANER. Senator Stevenson, I have requested, through the Regional Office, that exception be made on some 17 projects currently pending in the Chicago Office that were caught in the hold moratorium and I worked within the directives that are handed me through Secretary Lynn and my opinions have been made known to Secretary Lynn in a memo to his office, and I am sure that it would not be prudent at this time to make my feelings known.

Senator STEVENSON. Are you claiming executive privilege?

Mr. VAVOULIS. Mr. Senator, so that there is no misunderstanding as to my statement, I most certainly do support the administration policy and more particularly the grave need of evaluation of where we are going in this mad rush in building houses, you know, where quality of construction has suffered.

All of these kinds of practices that breed discrimination rather than eliminate discrimination create the kind of environment where you have health problems, crime, school problems and city administrations are screaming.

Now, one of the things that I was kind of pleased to listen to the panel preceding us say was the emphasis on the fact that we have got to hold our central cities.

I am a former mayor and I feel very strongly about this and unless we tend to the problems of the central cities, you are not going to have a community.

Senator STEVENSON. I say this in the spirit of sympathy.

In November 1971, Mr. Waner, you said:

> HUD–FHA will not ban, declare a moratorium or set any of its housing programs, specifically any of the programs aimed toward the the low- and moderate-income buyers. To do this would dry up mortgage money for thousands of home buyers of low and moderate income.
>
> It would be totally unfair and not carry out the intent of Congress.

I gather, if not because of the privilege, because of prudence, you are not inclined at the moment to stand by that statement?

Mr. WANER. I made that statement, Senator, at a time when our office was deluged with complaints from community organizations that we take particular action that you mentioned and the statement is as a result of the groups coming into our office and insisting that we stop, ban and do these other things.

My feelings, my personal feelings, are something that are different than my feelings as a man under Civil Service and I do work under the regulations, rules and guidelines that are handed to me by our central office and this is what I carry out.

Senator STEVENSON. That is exactly what Mr. Lynn told us not very long ago, he couldn't say that he was in civil service, of course, he wouldn't say that, but he refused to express any personal views or any views of the administration on housing policy. He said in substance at least that he was there to take orders.

He is not an area administrator. He is not only the Secretary of Housing and Urban Development but he is also one of the super secretaries, one of the counselors. He, too, was incapable or unwilling for the sake of prudence, to express personal views or even administration views on housing policy during the confirmation hearing that you just alluded to.

Mr. VAVOULIS. What are you implying there, Senator, that the Secretary was wrong when he was going through confirmation, going through the confirmation period?

Is he wrong in asking for some time to gain expertise with respect to the responsibilities of his office before making an evaluation of the housing program?

Senator STEVENSON. You are the witness, Mr. Vavoulis, not me.

But I would have thought that the President of United States would have appointed to the position of Secretary of Housing and Urban Development somebody with some opinion, some views on housing.

Chairman SPARKMAN. We did give him time.

We had planned definitely to hold our hearings and do our reevaluating and we do reevaluate programs every year.

We planned definitely to do that during the month of April. The Senate leadership has urged us very strongly to get out a comprehensive housing bill and in fact I had it at the top of the list and I explained to Senator Mansfield, the majority leader, that Mr. Lynn had said he wanted time to find out where he is.

Mr. VAVOULIS. I recall that.

Chairman SPARKMAN. And to know what recommendations to make to our committee, and he told me he would like to have until June 1.

So we postponed holding the hearings until June 1 and I earnestly hope that by the end of June we will have reported a bill from our committee which will be our reevaluation of the programs, aided by Mr. Lynn's testimony and the testimony of his aides and that we will have reported the bill and passed it through the Senate. I feel confident that we can do that.

Mr. VAVOULIS. I am pleased to hear that and I am sure that the Secretary is cooperating in these hearings on Wednesday.

Chairman SPARKMAN. Those are the "oversight hearings." They are not for the purpose of legislating.

Mr. VAVOULIS. Won't those surface some of the problems however?

Chairman SPARKMAN. In the existing programs.

Mr. VAVOULIS. Very good.

Chairman SPARKMAN. We are charged with that oversight responsibility under the law.

Senator STEVENSON. Mr. Waner, do you support the HUD site selection criteria and in particular No. 2 which prohibits building federal housing in areas of minority concentration unless comparable housing is available in other parts of the metropolitan area.

Mr. WANER. The site selection criteria is part of the Federal Register and being part of the Register, I and members of my staff, the professionals, certainly try to stay within the guidelines established by the site selection criteria.

Inasmuch as it is a part of the Federal Register, I have no alternative but to support the concept of site selection.

Senator STEVENSON. Do you believe that they are sound criteria including No. 2.

Mr. WANER. Senator, that is a tough question to answer.

Senator STEVENSON. It sure is.

Mr. WANER. It is one that would carry these hearings on for another week.

I would like to have an opportunity perhaps to be able to give my opinion of the entire site selection criteria some day, not only site selection criteria 2, but 3 and others.

However, it is the law of the land and again I must say, as an area director, I am bound by law to carry out the concepts.

I think it would not be prudent for me to make my position known other than that I carry out that particular phase of it.

Mr. VAVOULIS. May I add something?

Senator STEVENSON. It is a regulation of HUD. It is not a statute passed by Congress, although the regulation may to some extent have been dictated by court decisions.

So, I think it would be very helpful if you and Mr. Vavoulis could both give us your opinions on the soundness of these administrative criteria.

Mr. VAVOULIS. Let me respond to the question, if I may.

Senator STEVENSON. On No. 2.

Mr. VAVOULIS. As stated in my testimony, I began regional administrator on 1 February 1971, and the concern of Secretary Romney at that particular time was that as they audited or monitored files and processing procedures and decisions that were being made within the area and regional offices, that there was no basic factors on which to make these determinations, that these factors and decisions are made in the judgment of an individual or a team within the HUD area office and what the HUD central office wanted was documentary evidence as to how they determined a site, how they determined whether or not we should fund a given project through developing a market study and also they wanted evidence in the files to indicate equal opportunity in the neighborhoods.

Now, for that reason, I think the intent and the purpose of having these factors and having these new directives served a good public purpose.

If it had not been—if the site selection criteria and some of these other studies had been made earlier in the housing programs, you wouldn't have had the impaction and the discriminatory practices that existed in certain neighborhoods.

I think it is a good law or directive but it is unfortunate it was as late in coming as it did and it has created some hardships and I am well aware of them.

Senator STEVENSON. We agree with the intent but my concern is with the effect, and the effect has deprived people of adequate housing opportunities in the inner city. It is this effect which I would like you to respond to.

Mr. VAVOULIS. I think that that is why Secretary Lynn is requesting some time to take a look at that because that is one volume of criticism that is coming to his attention through the area and regional assistants.

Senator STEVENSON. The problem that I have with the moratorium is not with taking a look, reviewing the programs, because we are doing that every day. We emphasized the oversight responsibilities of the Congress year-in and year-out.

We will continue the commitment to decent housing at the same time that we review the programs.

Mr. Waner, on March 13, 1972, in reference to reimbursement rights, you said, and I quote: "Nothing else can be done under the existing laws by which this office operates unless Congress or the

Federal courts set up authority for using FHA benefits when purchasing an existing home."

I have introduced legislation S–855 to provide purchasers of all FHA existing homes the right to reimbursement for repair of serious structural defects present at the time the home was purchased but which were not detected because of inadequate FHA appraisals made or inspections.

Do you support that legislation?

Mr. WANER. Senator, I sincerely believe that some added protection should be given to the home buyer who is buying an existing home not unlike the protection that is given to home buyers under section 518A.

Whether or not the amount of time that you mentioned is the answer, I don't know, but I honestly feel that in many instances, even the well meaning, conscientious appraiser may not be able to see things that are buried in the wall or deliberately camouflaged.

There is a great distinction between an appraiser who would just, as we listened to one of the gentlemen talk yesterday, go into a community, a viable community, and make appraisals on the basis of comparables and there is again that distinction of the inspector or rather the appraiser who had to go into the inner city where the 223 section is applied and to try to come up with an appraisal because in many instances I am sure everyone is aware that since section 223 came into being, FHA moved into areas which were previously considered areas of undesirable risk and I think that there should be some sort of protection built into the act which would give the unsophisticated buyer a greater opportunity to find some recourse to some place, some place he can go and somebody who will listen to him.

Senator STEVENSON. Generally, you support an expansion of reimbursement rights protecting the individual who suffers a loss as a result of undetected structural defects?

Mr. WANER. I really believe so.

Senator STEVENSON. I am glad to hear that.

We received, and I gather you were watching television yesterday, a number of complaints from individuals including complaints about a failure of the Chicago area office to respond to applications for reimbursement.

I believe it was Mrs. Levenson who was complaining about the failure. She said she didn't receive any response at all from FHA to her complaints.

Was that Rainbow?

There were other such complaints which you heard on the television. How do you respond to that complaint?

They claim that they are not receiving satisfaction, that they are not even receiving answers.

Mr. WANER. If I may be absolutely frank: Most of the people that talked yesterday about the complaints have had some justification as to their coming down here.

For example, when Mrs. Levenson talked about the lack of compliance on the part of the builder, I agree with her.

However, builders' names have been mentioned in the press and one builder, he and some members of his organization or some of his organization rather has been indicted, I might say, on May 10, 1972, when I did take action.

I advised the builder, and may I just read this to give you an idea of what we did. I addressed this to Mr. Berkowitz, the president of the firm.

I said: "This form of notice is to advise you that effective immediately your company has been placed on our precautionary measures list and suspended from operation on all subdivisions on which you operate in Illinois," and that included the Appletree and Rainbow Valley and others—"This action is taken pursuant to the direction of the area director." and my legal counsel sent this out—"because of your failure to make necessary repairs on homes built by your company and your continued demonstration of bad faith in failing to fulfill your past promises to make these repairs as enumerated in the numerous documented complaints against your company."

Needless to say, the following day the whole entourage came out from all four corners of the country to the projects and assured us that they would keep crews out there until every single complaint was satisfied and specifically in Rainbow Valley.

Now, I have a report here from Martin Rogan, my deputy director, and my alter-ego who has been taking a lot of the heat with me.

All of the service walks have been installed, 109 walks, and this installation includes units where the homeowner granted K. & B. the right to install walks.

In some instances the homeowners said that they didn't want the walks.

There are 60 items on this total list of construction adjustments which have been completed and inspected by Mr. Urbain and the FHA. 11 remain to be inspected by our field inspector, Mr. Urbain, and our team.

All the rear porch painting has been completed per our previous agreement.

I might say that there was the question of conduit versus romex which is a question of what the specifications called for, whether conduit or thin wall rather than romex wiring and also in response to the request to establish a definite price difference between romex and the conduit and a recommendation was made making an allowance of $60 a building with a number of the owners. It is all here, Senator.

Now, I might also mention that this particular builder is cooperating. He may not be cooperating with, you know, a huge gang of manpower, but the fact remains he has men on these projects 40 hours a week.

We are constantly monitoring him and, inasmuch as he continues to do this, we are reluctant to institute or take action under the statute 518A and there is also pending a class action lawsuit by the homeowners of the community against this particular builder.

However, because he is showing cooperation and they all came out, and I am talking about the vice presidents and all of the staff from central office, and assured us that they would cooperate.

We then removed them from the precautionary measure list and they are continuing to offer service to these people.

Now, in the event they don't, we will suspend them again.

Senator STEVENSON. It has been 2 years and the mold is still on the floors, on the walls.

The floors are cracking and the houses are flooding.

Mr. WANER. It is a tragedy, Senator. There is no question. It is a tragedy what has been allowed to operate and what we have to some degree there is the fact that there has been some culpability on FHA's part.

I went out with Secretary Romney on one of the projects and I saw that, and we both saw for example, that the buildings, while they met the MPS, the minimum property standards for new construction, they did not—I am saying not completely for example, because the MPS' allowed a building to be constructed without gutters in certain areas.

Senator STEVENSON. The standards don't permit the construction of a building which has flooding; where the basements are flooding and where you have cracking floors.

Mr. WANER. We found that a good percentage of the water being driven in under the roof shingles was due to the fact that in many instances the roofer, who should have been, of course, supervised by his builder, failed to put the necessary felt underlay and again our offices approved slate footings which met the MPS' but should not have been really approved. But our staff passed on it.

Now, there is definitely——

Senator STEVENSON. Let me just interrupt to place in the record one of the applicable minimum property standards and I quote it:

> Existing or partially completed construction which indicates defective construction, poor workmanship, evidence of continuing settlement, excessive dampness, leakage, decay, termites or other conditions impairing the safety or sanitation of the dwelling shall render the property unacceptable until the defects or conditions have been remedied and the probability of further damage eliminated.

Now, with that as a minimum standard, could that property have been FHA-approved?

Mr. WANER. Senator, as I mentioned before, because of these and other irregularities, a number of our people have been suspended and action is being taken.

However, in the meantime, the damage has been done and we are requesting that the builder continue to repair these buildings.

Chairman SPARKMAN. How long do pople have to wait for reimbursement.

It has been 2 years.

Mr. WANER. Unfortunately, Senator, 518, as you know, specifically specifies, at least to—and I am not an attorney but I have Mr. Joe Paige here, who has researched at length—specifically specifies that structural damage or defects must be involved.

Now, whether or not this constitutes a structural defect and cannot be corrected is something that we are going to have to go into later.

However, it is the builder's responsibility to correct it and the builder has agreed that he will continue to correct it.

Chairman SPARKMAN. It may not be particularly relevant here because you are talking about new construction.

Senator STEVENSON. 235.

Chairman SPARKMAN. New construction.

Senator STEVENSON. Yes.

Chairman SPARKMAN. I want to ask about the house that we visited where just about everything was wrong.

Was that Mrs. Whitney's house?

Senator STEVENSON. Yes. Mrs. Whitney's house.

Chairman SPARKMAN. Are you familiar with the house, the house where Mrs. Whitney lives?

It is a section 203 property.

Mr. WANER. I am not familiar with it offhand, but I saw the picture.

Chairman SPARKMAN. You haven't visited that house?

Mr. WANER. I have visited a number of houses.

Chairman SPARKMAN. But not that particular one?

Mr. WANER. I don't remember, Senator.

Chairman SPARKMAN. I wish you would because I think it is absolutely the worst case that I have ever seen.

Mr. WANER. Senator, I have seen some as bad.

By the way, I saw that in the newspaper this morning and I have seen some as bad and worse and every time——

Chairman SPARKMAN. I don't see that it could be worse.

Mr. WANER. I might say, Senator, every time I look at one of them, I beat my breast and I say, "Mea Culpa," because, number one, the flexibility in the law made it pertinent that we accept the buildings within the inner-city and in many instances these buildings, prior to our coming aboard as insuring office director, were accepted and appraised and they did not pass city inspection and in many instances——

Chairman SPARKMAN. Why?

Mr. WANER. Sir, because the office, many of these buildings were inspected by fee men or men who were not adequately trained, I must confess.

Chairman SPARKMAN. Well, don't you think that if the inspection is adequate, whatever the cause of it may be, that there is a responsibility on the part of FHA to see that correction is made or that something is done to relieve the situation.

Now, I was told yesterday, and you were talking about disciplining some of these people, but I was told yesterday that the company—I don't know whether it is the mortgage company or the one that handled the transaction involving Mrs. Whitney and her home had been warned or cautioned but were left on the eligible list. They were continuing to do business.

Senator STEVENSON. If I may just interrupt there.

Chairman SPARKMAN. You could tell it better than I can.

Senator STEVENSON. Well, to get the case straight:

We were both shocked by what we saw and you are right, it wasn't a typical—it wasn't a unique case.

In this case, this lady bought the house from Sky Realty Co. That company has been accused of block busting.

The broker's license of the company president was suspended for 2 years and two of the brokers with the company have been indicted and convicted after pleading guilty.

They pleaded guilty to fraud in the sale of housing. Now Mr. Waner, you indicated earlier that you do take steps to ban unscrupulous realtors and I assume builders and mortgage bankers and others from participation in HUD programs.

What Senator Sparkman was referring to was Sky Realty Co.

Have you banned Sky Realty Co.?

[The following was received for the record.]

SKY REALTY

The question of Sky Realty cases being processed in the Chicago Area Office was raised. By way of background clarification, it should be noted that shortly after September 5, 1971, when the Chicago Area Office became operational, we received numerous complaints from homebuyers against Sky Realty. We have developed no substantiating evidence to support the complaints.

Representatives of Sky Realty and their Counsel, John Harris, were called into the Chicago Area Office in October 1971 and were advised by Mr. Waner and Mr. Joseph E. Paige, Area Counsel, of our proposal to suspend Sky Realty pending an investigation. Several additional meetings were held in this office, and it was agreed that Sky would cease submitting applications to the Chicago Area Office, and that only those special hardship cases, (innocent third parties) would not be affected by this action. Sky Realty would submit no cases thereafter. (It should be noted that Mr. Harris, Attorney for Sky, advised that it was erroneously stated at the hearings that Sky had been indicted and disclaimed any wrongdoing on behalf of Sky. The two salesmen in question were discharged by Sky, according to Mr. Harris, prior to their indictment).

On February 18, 1972, the attached memo was sent to all staff appraisers as a result of Mr. Waner's decision to cease processing Sky Realty cases.

Two cases were mentioned at the hearings: one FHA Case No. 131–217851, 854 North Avers, Chicago, Illinois; this case was submitted by Action Realty and not by Sky Realty; the commitment expired on March 15, 1973. We found FHA Case No. 131–234192, 4410 West Iowa, Chicago Illinois, which was received in error by our Receiving Section.

Mr. Waner has reaffirmed his position to all staff that Sky Realty cases will not be processed in the Chicago Area Office. Mr. Harris, Attorney for Sky Realty, advised Mr. Paige that he will produce a written agreement on Friday, April 6, 1973, stipulating that Sky will discontinue any HUD/FHA dealings or submissions in accordance with our previous oral understandings. (To date no factual evidence of wrongdoing by Sky Realty has been developed, which in the opinion of the Area Counsel, would warrant formal action against Sky Realty.)

Mr. WANER. Sky Realty was the very first broker that I had sufficient complaints against to take action and they have not been doing business with HUD or having any applications in the HUD office since.

We had one complaint in our office where even though it was a 203 building that was insured and sold by them, because it was brought to my attention that the building was accepted in rotted condition, or insured in a rotted condition, so I went to them personally and asked in effect that:

"Unless you correct this, I will take action against you right now."

And I stopped further work in our office, any processing for Sky Realty; subsequently at the very minute the men were indicted, I instructed the legal counsel to notify them that they were persona non grata as far as HUD was concerned and they were taken off the eligible list of realtors to work with our office.

Senator STEVENSON. And they are still off that list?

Mr. WANER. They will never come into that shop if I can help it.

Chairman SPARKMAN. But the trouble is, as I see it, that you have run into cases like that but where was there no oversight of inspection and appraisal.

Now, that house had it had an adequate inspection—I don't think could possibly have passed.

Mr. VAVOULIS. Senator, may I interject here, please.

You are raising a valid question and a concern that is very real and I want to try to answer that as best I can.

Because of what I have observed since moving to the city of Chicago, which I am now a citizen of this city for about 2 years, I'd like to say this: This hearing excites me because we want to hear the citizens' complaints and I am well aware of the complaints that have come in to Mr. Waner's shop, come into the Area Office, and other offices, and when they come in, we do ask some hard questions.

We want to determine whether our offices are at fault.

Number two: What about the capability of our personnel?

Let me go back to February 1, 1971, when I took over this area of responsibility.

I walked into an office and—Senator Stevenson, you should know this perhaps better than I do, that HUD personnel was undisciplined, lack of training, incapable, disorganized, no administrative control.

Within a year then, we had to set up our area offices and we took over the Chicago FHA office and that office, if you walk into it you would have then seen the deluge of complaints, no organization.

I asked that the files be frozen for 30 days so that I could get some time, some type of a reading on who was doing business with the Chicago FHA office and what the problems were.

Now, as a result of that, Mr. Waner wrote to me and asked for an investigation.

We are concerned and we have taken training steps.

We have tried to improve the capability of the inspectors.

We have tried to improve the capability of the appraisers.

We are frustrated by the laws that we have to work under as to whether or not we can be responsive.

The citizens come in to us and we have tried to tell them again and again that the directives are such that we do not have the laws to be able to fund or to repair or to pay out these kinds of damages.

I have suggested to the committee that that complaint rightfully belongs to the Senators in our State and that they should meet with the congressmen and tell them what they are telling us.

We bucked this information to our central office.

Now, another thing that I have seen, as I have walked the streets of Chicago and rapping on doors and so on, I talked about community involvement.

I talked about local administration.

I talked about looking at a house and saying to Mr. Waner, "How in God's name would the city of Chicago permit people to live in a home like this?"

Who is at fault?

What about local code enforcement?

What about their health department?

What kind of inspections do the cities make?

What is the area of responsibility that HUD has in that relationship?

Now, we have been talking to the mayor and to the city and we have gotten some cooperation in that area, but let's be realistic.

The involvement of the political, you know, that says to us in terms of projects that takes the responsibility from us and moves it to Washington, takes it away from local authority, they create part of the problem.

Number two, we need the tools to improve this situation and this is exactly what Secretary Lynn is saying. This is exactly what Secretary Romney has said.

We can't continue to tolerate this kind of performance and also we have got to establish the kind of local responsibility necessary in order to make a more effective inroad on these problems.

Chairman SPARKMAN. Well, I recognize the force of what you are saying as a general statement, but the law specifically puts upon HUD or whatever part of HUD it might be, the responsibility of adequate inspection and appraisal in connection with rehabilitating property.

Now, the city of Chicago doesn't rule on that part of it. As far as your personnel is concerned, I know something about that problem.

Secretary Romney came to my office and talked to me about it and said how it was impossible for him to get from the budget bureau authorization for adequate personnel, not just here in Chicago but all over the country.

I know that was a real problem that Secretary Romney had.

I have said that Secretary Romney was one of the sincerest, one of the most devoted public servants I have ever known, but his hands were tied because the administration that he was trying to serve wouldn't give him the help that he needed.

Now, if I may, I want to raise just a question or two along another line.

Senator STEVENSON. Certainly.

Chairman SPARKMAN. You said in your statement that the subsidized programs have not worked even with the very best management.

Now, what management are you talking about?

Is it these employees you say are not adequate or what?

Who has been handling those programs, these employees that you have been talking about?

Mr. VAVOULIS. Well, I can tell you, and for the record, that I think that region V is giving good management today and that these problems that exist as of February 1, 1971, do not exist today and that we have been responsive.

Chairman SPARKMAN. Yes; but you say that they ought to be done away with?

Mr. VAVOULIS. Well, there are some other factors besides management that enters into it, enters into these programs.

Chairman SPARKMAN. First, let me just for the record get it clear as to what the subsidized programs are.

I am afraid a great many people make a mistake in considering some programs subsidized when actually they are not subsidized.

Now, would you just name them?

Mr. VAVOULIS. I will ask Mr. Sabella to respond to that because he is the expert in our region in that field.

Chairman SPARKMAN. Fine, would you give me the programs?

Mr. SABELLA. Senator, the programs for low- and moderate-income housing that are subsidized are the 235 program, the 236 program, the low rent public housing and the rent supplement program.

Those are the programs that are subsidized.

Chairman SPARKMAN. All right. In other words, there are four, is that right?

Mr. SABELLA. Yes.

Chairman SPARKMAN. Rent supplement was one you mentioned?

Mr. SABELLA. Rent supplement, yes.

Chairman Sparkman. Yes.

Now, we have learned that many of the programs that have been criticized were actually not subsidized programs.

Mr. SABELLA. That is correct, sir.

Chairman SPARKMAN. The great show that was made with reference to Detroit, actually did not deal with the section 235, 236, or any of the other subsidized programs.

The problem was raised by a FHA nonsubsidized program.

Mr. SABELLA. That is correct, sir.

Chairman SPARKMAN. And now I wonder if, in cutting off the subsidized programs we are curing the problems.

There is something else I want to mention.

I noticed, I saw a clipping here from one of the papers, from one of your Chicago papers—oh, yes; it tells about how horrible the situation is and says how HUD now holds 1,575 properties and this amount can be expected to swell with foreclosures imminent on more than 4,000 homes, including 348 subsidized programs.

Now, what does that mean? That is about 8 percent, but I understand that the program generally has only about a 3-percent foreclosure rate, and isn't that a pretty good record?

Mr. SABELLA. Senator, if I may, and I want to be as responsive to that question as possible, however, first you indicated why cut off the programs?

I think you are familiar with and I am sure more familiar than we are that this is not a cutoff of programs. This is merely a suspension and Secretary Lynn has every hope and expectation in June or sometime within the next 6 months, to provide the Senate and the Congress with appropriate legislation.

Chairman SPARKMAN. Well, I am informed that the "HUD Annual Housing Goals Report" which was supposed to be presented to us in February, most likely will not come to us until September.

Now, I don't think we are going to wait that long for housing legislation.

Secretary Lynn is going to testify before our committee next week, but that is on oversight matters. He is going to testify in

June on legislation and I have told him that I expect to have a bill through the Senate by June 30, and he will give his estimate.

We go through this every year.

Mr. SABELLA. Yes, sir.

Chairman SPARKMAN. We reevaluate. Congress reevaluates. We call the Secretary of HUD and all of his other aides in and hear their story and then, between us, we work out a program. We have always been able to work out a good one.

Now, I submit that sections 235 and 236 are two of our best programs, and I think the President made a tremendous mistake when he eliminated those programs. That is what he did.

Mr. SABELLA. I believe, Senator, respectfully——

Chairman SPARKMAN. There is a lot of talk about numbers of units that will be built. As a matter of fact, during fiscal 1973, there will be 1,975 section 235 houses built here in Chicago, and 4,000 under section 236.

In 1974, Chicago will build 500 section 235 houses and 3,500 section 236 apartments.

In 1975, we have no good estimate as to what will be built under section 235, and there may be as many as 3,000 units under section 236.

Now at that rate, you are not going to get the 6 million units built for low-income families under those subsidized programs by 1978, which the law directs.

Now, that goal has been affirmed and reaffirmed under both Democratic and Republican administrations. I am saying that by his action cutting the heads off these programs, the President doesn't give any hope that they are going to reach the goals we set.

He says, "We will come up with good programs whatever they may be."

I submit that he has done a great injustice to the promise that we made to the American people back in 1949, which, by the way, was the first housing bill I managed in the Senate, when we said that every American family had the right to have an opportunity to a decent home in decent surroundings.

Now, we are not anywhere near that goal. We are far off of that goal.

In 1968, we reaffirmed that pledge, and set this goal of 26 million units, and it has been carried on from year to year under both Democratic and Republican administrations.

We are not going to make it.

Mr. VAVOULIS. Well, Senator, I will let Mr. Sabella continue.

The fact still remains that under the Nixon administration in the first 2 years of 1970 and 1971, more housing units were built than in the previous 30 years and I don't read into that that we are antipublic housing.

Chairman SPARKMAN. I didn't say a word about your being antipublic housing.

Mr. VAVOULIS. And also I am not willing to accept the statement that the President or Secretary Lynn is chopping the heads off these programs.

Chairman SPARKMAN. They are not chopping the heads off of them. They have already done so.

Mr. VAVOULIS. Well, it is a matter of interpretation and I can't, you know, am not going to argue politics with you at this level.

Chairman SPARKMAN. No, I am not arguing politics with you. I want to call attention to the fact that the programs under which we got that high production during the administration of President Nixon came under the 1968 Housing Act.

Mr. VAVOULIS. Fine, God bless you.

Chairman SPARKMAN. That is the one that created sections 235 and 236 and other programs that made it possible for people to provide houses for low-income families. The President has certainly stopped them for the time being, except for those that were already in the pipeline.

Mr. VAVOULIS. Senator, the hard fact is that as we have rushed into the housing programs, we have also contributed the problems that the people are complaining about.

Now, this is of concern to everyone, not only the people in my position but local citizens. That is why they appear before this committee and make the kinds of complaints that they do.

The mayors are frustrated because of the impaction that has developed in the cities. Central cities are being destroyed and it seems to me that the Secretary is fair in asking for an evaluation of these programs.

Chairman SPARKMAN. I haven't criticized that.

I say that we do do that every year, both Congress and the Administration, and we have been working them out together. We have never had an instance in which programs were just cut off and we are told, "Wait until we have reevaluated them."

I want to say that I respect President Nixon. As a matter of fact, you may be surprised to know that the record shows that I voted with his programs 86 percent of the time last year.

Mr. VAVOULIS. Congratulations.

Chairman SPARKMAN. Well, in the year before that—I may say I don't vote because the President is a Republican or because he is the President, I vote for a program that I think is good.

Mr. VAVOULIS. Fine, I appreciate that.

Chairman SPARKMAN. And we have done that in the field of housing, but I think he has made a very serious mistake in the way he has handled this.

Now, let me say that I am not as pessimistic about the housing program in the future as I may have sounded.

I am rather confident that by July 1, the beginning of fiscal year 1974, we will have the things worked out pretty well. We can work it out and I am confident that we will, but we are not going to do it by having one side or the other just drastically taking action, stopping everything .

Mr. VAVOULIS. If I read Secretary Lynn from meetings that I have been to in Washington, I think that Secretary Lynn will support your effort.

Chairman SPARKMAN. I think he will, too, insofar as he can.

But he is under the direction of the President of the United States.

Now, listen, I have talked to Secretary Lynn privately before he was ever confirmed. He came by my office and we had a long talk and we talked about housing.

I like Secretary Lynn. I think he is a very able and capable fellow and I defended his confirmation on the Senate floor and in the committee. Not everyone agreed that he ought to be confirmed, but I fought for his confirmation and I like him, but I think the thing we have got to keep in mind, if we are going to have success in supporting the housing that the people need in this country, good housing, you know, and you understand that the housing policy of 1949, and by the way, let me say that was not written by a flaming liberal. That was written largely by Senator Taft of Ohio.

We have tried to live by that ever since. It is still the basic postwar legislation for housing and under it is anticipated that the Congress and the Administration work these things out together.

Now, we have done that in the past. This is the first time there has ever been a slashing program such as this that, in effect, has said:

Unless things don't go just exactly according to the letter as we order it, we are not going to—we are going to have 18 months moratorium allowing everything except FHA.

that is continued, isn't it, the high priced ones for those that can afford to pay $30,000, $35,000, $40,000, for a house or $50,000, whatever it may be, they can still get government help under the FHA program but these people who were given some hope under 235 and 236, 203 and 221(d)(2), I believe it is, all of these, their hope is taken away for the time being.

I think it will be restored. I feel quite certain that it will be and I think that the moratorium will be called off.

The President, in answering my telegram—I had heard that he was going to declare this moratorium and I sent him a telegram calling attention to the disastrous effect it would have not only with respect to providing housing, but with respect to the economy, with respect to unemployment, and I urged him not to do it.

However, his answer came back to the effect that he wanted time for a reevaluation and furthermore that he was insisting that his revenue, special revenue sharing program with reference to community development be put into effect.

Well, in the bill, it is a very fine bill and a comprehensive bill that our committee approved and reported out last year and passed, they passed it in the Senate with only 1 negative vote, it contained all of his community development special revenue sharing plans.

Unfortunately, as Senator Stevenson pointed out, that bill was not completed in the House in time to finish it during the last Congress.

I am pretty certain that the bill that we report out and put through the Senate this year, and I am confident we will, will be very much along the lines of the one that we reported out, which passed the Senate on March 2d.

Senator STEVENSON. Yes.

Chairman SPARKMAN. Now, we can't pass one on March 2d, because that date has already gone by.

We can't pass one in April or May, even by May 2d. We have to wait until way up in June to pass one this year, but I predict those same provisions will be in that bill.

Now, why he should penalize us, why he should set housing programs as a hostage to getting his revenue sharing enacted into law, I just don't know.

He knows the good faith that we have already shown and I am certain that he is confident we will do it again.

Now, I am not—I don't intend to be lecturing you, either one of you or any of you, but I am just trying to state the seriousness of this action that has been taken and to state my own personal opinion. I have been working in housing ever since 1947, when I first went on the Senate Banking Committee and I have been Chairman of the Banking Subcommittee since 1949, with the exception of 2 years when the Senate went Republican, but they corrected that after just 2 years.

And we have gotten along fine; Democrats and Republicans working together.

We nearly always report out a housing bill by unanimous vote of the Committee and we almost always pass it through the Senate by near unanimous vote, but there was one vote last year in the negative and that Senator had a special reason for it, because I talked to him.

That is all I care to state.

Mr. SABELLA. May I please respond, because Senator Sparkman asked me about subsidy programs and I did want to say that I thought the Senator indicated his encouragement for future housing programs.

It was true, Mr. Senator, as you have indicated, the programs for subsidy housing were enacted in 1968. At that time there was the legislation which was placed into execution without much experimentation.

Chairman SPARKMAN. Sure.

Mr. SABELLA. In addition, at that time there was a good deal of exaggerated expectations of the legislation.

We found also in the execution of those programs during the last 4 years, that there has been indications that the legislation itself was faulty and finally we found that there was faulty supervision and execution on behalf of the Government agencies.

I think in the last few days, Senator, you can almost feel the same thing that perhaps we all do, that these subsidy programs were providing a drain on the resources of the Federal Government without being in a position to be the most cost-effective and to provide the most benefits to the people it was intending to deliver services to.

I think the original time for the moratorium was stated to be 18 months and I believe right after that the President did indicate that within 6 months he would have some proposals and then Secretary Lynn, and I know he works very closely with you, Mr. Senator, indicated that he would try to beat the 6 months.

Now, in view of all that appears every side indicating that there are real deficiencies in the legislation and that the people are not receiving the most cost effectiveness of that legislation, that it appears reasonable that Secretary Lynn and perhaps Mr. Nixon and others responsible for it have a reasonable time to look at the programs and there is one other thing, Mr. Senator:

It is a suspension. The Secretary as well as the President indicated, in addition to Secretary Romney, that commitments would be carried out and I can assure you, Mr. Senator, that we are par-

ticularly in the subsidy program in 235, 236, in the low rent public housing, we have done much in the past 3 months to assure the localities and the sponsors and developers and people, that we are carrying out those commitments so that we are doing it at a very high level.

It is not a stopping of the program. It is not intended to really stop or create any hiatus in the future.

Thank you, Mr, Senator.

Senator STEVENSON. Thank you.

Mr. Vavoulis, excuse me, Senator, did you have something further?

Chairman SPARKMAN. No, you go right ahead.

Senator STEVENSON. You said that the subsidized housing programs don't work even when they are well managed.

Yesterday we went to a number of houses, projects, and one we referred to already as Mrs. Whitney's house. Now, that was purchased under an unsubsidized program, 203(d).

The house was a pile of rubble, a sink hole, full of filth, yet that program is being continued by President Nixon.

By contrast I think the next stop we made was a successful 236 subsidized housing project of the Chicago West Side Development Corp. constructed on the site of the buildings destroyed during the 1968 riots. But, the 236 subsidized housing program is now being discontinued.

Do I take it to mean from what you have said that the subsidized programs, even when well managed, and it looked to me like that was a well managed project, have not worked, that that particular project has not worked and it is a failure?

Mr. VAVOULIS. Well, I don't—

When I made that statement I wasn't thinking of one project, picking one out of many. I was making an overall statement and this is a concern on the part of the Department and just to pick out an isolated case, I don't believe adds to or detracts from the answer that I have given.

In this instance, I am not acquainted with it.

Mr. Waner, it is in his shop, so I will let him answer more directly your question.

Mr. WANER. May I respond to that?

Senator STEVENSON. Yes, sir, I wish you would.

Mr. WANER. Senator Stevenson, I don't know whether we got the question Mr. Vavoulis was asked, was really what I think the question related to.

When we talk about projects that are well managed and still fail, we are talking about a particular project and I am sure you have heard some testimony to that effect.

We are talking about where the excessive taxes levied upon some of these projects, builders or rather the sponsors are rather well meaning and the projects are well managed by some of our outstanding management firms here in Chicago, and yet in the final analysis, they find it extremely difficult to meet their mortgage obligations and this confiscatory tax that has been leveled on a number of these projects and I don't think time permits us to, but if it would, I would like to go into that a little bit.

We have seen where taxes were increased from 18 percent, which was the agreed upon tax structure that we processed an application for, jumped to as high as 58 percent and 60 percent.

This, then, necessitated the management firm to curtail some services. The result is that occupancy may have dropped.

The result is that they came in and asked that some concession be made to waive the mortgage payments for a number of months and so on.

Now, this does not necessarily mean that the project could not survive if it received the proper tax evaluation that it should have.

I, Senator, have sat with the local assessors representatives and have insisted that they cease these confiscatory taxes; that there be some form of tax relief for the benefit of the people who invested their money in the inner city to build housing under sections 236 and 235.

In fact, Senator, I have seen people buy homes under section 235 in different areas of Chicago and I find that in one area the tax bill on a 235 home is $350 and yet in another area, an area perhaps that would be considered less viable, the tax on a 235 subsidized home would amount to $700.

Now, the result is that this marginal buyer could hardly afford to make monthly payments, and just encountering a little hardship would mean a result of this building going into default.

Now, there is definitely an inequity in the tax structure at least here within the Chicago and Cook County area.

Senator STEVENSON. Mr. Waner, the point is a simple one. Mr. Vavoulis stated that subsidized housing programs don't work.

My point is, unless you disagree with that one example, that they do work. They certainly work in some cases. In other cases, they don't work and yet the law is the same in both cases.

There must be other variables that caused them to fail or succeed. Maybe the law needs to be improved and that is one of the reasons we are here but the law is the same in all cases.

There are other factors which determine the success of failure of the local programs, yet the law is being terminated unilaterally by the President.

Now, one of the obvious factors that has caused the failure is the failure to make adequate inspections of both subsidized and unsubsidized projects, even though these have been required by law.

Now, that gets me back to one subject that we talked about earlier. The committee has been informed that Sky Realty is, at this moment, processing FHA applications on properties at 4410 Iowa and 854 Ayers in the Chicago area FHA office.

I would appreciate it if you would look into that and let us know exactly what the facts are with respect to Sky Realty.

Mr. WANER. All right.

Chairman SPARKMAN. How many appraisers do you now have in the Chicago area office?

Mr. WANER. Senator, if you will bear with me, I will get that sheet out.

Chairman SPARKMAN. Do you have enough appraisers?

Mr. WANER. Sir?

Chairman SPARKMAN. Do you have enough appraisers?

Mr. WANER. Are we talking numbers or are we talking quality, Senator?

Chairman SPARKMAN. We have to move quickly and I would like to get the numbers but if we can't get them right now, we can get them from you later.

I would like to know right now if you have the number, but if you don't, fine.

Mr. WANER. I believe the total number of appraisers on the staff today, of various grades, are 33.

Chairman SPARKMAN. 33?

And how many inspections do they make on an average day?

Mr. WANER. In the inner city, where we have insisted, since the November 23 letter that I issued, and that is a part of your files, since we have insisted on closer, stronger and more rigid inspections than had been the vogue in the past, we average approximately three per day.

Chairman SPARKMAN. Three per day with how many, 60?

Mr. WANER. We are talking about 33, sir, and when we are, we are talking about GS–9's. We are talking about GS–11's and GS–7's, training inspectors, and the GS–9's we are reluctant to utilize within the inner city without having a GS–11 with him to give him guidance because a GS–9, according to—and I have given you a copy of our Civil Service regulations—is generally a person who is able to make appraisals on a comparable basis.

Where it goes into complexities or where complexities exist, a GS–11 is used, generally, as a review appraiser in order to review the type of appraisal that is being done and since we eliminated the use of fee appraisers within the inner city of Chicago, this put an additional burden upon our operation.

Chairman SPARKMAN. All of your appraisers are now civil service, they are all under Civil Service?

Mr. WANER. All of our appraisers that we utilize in the city of Chicago, sir, within the corporate limits of Chicago where the complex problems that have been brought to our attention through the community groups are, and also through our own investigators, we use Chicago appraisers or rather staff appraisers.

Chairman SPARKMAN. What happens outside Chicago?

Do you use fee appraisers outside of the city of Chicago?

Mr. WANER. We use fee appraisers in areas where the structures are not inclined to be as old and where they don't have the amount of deficiencies that we find in Chicago.

Mr. SPARKMAN. Do you have enough appraisers in the Chicago area.

Mr. WANER. Well, ours is a big business, Senator, as you know, and it fluctuates.

There are times when we are sadly understaffed and then, again, there are times when we are using the appraisers in cross training with the inspectors in order to give them as much structural experience as we possibly can, because we don't have an inspector title—inspector-appraiser, and we instituted procedures where they are continuously cross-training both because of the complexity with-

in the inner city and that has all started, sir, as a result of our own action since we came aboard.

Senator STEVENSON. I have the impression that another of the factors involved with the success or failure of housing programs is the understanding within HUD of its own guidelines and the law.

As you know, my office has received hundreds of complaints of people about subsidized and unsubsidized housing. We attempted to organize the complaints and get information about them and get the defects through the use of questionnaires which we have sent out to homeowners and tenants.

Many of these questionnaires we have sent to the Chicago area office for corrective action. On February 13, we received a response from you, Mr. Waner, which was in connection with a complaint that we referred to you including the questionnaire about the property of Louise Smith in Morgan Park, a 235 home.

Mr. WANER. Yes, sir.

Senator STEVENSON. Your response to our inquiry read: "Any complaints with regard to new construction must be filed within 1 year of the mortgage date."

We are talking about 235 and this was a reimbursement complaint. Is that a fair and accurate statement of the law?

Mr. WANER. 235 new, sir, no, that is either a typographical error or it went out without my checking it.

A 235, the warranty on new construction, whether it is—she gets a warranty from her builder for a year, but as far as HUD is concerned, she has recourse under section 518A for a period of 4 years.

Senator STEVENSON. Four years?

Mr. WANER. Yes.

Senator STEVENSON. In a letter of February 17 from you, Mr. Waner, in response to another inquiry by us, this one in connection with the property of Mrs. Donald DeBoer in Richton Hills, again a 235 house, you said: "Based on reports by engineers and inspectors as of August 1972, there was no structurally unsoundness inherent here but rather a problem peculiar to the house."

Now, you are an expert on housing, much more of an expert certainly than I am, but can you tell me what you meant by that expression: "There was no structurally unsoundness inherent here but rather a problem peculiar to the house."

The problem was that the walls of this house were separating from the ceilings.

Mr. WANER. If you will permit me, Senator, I am going to look at the file.

I realize how stupid that sounds.

Senator STEVENSON. We have had many, many such complaints.

Mr. WANER. What was the name?

Mr. ROGAN. What was the name?

Senator STEVENSON. Mrs. Donald DeBoer.

Mr. WANER. Mrs. Donald DeBoer, "See letter in file."

I just want to see this.

This was a National home built in Arlington Heights—wait a minute, on Arlington Drive in Richton Park, Ill. It is in the file and it shows "enclosed complaint dated . . ."—by the way, this building

was closed in our file on March 16, 1970, approximately 2 years before I became the Director.

I don't know whether it was brought out or not, Senator, but we did establish a consumer complaint section to handle 518A and 518B complaints. Prior to our establishing the Chicago Area Office, there were absolutely no actions under section 518.

We established a consumer complaint section and proceeded to move along.

Senator STEVENSON. The date is March 16, 1972, not March 16, 1970.

Mr. WANER. Very good, sir. It says, "See letter in file."

Senator STEVENSON. Mr. Waner, we don't need to go into it now.

Mr. WANER. I would like to.

Mr. STEVENSON. We would like to hear from you.

I don't mean to suggest for a moment that we are not giving you an opportunity to respond.

Mr. WANER. I find the copy of my letter, Senator, and I am bit embarrassed.

I don't originate most of the letters and in the upper right-hand corner you can see that there must be an originator.

I would like to know what member of my staff originated it and I can't seem to determine that from this copy.

Senator STEVENSON. We have people suffering because of these practices and we just have to give them some remedy under the law.

These people have been suffering and they have been getting no relief whatsoever from FHA. I would hope that you could look into those cases and give us an explanation about them and do a better job of responding to these complaints for reimbursement under 518.

Now, the people complaining have a right to be reimbursed and they also have a right to at least have their complaints answered.

Mr. WANER. You are absolutely right, Senator.

With respect to this builder, in particular, we have had, in the Richton Park area, a number of complaints. He has been quite cooperative, to say the least.

He has gone out there so there was no reason for us to institute 518 proceedings inasmuch as he showed a willingness to go out and correct the defects.

However, I will go into it specifically when I go back to my office, and I would like to report to you or the members of your staff on all the matters relating to this particular building.

You are absolutely right, sir, and if that happens, it is my fault and I will correct it.

Senator STEVENSON. It is not the particular building, it has to do with a whole group of complaints under 518. The people are getting very little relief.

We had a witness, Mr. Hyman, who said that they had no hope for success in the courts because the program is being improperly administered.

He said, and I quote:

> It is about the worst kind of administrative that I can imagine for dealing with the kind of problem that affects people on a day-to-day basis.
> It is unclear how it operates.

Its standards are vague or virtually nonexistent.
It is secretive in its operations.
We don't know who is making the decisions or where or when they are making them, or what they are basing them on.

I have many, many more questions but no more time. Unless Senator Sparkman has any additional questions——

Chairman SPARKMAN. There is just one thing.

Talking about these subsidized programs being bad, and expensive and so forth, I am reading from a bulletin put out by HUD dealing with 236 all over the Nation, and I would like to read this sentence.

Approximately 2.5 percent of all projects have been acquired through assignment, foreclosure or otherwise by HUD.
It is important to recognize that projects in these categories do not inevitably result in loss to the government. To the contrary, it may be that no net losses occur when all revenues and resales are taken into account.
This issue will be the subject of a subsequent report.

And then it says:

These figures put Section 236 program in a perspective very different from those who have termed default and acquisitions to be very high and to be coupled with large losses.

That is an estimate made by HUD with respect to this particular program that has had its head cut off. That was issued on March 2, 1973.

It looks to me like they are saying:

"It is a successful program."

Mr. SABELLA. I don't believe at any time has the administration or Mr. Lynn, Secretary Lynn, said that the programs have had their head cut off.

Chairman SPARKMAN. No, I said that.

Mr. SABELLA. Yes.

Chairman SPARKMAN. I am just being realistic.

Mr. SABELLA. Yes, but I think——

Chairman SPARKMAN. I just say that for the record.

Mr. SABELLA. But I think he has indicated that many organizations and many people of all persuasions have said that perhaps there is a better way of doing it.

Perhaps there is a better way of delivering the housing and perhaps a better way not only for the people but for the Government and they would like to have that opportunity for several months to look at those directions, and it may be that they may still, in the end of that period, Mr. Senator, come up with the fact that 236 will continue.

Chairman SPARKMAN. I predict that Congress will do that.

Then it is up to whether or not the President wants to sign that into law.

Mr. SABELLA. And perhaps in a better way, Mr. Senator.

Chairman SPARKMAN. It could be.

Goodness knows, we are always looking for good suggestions to improve legislation and it doesn't matter where they come from. We welcome them.

Senator STEVENSON. All right. Thank you.

Mr. WANER. Senator Stevenson.

Senator STEVENSON. Yes, sir.

Mr. WANER. I know that time is short and I actually appreciate the opportunity of meeting you formally for the first time, even though it may be not under the finest of circumstances.

However, I would like to assure you and the members of your staff of our continued and much closer cooperation and we would welcome any constructive criticisms, actually any criticism at all for that matter, in order to work to perfect some of those programs, to iron out some as a result of this, you may be introducing some legislation that would protect the unsophisticated, unsuspecting home buyer.

Senator STEVENSON. Our interest is the same. We both want to be constructive and help the housing needs of people. That is our only purpose for being here, to improve the laws, if they need improvement and to help try to improve the administration of the laws and certainly much of the evidence indicates that these laws already on the books, while they do need improvement, can be made to work.

With that, and I thank you for your cooperation, I believe that we had better conclude this part of the hearing and move on with our next panel.

Thank you.

Mr. WANER. Thank you.

Senator STEVENSON. The next panel is on impact of the moratorium on the Chicago area. The panelists are Mr. Robert Lucas, chairman, Kenwood-Oakland community organization, co-chairman, crisis in housing coalition.

Andrea Rozran, Illinois and Chicago League of Women Voters.

James Compton, executive director, Chicago Urban League.

Mr. Kale Williams, executive director, leadership council for metropolitan open communities.

Ronald P. Laurent, senior vice president, McElvain-Reynolds Co.

I will have to say to you what I have said to all the other witnesses, that we are running behind schedule. We are very short with the time and are still shorter now, so I would ask you all to condense your statements as much as possible so that we will have some time for questions and answers.

We can start with you, Mr. Lucas.

Mr. LUCAS. Yes, Senator.

I, as well as my organization, appreciate the fact that we are able to testify here today so we would like to thank you, you and Senator Sparkman.

[Mr. Lucas' complete statement follows:]

STATEMENT OF ROBERT L. LUCAS, CHAIRMAN, KENWOOD-OAKLAND COMMUNITY ORGANIZATION AND CO-CHAIRMAN, CRISIS-IN-HOUSING COALITION

I am Chairman of the Kenwood-Oakland Community Organization on the southside of Chicago. Our community is an approximately 2 square mile area with a population of nearly 50,000 persons.

Like other inner city communities throughout the city, the Kenwood-Oakland area is characterized by substandard housing and dilapidated and abandoned buildings. Over 50% of the housing units in the community are substandard.

One of KOCO's efforts to alleviate the serious conditions caused by the dire need for decent housing will soon, hopefully result in the rehabilitation of a

48-unit apartment building in the community. A short while ago the organization was able to invest a small amount of money in the development of 164 units of housing in the community, 32 of which are inhabited by low income families. We are extremely proud of these two efforts, however, we fully realize that both of these projects are only a drop in the bucket when the overall problem is considered.

It would take thousands of new or rehabilitated housing units to eliminate this situation.

Prior to announcement of the moratorium on low income housing persons in KOCO had been discussing plans for other rehabilitation and new construction projects, direly needed for the redevelopment of the communities.

Thanks to the overt insensitivity of the federal administration, any plans for government sponsored rehabilitation programs and the 235 and 236 housing programs assisting in our program of redevelopment, can be discarded.

It is apparent that this administration feels inner-city residents don't need decent places to live.

Because of the devastated condition of our community, we are most concerned at this time, about the 235 and 236 programs.

I have heard that the subsidized housing programs were failures for a number of reasons, including the fact that 2% of the projects have gone into default. However, I am also told that this is related to the increase of taxes over and above that quoted or reasonable by the assessors office. This to me means that the number of projects that were not failures were 98%.

This percentage, in my opinion, does not demonstrate failure of the program.

Even, if this were not the case, however, and there were factors that resulted in inherent problems in 236 development, it is our contention that the first approach to solution of the problem does not lie in the elimination of the program, but the elimination of those facets of the program which threaten its success and effectiveness. Only if all else fails should such drastic action be taken—especially when the lives and well-being of so many persons are involved.

The proper course of action, as we see it, is the restoration of the program and the institution of whatever steps are necessary to assure that these programs are made to function in the best interest of the people who so direly need this type of housing.

Hand-in-hand with the restoration of these programs should go the elimination or extensive modification of the eight point site selection criteria, also a product of the Nixon Administration.

We are particularly concerned about two of the eight points which make it virtually impossible for low income subsidized housing to be built in inner city communities, based on racial make up and the number of units per square acre.

Along with our demands that the freeze on 235 and 236 housing be lifted and the 8-point site selection criteria be eliminated or modified, we also call upon the Congress of the United States to demand that the President allocate funds already appropriated, to do the job in each of the HUD area offices.

If these three things are accomplished, Kenwood-Oakland and other communities like ours can again look forward to the redevelopment of their communities with subsidized housing programs.

If these things are not done and programs such as the 235 and 236 ones are not provided by FHA, there will be no housing built for inner city people (conventional mortgages will result in too high rents) and these communities will continue to deteriorate at the present rapid rate.

So great has been our concern for this crucial question in Kenwood-Oakland, that representatives of our organization, have for the past several weeks, been meeting with persons from 25 other community, civic, professional and business groups throughout the city to develop solutions to the problem of the lack of decent housing in the inner city.

An immediate result of the efforts of the Crisis-in-Housing Coalition is a 3-day Housing Conference, the second day of which is now underway at the Lutheran School of Theology, 1100 East 55th Street, in Chicago.

The objectives of the Conference are the development of an alternative housing delivery system, and the development of plans to counteract the 18-month housing moratorium.

Workshops being conducted today, from 10 a.m. to 6 p.m., are in the areas of Community Organization, Legal, Management, Design and Construction, Land and Building Acquisition, and Financing and Packaging, and Current Problems.

The final day of the Conference will be held tomorrow from 10 a.m. until 3 p.m.

Other groups participating in the Coalition are the Jewish Council on Urban Affairs; the American Friends Service Committee; the Chicago Commons Association; the Near North Development Corporation; the National Association of Minority Contractors; the Chicago Housing Tenants Organization; The United Friends; the Central Advisory Council; the League of Women Voters of Chicago; the Westside Christian Parish; and Environment Seven, Architects and Planners.

The public is invited.

Mr. LUCAS. I would just like to add quickly that the housing conference on the crisis in housing did wish to endorse the hearings and also we are a member organization of the coalition.

In closing, I would like to say, and I am not really being facetious, that if a bird can have a nest and if a groundhog can have a hole, a human person should have a home.

Senator STEVENSON. I agree with that.

Thank you, Mr. Lucas.

Mr. Williams, may we hear from you next.

Mr. WILLIAMS. Yes.

STATEMENT OF KALE WILLIAMS, EXECUTIVE DIRECTOR, LEADERSHIP COUNCIL FOR METROPOLITAN OPEN COMMUNITIES

My name is Kale Williams and I am Executive Director of the Leadership Council for Metropolitan Open Communities. As its name indicates, the Council is a voluntary organization established by the local government, business, religious, labor and civic leadership of the Chicago metropolitan area to achieve a single market in housing open to all without discrimination. The policies of the Federal government are crucial to the achievement of that goal and we are pleased for the opportunity to present our testimony on those policies.

The enforcement of the equal opportunity provisions of the law is a large part of our concern and we work closely with agencies of the Federal government, the Department of Housing and Urban Development and the Department of Justice, in taking cases of housing discrimination to court. This cooperation is bearing fruit and, while much remains to be done, great progress is being made in ending discrimination in access to existing housing.

On this occasion, however, I will limit my testimony to another important aspect, the provision of subsidies so that there is a choice or housing at prices which people can afford and at locations convenient to jobs and the other essentials of healthy community life. I want to comment on the Federal programs to provide housing subsidies and on the impact of the current moratorium on those programs.

I have three major points to make. First, we think it is absolutely essential that the Federal government take major responsibility in providing both funds and programs to bring the cost of housing within the range of low and moderate income families. Second, we feel that the current programs for housing subsidies for low and moderate income families while, of course, subject to improvement, have on the whole been successful in beginning to meet the needs of this large segment of our population.

Third, we think that a prolonged moratorium will do serious harm to the thousands of families who desperately need this housing; to the private and public spirited non-profit builders who have geared up to provide this housing; to the total economy which depends on a substantial level of activity in the housing industry; and, particularly, to minorities who are involved in every phase of housing from initial design through production to consumption. They

have been only recently admitted to full participation in the housing production process and will suffer first from a cutback in activities.

To expand on these major points, I would point out that it is abundantly clear that private industry, working alone, cannot produce housing at price levels within the range of the ordinary working family and certainly not in the range of people whose incomes are below that level. In Chicago today, the average price of a new 3-bedroom home is approximately $30,000. Using the traditional rule of thumb, an annual income of at least $12,000 is required to qualify for such a house. There are thousands of families whose incomes are below that figure and who thus cannot qualify for the minimum production house being built today. One family in four in the Chicago area has income at $10,000 or below. The "trickle down" theory is not the answer. It leads to serious imbalances in the distribution of population, with lower and moderate income families over-concentrated in aging sections of the city and suburbs where the combination of over-used housing and loss of community facilities makes it difficult, and in most cases impossible, to maintain minimum standards of community life. Neither are housing allowances a complete answer. In some limited situations where there is an over-supply it may be appropriate to provide housing allowances to enable lower income families to rent such housing. But in most places, the problem is a shortage of quality housing as well as a shortage of family income to pay for it. This means that housing allowances, if and when they are adopted, *must* be accompanied by programs such as those enacted by Congress to increase the total supply of housing.

The amounts of subsidies required and the importance of fair and uniform standards dictate that those programs should be designed and coordinated at the Federal level. While it is desirable to increase the amount of responsibility left to State and local government that responsibility should be set firmly within guidelines and standards determined by the Congress.

Programs of public housing and of housing for moderate income families have achieved, in the last four years, a substantial impact on what has been recognized for four decades as a serious short coming in our national life. This progress has not been accomplished without difficulty. This committee has heard testimony of the problems which have occurred in some of these programs, problems of poor quality in construction, of overconcentration of units in particular localities, of inadequate cooperation by local government taxing bodies, of marketing sales homes to families unprepared for home ownership. These problems are real and we are as concerned about them as anyone. We do believe that these errors and abuses do not represent the dominant thrust or effect of these programs. By far the largest proportion of these units have been built within the prevailing standards of the communities in which they are located, have been administered fairly and effectively and are today providing decent homes in a suitable living environment for thousands of families who would be living in sub-standard, over-crowded, over-priced housing had these programs not been in existence. Administrative shortcomings can and should be corrected but they should not be used as an excuse for ending the programs.

It is the position of the Administration that these programs have failed and that they should be ended while better alternatives are designed. It is our view that the national goal of a decent home in a suitable living environment for every American family is a vital goal, that these programs have made an important beginning toward reaching that goal, and that a long extended delay in these programs will do serious harm. The effects of the current moratorium will not be felt immediately. They will be felt in the time twelve to eighteen months from now whn land which would now be optioned for such housing, plans which would now be drawn up for such housing, commitments of energy and capital for the development for such housing, will not be available because those who are now making those decisions are faced with an extended period of doubt and uncertainty. We are now squeezing the hose of housing production. Housing will continue to flow for a time, but the time we are losing will not be replaced. We urge on the Administration and we urge on the Congress that an early end to the moratorium be accomplished.

I should like to submit with this testimony a copy of the position paper on this subject adopted by our Board of Directors on March 20, 1973 which expands the arguments I have just made. Thank you again for this opportunity to present our views.

LEADERSHIP COUNCIL FOR METROPOLITAN OPEN COMMUNITIES—POSITION PAPER
FEDERAL POLICY ON HOUSING

Beginning with Secretary Romney's announcement on January 8, and spelled out in detail in the President's budget message and his State of the Union Address on Community Development, major changes have been made in the Federal policy on housing.

Actions.—A number of programs which have provided subsidized housing are suspended:

Sec. 235 moderate-income home ownership.
Sec. 236 moderate-income rental.
Rent supplements.
Public housing.
Public housing modernization.
Non-profit sponsor aid.

These are "temporarily halted pending a complete re-evaluation of the Federal role in housing and of alternative ways to provide housing." A number of other housing-related programs are ended:

Urban renewal.
Model cities.
Rehabilitation loans.
Neighborhood facilities.
Basic water and sewer facilities.
Public facility loans.
Open space grants.

Many non-housing related programs affecting the poor are also suspended or terminated.

Two Federal activities important to ending discrimination in housing have survived: Federal outlays for equal opportunity enforcement are budgeted to be 15.8 million compared to 13.8 million this year. Housing allowance experiments are to continue at the rate of 11.6 million with 15,000 participants in the experiments.

Implications.—In spite of the announcement that subsidy programs are "temporarily halted" and that, for some programs, impounded funds are available so that they could be resumed without new appropriations, there is a clear intention to reduce the Federal role in housing, and a growing concern that these programs will not be resumed.

The changes proposed by the Administration have the effect of reversing Federal housing policies which, beginning in 1937, have aimed to meet the housing needs of the poor. The most comprehensive legislation, passed in 1968, sets a goal of a "decent home in a safe and sanitary living environment for every American", and accepts a goal of 26,000,000 new living units by 1978, of which 6,000,000 would be subsidized. The implications of reversing these policies are extremely serious.

Implications: Consumers.—The most obvious effect is on the people who need housing. These programs have provided housing for the elderly, for the urban and rural poor, and for the average working family priced out of the housing market by rising costs. Since 1969, 1.5 million subsidized units have been provided, leaving a gap of 4.5 million to be built before 1978 to meet the national goal, and that goal is now widely regarded as inadequate. Every public housing project and every subsidized project has a long waiting list. In the Chicago area, NIPC estimates that 250,000 units are needed by 1980 to meet current and projected needs.

Implications: Producers.—A substantial proportion of all housing starts, 21% in 1971, has been generated by Federally subsidized programs. A whole segment of the housing industry has responded to the existence of these programs by developing the capability to meet them. That segment cannot plan for its future role while the moratorium continues. High levels of housing activity in recent years has led to high vacancy rates and a soft sales market at upper price ranges, tending to make the housing industry ever more dependent on a high volue of subsidized starts. The National Association of Home Builders estimates that 1,000 smaller contractors will be bankrupted by the withdrawal of these programs. Minority developers and contractors will likely be affected first. Dempsey Travis, of Sivart Mortgages, estimates that 90% of black mort-

gage firms, 80% of black contractors, 50% of black architects will fold in the next 18 months unless these programs are restored.

Implications: The economy.—The housing industry is an important factor in the total econmy. For fiscal years 1973 and 1974, it is estimated that the reduction in subsidized programs will have a negative impact of $19.3 billion on the economy, and lead to a loss of 2.2 million man-years of employment. Leon Keyserling, formerly chairman of the Council of Economic Advisers, said, "if the government decision remains in effect . . . during the years 1973–1980, investment in housing and commercial construction will fall more than $75 billion short of the intrinsic need for such investment . . [there will be] over the same period a total national product deficiency of more than $150 billion . . . a Federal revenue loss of $30.1 billion, a state and local property tax loss of $3.9 billion."

Implications: Minorities.—This, and other reductions in social programs, have serious implications for minority citizens, who make up a large proportion of those most affected.

The National Committee Against Discrimination in Housing calls the moratorium a "cruel blow to the hopes of all Americans who are victimized by racial discrimination and/or disadvantaged by low income in their search for safe, sanitary and decent housing in communities of their choice." Dempsey Travis, Ralph Abernathy and others have predicted a renewal of unrest. Roy Wilkins reports that blacks "have come under siege by the Federal government." Vernon Jordan says, "once again the nation seems weary of the struggle. There is a persuasive evidence that the Second Reconstruction is coming to an end." In Chicago, in a year-end analysis of race relations, written before the moratorium, Jack Meltzer, Pierre DeVise, Norman Ross and others pointed to the "separation between black housing areas and suburban job locations" (DeVise's words) as the critical racial problem facing the community. The end of housing subsidies removes a major and essential tool for addressing that problem.

Arguments.—Statements from the Administration speak of these programs as "ineffective", "outmoded", "failed". However, as recently as 18 months ago, President Nixon acknowledged the need for subsidy programs. He claimed as an accomplishment for his Administration that production of Federally assisted low-and-moderate income housing had reached its highest levels, and recognized that the Federal Government "was not blameless in contributing to housing shortages and to the impairment of equal housing opportunity for minority Americans."

Specific arguments against the programs have focused on poor quality construction, rate of defaults, concentration of poor and minority families, high long-term cost, and on the principle of providing subsidies through the private market rather than directly.

Counter arguments point to the high levels of production, the relative stability and success of most projects, and the multiplier effects of involving the private economy. Some faults in quality, administration and concentration are acknowledged but it is argued that these are not inherent in the programs, and that the poor should not be penalized for mistakes in administration. More importantly, it is argued that the adverse consequences of suspending the programs are so great that they should be continued while reforms or alternatives are devised and enacted.

Real Estate Research Corporation, in a major study of these programs rates their effectiveness in achieving particular goals as follows:

Providing housing assistance to needy low and moderate income families.	Very effective in meeting urban physical housing needs, *if* present high levels continue. Only partly effective in meeting urban financial housing needs. Very ineffective in meeting rural housing needs.
Encouraging homeownership	Very effective.
Stimulating the economy	Effective.
Increasing supply of decent housing units.	Very effective.
Improving quality of deteriorated neighborhoods.	Effective where used for this purpose.

Alternatives.—

1. Termination of these programs. While many believe that this is the intent of the Administration, the needs are so great that it is likely that some subsidy programs will be resumed at some level of government.

2. Replacement with new Federal programs. There is no lack of suggestions for other ways to provide for subsidies, such as direct mortgages or a more direct subsidy of mortgages, with examples from existing Federal programs operated on a small scale or for special constituencies. Direct cash subsidies to consumers, housing allowances, are presumably not an available alternative: The experiments are just beginning and it is probably at least three and more likely four years before these could be evaluated, legislated and implemented. By themselves, housing allowances do not deal with the problem of adequate supply.

3. Replacement with new State programs. This alternative is, in some respects, most promising, since the State has an agency in being, the Illinois Housing Development Authority, which could be strengthened and expanded, and the time required for the legislative process may be shorter. The problem at the State level is lack of resources, and giving housing an adequate priority among competing needs already established as State responsibilities.

4. Revenue-sharing. While proposed by many as an alternative, revenue-sharing is not, as presently contemplated, a promising approach. General revenue-sharing does not provide the amounts required and is more likely to be used, at the State level, to replace essential income-maintenance programs for which Federal commitments are reduced. Community Development Revenue Sharing, if enacted, would replace categorical grants for water/sewers, open lands, etc. The proposed amounts are not large enough to replace housing subsidy programs. The dispersal of decision making among State, county and municipal governments makes it difficult to design programs depending on this source of revenue, though we should continue to assist inter-governmental cooperation.

5. Resumption of all or part of the suspended programs. The rhetoric used by the Administration to justify these suspensions makes this difficult. However, some programs are less vulnerable than others, and some may have more persuasive political arguments in their support. Coalitions with very broad participation are forming to press for this course.

Recommendations.—The Leadership Council, in considering its own position on Federal housing policy has considered these factors:

> There is a large and continuing need for decent housing within the price range of low and moderate income families. That need cannot be met by the private housing industry without some form of subsidy. The levels of subsidy required are such that only the Federal government can provide them.
>
> A long delay in resuming Federal subsidy programs will cause hardship to the thousands of families who need this housing. Developers, builders, non-profit sponsors, and others who responded to the 1968 Housing Act, developed the capacity to provide this housing, and provided over 1,250,000 units, may be forced to dismantle their operations. Cutback in subsidized housing units threatens a recession in the housing industry and may have a serious negative effect on the total economy.
>
> There are no available alternative courses of action for private developers, non-profit sponsors, or state and local governments which do not take long lead time and new sources of funding.

Therefore, *the Leadership Council recommends an early resumption of existing Federally subsidized housing programs as imperative for continuing progress in meeting housing needs.* The Council will make its views known to the Administration and to Congress, and will join with other concerned organizations working for this end.

The Leadership Council, while pressing for early resumption of existing programs, will continue to develop recommendations for improvements in housing programs, including improvements in administration, new approaches to subsidies, and an expanded role for state and local government.

APPENDIX

Description of suspended housing subsidy programs:

Section 235: Subsidizes moderate income families for home-ownership of single family units by subsidizing interest rate.

Section 236: Subsidizes multi-family rental units for moderate income families by subsidizing interest rate, permitting lower rental.

Rent Suplements: Subsidizes low-income families in rental units by paying owner the difference between 25% of families income and market rent.

Public housing: Subsidizes low-income families in rental units in one of several ways:

A. By paying debt service on bonds issued by local housing authority which builds and operates housing. (Conventional Public Housing)

B. Using the same financing method to enable local housing authority to buy units from a private builder. (Turnkey Public Housing)

C. Local housing authority leases unit, subsidy is provided for difference between cost of lease and low income family's rent. (Public Housing Leasing)

Public housing modernization: Provides special funds to local housing authority to modernize conventional public housing. (Public Housing started in 1937 and many units are outdated or original design needs to be corrected.)

Non-profit sponsor aid: Provides funds for organization and other costs for non-profit sponsors to build Sec. 235 and 236 housing.

Mr. WILLIAMS. I may say that policies of the government are very crucial with respect to enforcement of the equal opportunity provision.

As we heard earlier today, that is a large part of the solution of the housing problems.

We work closely with agencies of the Federal Government, HUD and the Department of Justice in these things, in taking housing discrimination cases to court, and we are having some effect, although a great deal remains to be done.

We have discovered that we cannot have a true single market in housing, open to all in the Chicago metropolitan area unless there is available throughout the metropolitan area a range of prices in housing and it is that that I want to direct most of my attention to and I would like to use the few minutes available to me to expand on my written testimony rather than to repeat it.

We have a sister corporation, another nonprofit corporation, which is a sponsor of housing under the 235 and 236 sections, so we have had that experience.

We have also spent time in communities throughout the metropolitan area. It is our firm conclusion that we need subsidized housing programs.

It is our firm conclusion that there is no alternative solution and the private market can't provide them with the necessary housing because the trickledown theory doesn't work and we need programs like the ones that we have had.

It is our view that to talk about the cost of continuing these programs doesn't make sense unless you talk about the cost of doing without them also.

That cost would be very serious.

The cost would be the continuation for thousands of people, of poor housing, overcrowded housing.

The cost would be the dislocation that now exists between the location of jobs and the location of housing—housing that people

can afford and all that that adds up to in the loss of income, the high welfare rates, the high commuting costs, the high cost of the loss to the economy of jobs that not only deal with construction but also the multiplying effect thereon in the community.

Now, the loss to the community, particularly the inner-city communities, with respect to rehabilitation or rebuilding, those are tremendous costs that have to be calculated and in our viev haven't been sufficiently calculated in planning for this moratorium.

In our view, the subsidized programs which have now been suspended were, on the whole, more successful than not.

There have been complaints but the great majority of those are providing good housing in accordance with the national goal.

Now, if we look at the complaints, it seems to me, it gives me some guidance as to how we might move.

Many of the complaints have been against the 235 program and all have been complaints about the quality, complaints about the location, and the concentration of those complaints seem to involve complaints about families being unprepared for the responsibilities of home ownership.

Now, all of these complaints can be dealt with. Every part of our economy has problems with quality control.

Detroit hasn't licked it completely.

The rest of the housing industry hasn't licked it completely.

Certainly the subsidized housing segments or segment, rather, of the industry, hasn't licked it, but it can be licked and hearings like this are a help in that process.

A counseling program, paid for as part of the cost, and in my view should be contracted out to private agencies, would be a good way of dealing with the lack of preparation of low-income families for home ownership.

The main problem with the 236 programs in the Chicago area has been the high taxes and Mr. Waner indicated that discussions are going on and we hope that we will get some solution to that problem from the local taxing bodies.

The main criticisms of public housing have been again with respect to questions of quality of construction, of operating expenses and since the Brooke amendment of overconcentration.

In some of the programs, leased housing under the public housing, the rent supplement program, housing for the elderly, I haven't heard any complaints with respect to them.

On the whole, those programs are working remarkably effectively.

So, my firm recommendation would be that those programs which are not subject to complaint ought to be resumed immediately; and that would be the leased housing, rent supplements and elderly housing.

I see no reason to wait past tomorrow to resume those programs.

I would think that most of the 236 projects could be resumed as soon as there is agreement with the local taxing bodies for a viable tax structure to make those projects survivable.

I would think that that resumption ought to come fairly early; 235, I think, would come, I think it would maybe delayed while some of these problems were worked out, but I would hope that that would have an early resumption also.

The main problem that appears in common in all of these complaints is that of overconcentration and I think that is a serious problem. It is a factor in the site selection criteria which has been alluded to.

Nothing in the present statutes deals effectively with that problem and yet it is one that is serious and which needs attention.

Mr. McNeil, speaking for Woodlawn, and Mr. Butler, speaking for Lawndale, spoke of the desirability for their communities, of having a mix of housing in all price ranges and this, it seems to me, can't be accomplished in the inner-city unless it is accomplished also throughout the metropolitan area and the shift in the location of jobs adds to the urgency of that.

For that, I would urge that we consider new legislation particularly legislation which would strengthen the capability of regional planning agencies to encourage a sound distribution of low- and moderate-income housing, and which would provide incentives for municipalities and low jurisdictions which might have had housing in accordance with that plan.

Those are my recommendations.

I think that the previous witnesses said there was no intention to stop housing now or in the future but in effect by squeezing the pipeline now, some will continue to flow for a while but that will stop and we are not going to gain the time, we are not going to regain the time that we are losing because land is not being optioned, plans are not going to be made, resources are not being committed to housing that should be committed to 18 months from now to meet the national housing goal and it won't be met until we suspend this uncertainty and resume these programs.

Thank you very much.

Senator STEVENSON. Thank you, Mr. Williams.

Mr. Laurent.

STATEMENT OF RONALD P. LAURENT, SENIOR VICE PRESIDENT, McELVAIN-REYNOLDS CO.

Mr. LAURENT. Good morning—or good afternoon, at this point, Senator Stevenson, and also Senator Sparkman.

I know that the hour is late. I am not going to be too lengthy, but it is important that I cover the subject properly.

My name is Ronald P. Laurent and I am senior vice president of McElvain-Reynolds Co. I am a mortgage banker and if you are looking for a copy of my testimony, there is no copy. I am going to provide it subsequently.

I was advised at rather a late hour, or rather invited at rather a late hour, and I haven't had time to prepare it.

By profession, I am a mortgage banker.

Our firm does all types of financing, however, my specialty is multifamily housing insured under the National Housing Act.

I am also a board member of the Coalition for Community Action which is a grass roots organization.

I think it is important that we take a little more time and cover the subject, rather than rush through it, even though the hour is

late, because, in looking at the streets of our urban centers, in looking at the lack of housing, housing is needed desperately and in looking at the brutal and devasting act by the current administration in enacting a moratorium, I think is just short of criminal.

Preceding the enactment of the moratorium, there was a climate of conditioning in the country through the newspapers. They pointed out and concluded that the subsidized housing programs; namely, sections 235 and 236, which is my specialty—236—were really having a negative effect, that they—as the story went—weren't really accomplishing their purposes, that they were, in effect, "bad" types of housing legislation.

That we needed other types of programs and so the story went.

It is my position that these were pure falsehoods, lies, if you will, and I will take just a moment of time to discuss the merits of 235 and section 236.

Let me start off by saying that without Government assistance. particularly the direct subsidy type, that 235 and 236 provide, and also the direct financial assistance—in other words, 236 and 235 will produce physical housing units that are desperately needed; in addition to that, only through 236 can we get a combination of financial assistance through the rent supplement plan.

Now, this is what this program basically does and only with this type of program can you make it possible for 60 percent of the American population or thereabouts to be able to afford a home of their own.

One of the great American dreams is that everyone should be able to afford a home of their own.

In addition to that, only this type of program, by this type of program can you make it possible for millions, and I am not exaggerating—millions of Americans to be able to afford safe, standard apartment type of housing.

The basic reason you need this type of legislation to produce the housing and to produce the financial assistance is because of three basic factors in this country: one is poverty—poverty!

There is the inability of people trapped by poverty to earn their way out of poverty.

Two, something that is unique to the United States that you don't find in other industrialized centers are your higher construction standards which means it is almost impossible to produce a cheaper type of unit.

We produce an expensive type unit and we force the people in poverty and in the moderate-income areas into a situation where they cannot afford that type of housing.

The other reason is the neighborhood linkage. That is the neighborhood linkage. That is the neighborhood linkage theory which says that I am directly affected by the behavior of my next door neighbor.

Now, with that type of theory in the country, anyone who is poor, you see, is bad and, therefore, communities use all types of zoning ordinances and other forms of legislation to completely exclude poor families and so poor families never are able to take part in the new and viable communities unless you have a 236 or 235.

They get the trickledown. They get the trickledown theory and I have heard it intimated: "Well, there is some value in the trickledown theory."

Let me tell you, gentlemen, you senators, that there is no value in the trickledown theory because what happens is that the new units are built on the periphery of the city for well-to-do people, middle and upper income people, and when they move out, the lower income groups move in, not quite with the resources necessary to maintain the property, but by the time it trickles down to the people trapped by poverty, they need the housing desperately and they have no financial resources to maintain those units and the property goes straight down to zero.

Now, you know when you hear things like: "Well, you know, poor people, they can't take care of property."

Only through the type of legislation that has been frozen can we produce the type of housing that we need.

The goal of the 1949 Housing Act, as Senator Sparkman has pointed out, was to provide a decent house in a decent living environment for every American or at least the potential thereof.

Now, through the post World War period, the early sixties, this countries produced no more than 50,000 subsidized units annually. However, then a piece of very revolutionary legislation passed which was the 221(d)(3) low- and moderate-income housing, and this was vastly revolutionary, which provided the means, the profit motive for developers and contractors to sponsor or own buildings in moderate and low-income housing.

It also was particularly revolutionary because it provided for not-for-profit sponsors, community groups, churches, organizations such as Mr. Lucas' group, for example, and groups all around the city and country with little or no financial resources but with stability and commitment to the community to get as much as 100-percent financing.

They could build and own the units and see that the properties were run correctly and that they were economically viable.

Now, this was a revolutionary type of legislation. It was replaced, of course, in 1968 by the housing redevelopment, by the Housing and Urban Redevelopment Act and replaced by section 236 which kept the same type of a provision as far as what type of sponsors could deal in this type of housing.

Section 236 took an additional responsibility because it was not only a unique program unto itself but it took upon itself the new responsibility of the old 221(d)(3) program.

It also became the vehicle to provide housing for the elderly because they stopped funding the 202 elderly program.

I think it is important at this point to remember, as we hear all the criticism you see about this program, let us remember what the goals of some of those programs—let us remember some of the goals of the 1968 act, what they were.

Now, the specific objectives, and I will try to be brief, were:

1. Provide housing assistance to low-income households by enabling such households now living in substandard quality housing to occupy decent housing.

Providing for housing assistance for moderate-income families.

Providing for housing assistance to numerous specific groups in the same manner as described above.

Now, these groups included the elderly, Indians, and persons displaced by governmental action.

It provided for encouraging homeownership among householders, regardless of their income.

This was a revolutionary program, gentlemen, stimulating the economy and stimulating the activities in the housing industry. It called for increasing the total supply of decent dwelling units and including quality dwelling units.

These were to be provided in deteriorating neighborhoods and those were some of the goals, just to keep the goals in mind, and as we did with the 236 program, we accomplished some of those goals and, in fact, this program in my opinion was not a failure.

Between 1968 and 1972, this legislation was responsible, in this country, for producing more than 50 percent of the subsidized units that it had previously produced from 1935 to 1968, just a fantastic program.

Now, community organizations in addition to the profit motivated contractor type developer put up housing all throughout the urban centers. Oh, there were problems but that is why technicians trained to solve the problems came in.

These technicians, by the way, you heard referred to in the criticism of 236 as these middle men who would siphon off the profits, if you will. These middle men were not siphoning off profits. They were highly trained technicians such as architects.

All architects design to meet a budget such as the FHA allows in their commitments. You have attorneys, mortgage bankers, you have consultants and these are middle men of great merit.

Now, the profits are regulated by the FHA underwriters and there is no windfall. Both of these programs combined, I must remind you, that the dept is tied to subsidies and there is a limited amount, there is terminal date involved and there is the declining income and also, if inflation occurs, which it does from time to time, there is no income advantages especially when you consider the occupant income.

As we look at the moratorium, it is important to remember that there were a lot of people who ran around this country making speeches about opening up housing.

There was Dr. King and many, many other people and the Nation answered back to Dr. King and to people of all colors who took part in that great crusade and the country said, "No." And then an interesting thing happened, you know.

Groups in our urban centers who formerly said, "We have got to have housing in suburbia; that is the place where we should have the housing, the lawns, the picket fences," they finally said:

> Wait a minute, the land we currently occupy and occupy by accident here in the inner cities has pretty good transportation and maybe the schools aren't good at the present time, but maybe we can make them good.
>
> Maybe it is pretty nice to develop housing at 43d Street instead of out in Rolling Meadows and it is good to develop housing at Roosevelt and Halsted and at Orchard and Willow.

Well, the groups started struggling and the manifestation of their efforts is now up at Roosevelt and Halstead and you saw Ed Allen's project at Madison and Kedzie.

Now, this is evidence of the success of the program and, if we are going to meet our housing physical needs, Senator Sparkman pointed out, we have to produce 26 million units of decent quality housing between now and 1978, which we ain't going to do, because of things like the moratorium.

I would like to take a second and answer some of the popular criticisms about 236 and 235. You have heard the proponents of the direct housing allowance say:

> Well, now, 236 is a vehicle which overemphasizes new construction. What you ought to do is to do away with 236 as an alternative and then offer people a direct housing allowance.

Now, here is what is going to happen when you do that. As an alternative to 236, this is what will happen: One, you are going to leave the potential recipient of 236 housing on the open market.

They are not wanted. We are not wanted in many of the suburbs and other areas and inner-city areas of the country, but notwithstanding that fact, what you do is increase the demand with a smaller potential supply so you drive through the ceiling the cost and rents and acquisition costs of these available homes and apartment units.

In addition to that, only through 236, which is a vehicle to produce additional physical units, can you hope to achieve some deconcentration of persons trapped by poverty.

Now, there are those who wish to leave the inner city and, in addition to that, if you just rely on the existing housing supply, that existing housing supply will not now or nor will it potentially provide housing with unique characteristics.

Now, what I mean by unique characteristics relates to unique segments of society and I am speaking in particular of large family type units.

Now, the existing housing supply which will not provide housing for the elderly on a mass basis, it will not provide housing for the handicapped. Only under 236 can this be accomplished.

In addition to that, you are going to take away stimulation of increased activity in the construction industry.

Now, speaking of increased activity in the construction industry, along with the coalition today is Mr. Ronald Washington, who is sitting in the first row and other gentlemen who are members of the coalition of which I am happy to be a member.

These gentlemen are Vietnam war veterans. Ronald Washington heads the Vietnam veterans job division of the Coalition.

Now, if you do away with section 236, where are these men, where are other men going to earn livings in the construction industry?

In addition to that, we must have section 236 to provide visible, dramatic upgrading in the older deteriorated areas.

Now, as far as the direct housing allowance is concerned, it does have a use as a compliment to 236, but not as an alternative.

What you could do is use that really in areas where you have a soft market, to give that market a shot in the arm, but not as an alternative, just as a compliment to 236 programs.

Now, let me go on to another matter which was referred to as criticism. We have heard of the excessive defaults in this program, but let me just say that as of May 1972, and these are nationwide statistics, 4.8 percent of the units insured under section 236 were in default and another 1.5 percent have been assigned to or acquired by HUD.

That is 93.7 percent were in no financial difficulty at all.

Most of the highly publicized defaults in Detroit and Philadelphia and also Chicago, as Senator Sparkman pointed out, didn't involve subsidy programs at all. What they involved were nonsubsidized housing programs.

I would like to see the President of the United States and ask him the question that was asked earlier: "Why don't you suspend these programs?"

No, I am just appalled, amazed and exercised by the statement made by Mr. Sabella, when he said, I believe he said it, I am not sure, "Well, you know, Secretary Lynn needs more time to think these programs out."

You take a highly successful program, you issue a moratorium on it and you say, "We have to think it out."

To me that seems to be progressive action in reverse, gentlemen.

The other thing you have heard is scandalous, the scandalous exploitation of the poor in the inner-city areas. Although this has been done to a large extent, it hardly touched the 235 or 236 programs. These involved other types of programs.

I do believe that the scandals that did exist were because of many instances widespread housing deterioration which society let deteriorate in the inner-city areas.

You had the unscrupulous real estate operators and appraisers, the lack of home buying experience at the low- and moderate-income purchasers' level.

I remember when the legislation was passed, I heard comments that there was no supportive legislation to inform people about how to purchase a home.

Let me just state that in my first home acquisition, I didn't know what I was doing.

Now, you just consider the inner-city poor who are locked in by poverty.

All of you hear about the FHA corruption over the last few years, but no one ever points out that between 1966 and 1972 the Office of Management and Budget and the Congress of the United States issued a directive ordering the FHA to pump out more commitments so this is what happened.

Between those years the numbers of commitments subsidized and issued by the FHA increased 571 percent. The non-FHA commitments increased 80 percent so the new type of offices, such as model cities, that HUD had to check over increased 62 percent while Congress increased the work staff of FHA a little more than 10 percent, from 14,000 to a little over 15,100 employees.

So it wasn't all a matter of graft or corruption. It was the inability with the new responsibilities to carry out the directives.

I want to point out in closing that there has been an overreaction to the problems of the inner city and one of the overreactions I have

heard from different people of HUD and what-not is to say, "Well, you know, the FHA is nonsubsidized, is a nonsubsidized program and it has been very, very profiable so what we ought to do is split off the FHA nonsubsidized programs from HUD and leave HUD with the headaches."

This is society's typical reaction of saying that the problems of the inner city are very difficult and we will put our heads in the sand and abandon them.

FHA operations are profitable with respect to nonsubsidized housing and therefore those mortgage insurance premiums that are oriented toward suburban housing, the commitments should be channeled into the inner-city housing developments.

This is one way to provide a motivation, it is one way to stop the divisions in the nation.

However, by chaining on the destiny of suburbia to the inner city, because after all we are suposed to be one society—

Senator STEVENSON. I will have to ask you, if you would, to conclude as quickly as you can or we won't have time to hear the other witnesses.

Mr. LAURENT. Thank you, Senator, I have concluded.

Senator STEVENSON. Mr. Compton.

STATEMENT OF JAMES W. COMPTON, EXECUTIVE DIRECTOR, CHICAGO URBAN LEAGUE

Mr. Chairman, distinguished members of the panel, ladies and gentlemen, it is with gratitude and concern that we appear before you today on the question of the national housing moratorium.

The impact of the President's decision to halt all subsidized housing programs is an unfortunate and disastrous one for all Americans and particularly for poor and minority groups throughout the Nation. Blacks seeking decent housing had been given some glimmer of hope in the 1968 Housing Act; hope that has been dashed against the tide of indifference and public abandonment, the 1968 and 1970 Housing Act carried important provisions which indicated a strong willingness on the part of the Congress to deal seriously with the aspirations and needs of the ill-housed of the country.

Sections Nos. 235–236 had conditions for the acquisition of homes and decent apartment living for those caught at the lower rung of the economic scale. Further, the act of 1968 introduced into the marketplace, minorities who became involved in joint-ventures, sponsorships, prime and subcontracting, and financing. Things appeared to be moving in a positive manner. In 1972, the Chicago Urban League conducted a citywide survey to determine the number of blacks who were directly involved in housing production. The criteria for this determination were that they owned the business, were a partner, or held a position above middle management level. The survey revealed over six hundred (600) blacks working in the area of contracting, engineering, architecture, etc. In 1960, not one black in the country was an FHA-VA approved mortgagee, today, the United Mortgage Bankers of America boasts some 50 members.

The urban league is aware that the role of Government in the field of housing production has not always served the needs of its ill sheltered minorities. Since 1933, the Federal Housing Administration (FHA) encouraged the use of racially restrictive zoning

for single family and apartment projects. For example, FHA's 1938 underwriting manual declared "If a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial class." Racially restrictive covenants were rampant in the land and were not reversed until 1948 when the Supreme Court in *Shelly* v. *Krammer*, held that such covenants were unenforceable and constituted State action and were therefore, prohibited by the 14th Amendment.

Racially restrictive zoning by the FHA created new communities for whites and slowly but effectively left deteriorating and used housing for blacks. A look at the 1970 census for Chicago will give you an indication of a "trickle down effect" for blacks. For instance, of the total 313,175 units occupied by blacks, 188,500 were built in 1939 or earlier. This phenomenon has dangerous social and economic consequences. The pattern of inhabiting older units produces a clustering or concentration, if you will, of the poorest income group, drugs, high crime, and basically a destructive, unlivable environment. The National Urban League looked at the housing situation of several of these communities across the country 2 years ago and found a national pattern emerging.

It was discovered that when a neighborhood is changing from white to black or there are indications of its changing, the lending institutions disinvest or refuse to make loans in that area. The owner, unable to use the property for real estate development leverage or income, faced with higher taxes, turns it over to an unprofessional manager or walks away from it altogether. A short drive through the streets of Woodlawn and Chicago's West Side gives you the startling results of this practice.

The new housing programs coming out of the Housing Act, 1968, set the stage for lower income ownership and apartment occupancy. A program that was in many ways removed from the pattern of public housing development in the country. For many members of the community, it would be their first opportunity to break with the old process of inhabiting used or deteriorated units. The program would provide assistance to help pay the mortgage or reduce rent levels so that 25 percent of one's income would provide for family-shelter needs.

Since its inception in 1968, over 650,000 units have been provided, with 25,000 of those being rehabilitated. Of course the urban league understands that even the 1968 housing program can not be presented as a panacea for across the board problems. We are aware of major criticisms that point to "hidden" costs which make the program expensive. There is no question that interest reduction subsidies do result in larger total life time cost than direct capital grants would; however, today's dollar will not have the same value as future dollars. Other problems with the 1968 housing program include racially selective patterns for 235 units, racially contrived code words and, all in all, the odious practice of racism that appears to have found its way into these programs.

We're also aware that since 1968 a number of fair-share plans have emerged. For instance, the Miami Valley revion plan in Ohio extended housing dispersals to its six county area. And again, there have been problems: poor management, municipal taxes that rise rapidly before newly constructed property can accrue reserves, improper counseling designed to facilitate the transfer of families into new or rehabilitated units, etc.

We are aware that there are new programs being considered that could possibly do the things that the housing subsidy program could not or would not do. One of those programs is the housing allowance. It is presently under study in five cities by the National Urban League.

Our sincere feeling is that there is no one solution to the problem of providing shelter for the poor and not so poor and black in Chicago. A host of programs must exist and be made available to people on an equitable basis. A moratorium without provisions for continued housing services during the interim period of 18 months, puts the housing solution in cities in a situation in which there may be no recovery.

The cutback in housing is but one element in the administration's program of benign neglect. We join national urban league director, Vernon Jordan, in declaring that benign neglect has turned to a policy of active hostility. This hostility can stir anger to unprecedented limits. This is not the time to diminish such programs of which housing is just one area. This is the time to implement in a forceful manner the spirit and actions of the 1968 Housing Act that in essence called for a "decent home and living environment for every American."

Mr. COMPTON. Thank you.

Senator STEVENSON. Thank you, Mr. Compton.

Now, Mrs. Andrea Rozran, we will hear from you.

Mrs. ROZRAN. Senators, I am here today representing the League of Women Voters of Illinois, the League of Women Voters of Cook County, the League of Women Voters of Du Page County, and the League of Women Voters of Chicago.

[Statement follows:]

STATEMENT OF LEAGUE OF WOMEN VOTERS OF ILLINOIS, LEAGUE OF WOMEN VOTERS OF COOK COUNTY, LEAGUE OF WOMEN VOTERS OF DUPAGE COUNTY, AND LEAGUE OF WOMEN VOTERS OF CHICAGO

The League of Women Voters of Illinois, the League of Women Voters of Cook County, the League of Women Voters of DuPage County, and the League of Women Voters of Chicago appreciate this opportunity to participate in these hearings on the impact of the Moratorium. It is my intention to discuss the effects of the Moratorium in terms of need. This statement will be addressed to five points.

(1) I shall review briefly the League's thinking and positions with regard to national, state, and local housing problems.

(2) I will review Congressional policy and the federal government's involvement in the issue of housing.

(3) I will show the need for housing programs for the residents of the Chicago metropolitan area.

(4) I shall review the results of the federal housing programs and indicate how the goals set by Congress have not been met.

(5) I shall briefly cite some of the problem areas in federal housing programs and offer broad recommendations for reform.

WHERE THE LEAGUE STANDS

League members in Illinois are strongly committed to improving opportunities for low and moderate income people.

At the national level, the League of Women Voters of the United States holds the broad objective of equality of opportunity for access to housing. Implementation of equality of opportunity for access to housing depends not only on non-discriminatory practices, but also on the availability of an adequate supply of housing for low and moderate income families. (Discussion Paper for Human Resources No. 3, DuPage County League of Women Voters, Human Resources Committee, February, 1970)

The League of Women Voters of the United States regards the commitment to equality of opportunity in housing as a matter of federal policy. Our national position reads: "Responsibility in the nationwide effort to achieve equality of opportunity for access to housing resides with government at all levels and with the private sectors." In the past four years, the League of Women Voters has supported adequate appropriations for federal housing programs for lower-income persons and housing legislation which would further expand housing opportunities for all people.

"Members of the League of Women Voters of the United States believe the federal government shares with other levels of government, responsibility to provide equality of opportunity for education, employment, and housing for all persons in the United States . . . The League also supports federal efforts to prevent and/or remove discrimination in education and employment and housing." (Statement of Human Resources Position, National League Board, January 10, 1969)

The League of Women Voters of Illinois supports state and regional planning that considers availability of low and moderate income housing.

The League of Women Voters of Cook County affirms the need for low and moderate income housing and has recommended that a scattered-site plan should be developed on a regional basis. The Cook County League supports regional planning utilizing government subsidy programs, private enterprise, and voluntary efforts to meet the need. (League of Women Voters of Cook County, Low and Moderate Income Housing Consensus Report, March, 1972)

Leagues in several communities in the Chicago metropolitan area surveyed housing needs and reviewed federal, state, and local housing programs. They have studied extensively the obstacles to equal access in housing, with special emphasis on the problems of racial minorities and economically disadvantaged people. They have surveyed housing in their areas in the light of the national goals set by Congress in 1968, and they have a good understanding of what has been accomplished since that time.

HOUSING POLICY AS A FEDERAL ISSUE

In the Housing and Urban Development Act fo 1968 (Public Law 90–448), "Congress affirms the national goal, as set forth in Section 2 of the Housing Act of 1949, of 'a decent home and a suitable living environment for every American family.' " The Congress found that this 1949 goal had "not been fully realized for many of the nation's lower income families; that this is a matter of grave national concern." The Act declared that "the highest priority and emphasis should be given to meeting the housing needs of these families for which the national goal has not become a reality."

Thus, we see that Congress has made housing a matter of national policy and that many of the programs provided for in the Housing and Urban Development Act of 1968 have been terminated by the Moratorium. The League of Women Voters of Illinois believes that matters of national policy can be dealt with best and most fairly by the federal government. Had the states and local governments dealt with the housing problem satisfactorily, the federal government would never have had to affirm "a decent home and a suitable living environment" as a national goal. The reality is that the state and local governments have only made policy commitments in response to federal policy.

We who live in the Chicago metropolitan area have an additional reason for concern about the termination of federal funds for housing. In Gautreaux v. Romney, the plaintiffs alleged that the federal Department of Housing and Urban Development and its predecessor agencies contributed to segregated housing patterns in public housing in Chicago and that only HUD with its resources, varieties of programs, and jurisdiction beyond Chicago could provide real relief. In September, 1971, the 7th Circuit Court of Appeals found HUD guilty of discrimination for its participation with the Chicago Housing Authority and equally responsible to participate in the development of a remedial plan. The termination of the very federal funding which would appear necessary to provide relief for acts of which HUD has been found guilty appears to be not only unfair, but a continuation of discriminatory action.

NEED FOR HOUSING PROGRAMS TO ASSIST LOW AND MODERATE INCOME FAMILIES

We shall in this section review several different reports of the need for housing subsidy programs. The purpose of this section of our statement is to indi-

cate the large number of families in the Chicago metropolitan area who are eligible for the programs which have been affected by the moratorium. Only after seeing how great the need is, will we be able to evaluate whether the units which have been provided under federal programs have been sufficient to meet the need.

In a recently released document, the Northeastern Illinois Planning Commission (NIPC) has estimated current needs of low and moderate income housing for the six counties in northern Illinois composing the Illinois portion of the Chicago SMSA. The current need, based on the 1970 Census, was for 136,600 units for families and 65,800 units for the elderly. A forecast of need for additional units by 1980, which is somewhat tangential to the issue we are discussing today, is for 29,400 additional family units, and 22,200 additional units for the elderly.

The current housing need was estimated by comparing the number of eligible families and households who by income criteria qualify for housing subsidies (working, on public assistance, or elderly) with the number of sound units, rental and purchase, that are priced within the reach of eligible low and moderate income families, households, and individuals. The number of sound units, appropriately priced, was determined by taking the 1970 census figures for all units in the price range of families, households, or individuals eligible for housing subsidies, less a factor for overcrowded units (determined by the 1970 Census), less an estimate of units too small for family occupancy, less units lacking plumbing (determined by the 1970 Census, less an estimate of dilapidated units with all plumbing, less an estimate of the number of sound units appropriately priced but occupied by ineligible families. (Draft, NIPC, Preliminary Estimates of Low and Moderate Income Housing Needs. Chicago, 1973)

In "Illinois Housing Needs, 1970–1980, A Summary" from *Illinois Housing Needs, 1970–1980*, it is stated that as of 1970, there were throughout the state, 166,000 substandard occupied units and 72,000 overcrowded units. The report indicated that there was a need for more housing.

This report stated that as of 1970, an estimated 408,000 households (29.7% of renter households and 11.4% of all households in Illinois) would have to pay more than 25% of net income in order to rent average quality, standard units in the SMSA in which they resided.

In the Chicago SMSA, of a total of 1,038,549 renter households in 1970, 293,445 or 28.5% of the households were defined as needing housing subsidy (figures were taken from the 1970 Census First Count Summary Tape and estimated by regression analysis). (INDA, Illinois Housing Needs, 1970–1980, A Summary. Chicago: IHDA, 1971).

The 1972 DuPage County Housing Report stated that there were approximately 12,379 substandard housing units in DuPage County in 1970, representing 8.7% of the total housing inventory. Of that number, about 2,881 units were overcrowded or lacked complete plumbing. In addition, families were living in housing that demanded more than 25% of their income.

The DuPage County League of Women Voters conducted a survey of housing in DuPage County in 1970 and concluded that "Housing was not available for lower income individuals or families (people receiving $5000 a year or under). The percentage of housing available for people with incomes of $5000 to $9000 is small. With the lack of new apartments and homes being built for the people earning these incomes, it appears that the percentage of available housing will continue to decrease. A wide range of new homes and apartments are available if the income is at least $10,000 per year and up." (DuPage County League of Women Voters, Human Resources Committee, Price Structure of Housing, DuPage County, Ill. May and June, 1970.)

The Elk Grove Village Housing Commission conducted a Housing Need Survey in 1971 by interviewing a sample of people who were employed within the village limits of Elk Grove Village. Each of the 130 business firms in the town was asked to participate in the study by surveying a sample of their employees as to their housing needs. Fifty-four firms, or 41.5% of those contacted, agreed to participate. There is an indication that the sample contained a higher proportion of large firms than the total population of business firms in Elk Grove, but a correction for this difference was made in the sampling procedure for employees within firms (the larger the firm the smaller the proportion of employees surveyed). The sample surveyed appears to be representative with

regard to income level, but unrepresentative with regard to percentage of male employees. This sampling error was corrected by using an interval estimate for housing needs.

The results of the study indicated that 6.4% of the men surveyed and 16.6% of the women head of households surveyed resided in Elk Grove. It is not known what percentage of the working population of Elk Grove are also residents of the village. If this sample was representative of the total Elk Grove Village workforce and if the sample surveyed represented a rpresentative sample in terms of desire to live in Elk Grove, 1055 low income housing units would be needed (for employees with incomes of $600 per month and under) and 922 moderate income housing units would be needed (for employees with incomes of $600 to $100 per month). If, on the other hand, the employees surveyed were the only ones among the firms sampled who live outside Elk Grove Village, 195 low income housing units and 172 moderate income housing units would be needed. If the actual figures of the percentage of employees who are Elk Grove residents are somewhat in the middle, then the need for low and moderate income housing units would range from 500 to 600 for each category. Whatever the case, the survey indicated a need for housing units for low and moderate income households in Elk Grove Village. (A Progress Report to the Elk Grove Village Board of Trustees by the Elk Grove Village Housing Commission, November 23, 1971)

The Village Board of Arlington Heights approved a report from the Joint Study Commitee on Low-Moderate Income Housing on March 27, 1972. The report created a local Housing Commission to plan for low and moderate income housing and to implement a plan within a 2-year period which would (a) provide for 120 units of housing for the elderly, for which application had already been made; (b) make available 50 units of low-income housing through leasing programs or home ownership programs; and (c) encourage the private development of 150 to 250 units of moderate income housing using Section 236/213 and/or a leasing program.

Several surveys were conducted in Arlington Heights while preparing this report. A survey was made of employers in Arlington Hts. and 1½ miles past the boundaries to determine present local employee income ranges and distances traveled to work in Arlington Heights. Three hundred and twenty-two employers were sent survey forms, and 132 returned them. The returns covered 3,231 employees, of which 895 were heads of households. Three hundred nineteen employees earned less than $5,000 (29 were part-time employees), 1530 earned between $5,000 and $8,000. Of the 3,372 employees reported in the survey, 515 live in Arlington Heights, 416 in Chicago, and the remainder in other areas. One employer's report indicated that in the income range of $5,400 to $10,900, 328 of 510 employees commuted from Chicago.

A residential survey was made, which indicated that a total of 287 families presently living in Arlington Heights would qualify for low income housing assistance, and 468 families presently living in Arlington Heights would qualify for moderate income housing assistance. These numbers include more than 200 elderly families who qualified for and were interested in a housing program for the elderly. (Village of Arlington Heights, Report of Joint Study Committee on Low-Moderate Income Housing, March 7, 1972).

Figures from the Northwest Opportunity Center indicated that low-income families reside in the Arlington Heights area. During the summer of 1971, 41 families participated in Operation Nutrition, a supplemental food program for families with children under six years of age or a woman under prenatal or postnatal care, with incomes of $3000 or less with one child and $600 more for each additional child. From January to August, 1971, 138 families with Arlington Heights addresses requested services from the Northwest Opportunity Center. (Reported in Exclusionary Zoning, Report to the Arlington Heights Joint Study Committee on Low and Moderate Income Housing by the Arlington Heights-Mt. Prospect Area League of Women Voters, Sept. 1, 1971.

An excellent way to determine need for housing facilities is to examine the waiting lists of those eligible for services who have not been able to receive them, because of insufficient numbers of units.

The Chicago Housing Authority, which provides low-income housing, has separate waiting lists for family and for elderly housing.

As of December 31, 1972, the waiting list for family-type apartments numbered 10,266 (1972 data received from Senior Statistician in Information and

Statistics Division, CHA), a sharp increase from a waiting list of 8,178 households, as of Dec. 31, 1971 (1971 data received from Chicago Housing Authority, Annual Report 1971). A representative of the CHA explained that during 1972, welfare recipients were sent notices that they were eligible for Brooke Amendment rents.

Income limits for CHA eligibility vary with family size, but as a rough indicator of the large number of Chicago residents eligible for public housing but neither living in it (30,273 apartments, with just under 1000 vacancies) nor represented on the waiting lists, the 1970 Census reported that within the Ciy of Chicago, 87,928 families or 151,472 households had incomes below the poverty level. That figure is 10.6% of all families and 15.6% of all households in the city. The difficulty with using the figure for households is that that figure also reflects those over 65 years anr eligible for housing for the elderly. Sixteen and four tenths percent of all family heads were over 65 years.

As of December 31, 1972, the waiting list for the elderly was 12,119, an increase from 11,461 on January 1, 1972. Staff at the CHA said that the number on the waiting list would have been considerably greater had not a large number of couples received increases in Social Security benefits which pushed their incomes above $3,600. The CHA housing for the elderly provides for less than 10% of the eligible elderly in the city. Approximately 6500 of the residents are households with the head of the household 65 years of age or older and with an income below the poverty level, as estimated by the 1970 Census. The 1970 Census found 67,665 family heads and unrelated individuals aged 75 and over with incomes below the poverty level in Chicago.

The waiting list for public housing in areas of Cook County outside Chicago (administered by the Cook County Housing Authority) numbers over one thousand for the 1242 units of low income housing in eight communities.

EFFECTS OF MORATORIUM ON FEDERAL HOUSING PROGRAMS

Having provided all this background information, we are now prepared to examine the effects of the moratorium. Because so little housing was supplied for low and moderate income people before federal housing programs came into existence, we feel secure in predicting that without federal subsidies, there will be little housing generated for the low and moderate income.

In addition, the solutions which have been developed in other states to solve the housing needs for low and moderate income people have all depended on federally-subsidized housing. There is no reason to believe that alternatives to federally-subsidized housing programs would provide sufficient funds to the states to meet low- and moderate-income housing needs, nor is there reason to believe that many states would have a commitment for implementing plans to alleviate such needs.

One of the methods of evaluating the moratorium is to determine how well the housing needs of the Chicago SMSA have been met by the federal subsidy programs and whether the goal of the 1968 act has been met.

Effects on Meeting Need

Most of the subsidized housing built in the past four years was for moderate-income families. It is not known how many families provided for by Section 235 and 236 housing were low-income families. The League of Women Voters supports continuing much-needed programs for the low income, while also providing the necessary housing for the moderate-income.

Under the Section 235 program for the Chicago SMSA, by the time all firm commitments have been honored, 15,500 new and existing structures will have been completed as part of the program. One thousand previously existing structures were purchased under the Section 235 program. Currently, 3250 new homes are being processed or constructed.

Under the Section 236 program for the Chicago SMSA, by the time all commitments are honored, 128 projects will have been completed, with a total of 18,008 new and rehabilitated units. Included in that figure are 36 projects currently under construction, with a total of 4,567 units, and one rehabilitation project, Parkway Gardens, with over 760 units. Some of the units in 236 programs are for the elderly.

The CHA built or rehabilitated 1325 family units between 1969 and 1971 and none in 1972. Such construction was generally in areas which Judge Richard

Austin calls the "Limited Public Housing Area" and in which the CHA is prohibited from building in the future until they begin to build in the "General Public Housing Area". However, the units constructed had been approved by HUD and were "in the pipeline" at the time of the Gautreaux suit.

The CHA has built 3541 units for the elderly since 1969.

Of an allocation of 3388 units for the leasing program, CHA currently has 3140 units occupied, 2359 for the elderly and 781 for non-elderly. CHA had asked HUD for new allocations of 500 units for elderly and 500 for non-elderly and was granted allocations for 62 elderly and 78 non-elderly (family) units before the Moratorium. There is a need and a demand for more leased units.

The Chicago Dwellings Association had approximately 1125 rent supplement leases in the beginning of 1973. The program, funded by Model Cities and the Department of Urban Renewal, was expected to terminate for lack of funds at the end of June, 1973, even before the Moratorium. It is not known whether alternative programs exist for the families utilizing the CDA program.

On the basis of numbers alone, the League of Women Voters submits that the national goal of "a decent home and a suitable living environment" has not been met in the Chicago metropolitan area and that the effect of the Moratorium will be to prevent that goal from being met. NIPC said that according to 1970 Census figures, 202,400 units were needed for both family and senior citizens. The 235 and 236 programs produced 33,508 units of housing in the Chicago SMSA; the other programs produced an additional 9379 units. On the basis of numbers, we fall far short of what was needed in 1970 and cannot begin to catch up with the ever-increasing need.

Timing of the Moratorium

The Moratorium has occurred at a critical point in time. Many of our suburban communities had after much study, begun to acknowledge the increasing need for low and moderate-income housing, which is not being met. Some of the communities had begun to seek ways to relieve this problem. They had begun to make the efforts which President Nixon had encouraged in his statement on federal policies relating to equal housing opportunities in June, 1971, of making housing more widely available and reducing the extent of racial concentration. Without federal programs, it is doubtful whether the communities will either be financially able to assume the burden or be willing to do so.

Marion Park, Phase I, is a Section 236 development in Wheaton, with 210 units, 119 for senior citizens. They began to accept applications four weeks ago and have sent out over 500 final applications, following an initial screening of prospective tenants. The demand is great for a Phase II development, which cannot be funded under the Moratorium, and for a rent supplement program for 20%of its tenants, which has not been funded because the Wheaton City Council authorized the program after the moratorium took effect. At least half of the 350 senior citizen applicants are eligible for the rent supplement.

The Naperville and Glen Ellyn City Councils had requested leasing programs for low income families. Naperville applied for 100 leased dwelling units last July under Section 23 of the Housing Act of 1937. It took six months to process the application, and the funds are now frozen. Glen Ellyn requested 100 units in early March. That application is being processed by the Housing Authority. At least 10 other DpPage County communities are formally considering the leasing program.

Elk Grove Village, Mount Prospect, Des Plaines, and possibly Palatine all had applications for senior citizens projects in process, but preliminary loan agreements had not been signed by January 5, and so the projects were affected. Arlington Heights believes that their senior citizen project will be built, but the family housing they were planning was affected by the moratorium.

The money for public housing in suburban Cook County had diminished to a trickle even before the Moratorium was announced, just as the communities were ready to accept public housing and had requested that it be built. Franklin Park and Des Plaines had requested public housing units and received a program reservation for 299 units, which cannot be built because of the Moratorium. Four additional municipalities had requested a total of 950 units of public housing in 1972, which were not approved because the Cook County Housing Authority received inadequate funding in 1972.

The number of units affected in all of these cases was relatively small in terms of the total need for our area, but each of these communities might have

built additional developments and expanded their programs to build for families.

In DuPage County, the combination of zoning and building codes limited funding, and HUD red tape has made it very difficult to build Section 235 homes. Communities now are beginning to make the zoning changes and issue the variances necessary to build such units.

There is no doubt that the moratorium has killed the momentum.

Implementation of Gautreaux Decisions

Another effect of the moratorium is that it prevents the remedying of the constitutional wrongs which both the federal and local governments had perpetuated by permitting low-income public housing to be built in such a way as to maintain the existing patterns of residential separation of races in Chicago.

In Gautreaux v. CHA, Judge Richard Austin ordered an end to the practice of racially discriminatory public housing in Chicago and a remedy for the effects of past discrimination of low-income or public housing in the form of construction on scattered sites, both in Chicago and in suburban communities. Such placement was ordered within the city limits, with use permitted on a limited basis in the suburbs, under the provisions of the decision, Gautreaux v. CHA, 296 F. Supp. 907 (N.D. Ill. 1969). As stated above, in Gautreaux v. Romney, HUD was ordered equally responsible with the CHA for participation in the development of a comprehensive plan for relief.

However, due to a series of appeals and delays, no public housing has yet been built in conformity with those orders, and the present Moratorium makes the outlook for such much-needed construction appear bleaker yet.

The Moratorium would permit the use of federal funds to construct only 267 units of public housing, because those are the number of units which the Chicago City Council has approved and for which there is a HUD Area V office-approved development plan.

Unless federal funds are made available for housing in Chicago, the remainder of a HUD-approved reservation for 1500 family-type units will not be honored. The CHA applied for but never received an additional reservation of 3500 units to meet its needs. Full relief to fulfill the requirements of the Gautreaux decision will be 40,000 units in the city and 20,000 units in the suburbs.

We would find it a cruel irony of fate that our judicial system, combined with the powers of the executive, would prevent relief from being offered, in the form of public housing units, to the more than a quarter of a million Chicagoans who are members of the plaintiff class. (In his opinion of February 10, 1969, Judge Austin noted that according to 1960 Census figures, 264,000 Chicago families were eligible for public housing. In a study entitled "Housing Conditions in the City of Chicago" and dated May 1, 1968, conducted under the auspices of the Department of Development and Planning of the City of Chicago and assisted by a HUD grant, it was revealed that as of 1967–1968, the number of eligible families in Chicago was 281,000. This study indicated a demand for between 110,000 and 165,000 dwelling units. (pp. 7–22).)

We do not intend to give the impression that we support some of the delays which have occurred in implementing Judge Austin's decisions of 1969 and 1971. We are fully aware that had the orders been implemented in a way that provided new public housing quickly, we might not have to sit here today and speak of a crisis situation. However, the orders have not been implemented with great speed, but that does not mean that they should not be implemented. The need for low-income housing is greater today than it was seven years ago when Gautreaux v. CHA, Romney was filed, and under the terms of the Moratorium, the implementation of a federal court order is prevented. It appears that the plaintiffs, not the defendants, are the ones who are being punished.

EFFECTS OF THE MORATORIUM ON OTHER COMMUNITY DEVELOPMENT PROGRAMS

The League of Women Voters supports the use of funding incentives and disincentives. Our position of fair housing criteria reads: "After positive steps such as mediation and conciliation have been exhausted, the federal government should have the option for selective withholding of federal funds where patterns of discrimination in access to housing occur. In applying the option to withhold funds, the federal government should weigh the effects of its actions on the welfare of lower income and minority groups."

Former HUD Secretary Romney had stated that the incentive/disincentive plan was federal policy, but we are not aware that any municipality lost federal funds because it did not provide for subsidized housing.

Under such plans, the federal government might make federal aid for water and sewers, public loan grants, and planning activities for any community contingent upon it affirmatively providing for low and moderate income housing. The argument favoring such action is simply that a municipality is not obligated to use HUD money for these projects, but that a community which refuses to go along with federal housing policy should not be rewarded by federal funds.

The effect of the Moratorium is to terminate the possibility of the federal government using Community Development funds in such incentive programs.

PROBLEM AREAS

There are two aspects to our concern over the difficulties encountered in administering the present programs and reform of the programs. We feel that many of the problems encountered have been due to inadequate funding of fderal housing programs and inadequate equal opportunity enforcement.

We submit that many of the basic problems underlying the federal housing system exist because the programs have never been adequately funded. Inadequate funding has occurred in all administrations.

Scarcity became the parent of bureaucracy, and a system developed which makes it difficult and time-consuming to apply for funds and administers the funds through narrow categories of inflexible programs. The apparent increase in bureaucratic employees and procedures and proliferation of narrow programs is a result of scarce resources attempting to serve an enormous need. It strikes us as ludicrous to attempt to solve this problem by further limiting the financial resources.

One example of an area of inadequate funding has been the funding for equal opportunity enforcement in the Chicago Region. Such inadequacy has bred the difficulties in equal opportunity implementation.

Just are we are concerned about equal opportunity in access to public housing, we have been very concerned about the equal opportunity aspects of some of the 235 and 236 developments. A 1970 study by the U.S. Commission on Civil Rights indicated that early Section 235 and 236 developments were quite segregated and reflected the areas in which they were located. Before the programs were terminated, however, there appeared to be improved equal opportunity implementation, and some of the newer developments were integrated both racially and economically.

Aside from purely racial reasons, economic factors may have influenced the equal opportunity aspects. The Section 235 program as formulated is oriented toward less expensive areas and toward quantity construction. In many suburban areas, it is impossible to build single family homes with a total cost limit of $24,200, because of land acquisition costs, so rental multi-family construction is all that is built.

NIPC in 1971 said that land costs in many suburban townships present a serious impediment to building low and moderate-income housing. In a survey NIPC conducted, it was found that approximately 25,000 units could be built in 10 suburban townships on land considered desirable for residential development. But only approximately 174 units could be built on land where the costs per unit conformed to HUD criteria for housing construction under Sections 235 and 236. (NIPC, Progress Report, Housing Studies, May 3, 1971.)

It appears that within the past year, the HUD site selection criteria and affirmative marketing procedure had resulted in increased integration and opportunities for integration in federal housing program developments.

Whatever the criticisms of the Section 235 and 236 programs might have been, the programs were not given enough time to prove themselves successful or unsuccessful.

CONCLUSION

The League of Women Voters looks for federal administration of the federal housing programs, for we are concerned about anti-discrimination procedures and sanctions. As we stated earlier, Congress made housing a matter of federal policy because the states were not acting to erase discrimination. We fear that if housing policy and subsidies are turned back to the states, that states

would interpret and enforce differently, and with varying degrees of anti-discrimination procedures, the promise of "a decent home and a suitable living environment for every American family."

The League of Women Voters of Illinois submits this goal has not yet been fulfilled, and that the moratorium on subsidized housing programs contravenes the intent and fulfillment of Congressional policy.

STATEMENT BY LEAGUE OF WOMEN VOTERS OF DUPAGE COUNTY, ILL.

STATUS REPORT: LOW AND MODERATE INCOME HOUSING IN DUPAGE COUNTY; THE EFFECTS OF THE MORATORIUM

Summary

In June 1971, President Nixon, in his statement on federal policies relating to equal housing oportunity, said, ". . . A municipality that does not want federally assisted housig should not have it imposed from Washington by beaurocratic fiat; this is not a proper federal role . . . Local communities should be encouraged in their own voluntary efforts to make more housing more widely available; and to reduce the extent of racial concentration."

DuPage communities are now beginning to make those efforts. Individuals, volunteer organizations, community leaders, and local governments are working together and are beginning to make zoning changes and variations necessary to assist in obtaining moderate income housing units. They are even recommending and requesting leasing programs. Now, there is a federally imposed moratorium and these first steps by our communities are being thwarted. We need a means of providing low and moderate income housing here in DuPage County and we need it now!

DuPage County has a minimal number of moderate income units and no federally assisted low income units. Most of the moderate units are designated for senior citizens.

Communities, after much study, are beginning to accept the idea that, while our supply of middle and upper income housing is being increased, our increasing need for a supply of low and moderate income housing is not being met. Some community leaders are seriously considering the consequences of such development and are looking for relief, especially for their senior citizens. At this time many communities are seriously considering the leasing program, Section 23. Several factors have made this program acceptable to communities in DuPage County: 1) Units remain on the tax rolls; 2) The program can be phased out if it does not work; 3) If all the units requested are not filled, the community will not have to accept the excess allocation of units. This also means that if there are not enough local residents eligible for the program, the community may phase it out. There is still tremendous concern that providing low and moderate income family units will lead to housing Chicago's poor.

Details

Need.—The need for low and moderate income housing in DuPage County has been well established. The DuPage Regional Planning Commission Report, *Housing In DuPage County, Preliminary Report*, May 1972, by Allen L. Kracower and Associates, was accepted by the DuPage County Board in Spring 1972. It states there will be a need for 8,650 low income units above our present stock by 1975. 42% of those units will be needed by senior citizens. There will also be a need for 7,900 additional moderate income units by 1975. Several studies have been done by local communities trying to establish housing needs for specific localities. At this point none of the local studies have been able to contradict the need for additional units in the low and moderate range.

Low Income Housing.—DuPage County has no federally subsidized low income housing units. H.O.P.E. (Homes of Private Enterprise) has been discussing with local communities the advantages and feasibility of the leasing program, "section 23". Naperville requested 100 units last July. It took 6 months to process the application, and the request is now frozen. Glen Ellyn requested 100 units of leasing in early March; that application is being processed by the Housing Authority. At least 10 other communities are formally considering the leasing program at the committee level. Two of these committees are expected to pass favorable resolutions next month. Two others are

completing detailed studies. The Wheaton City Council after hearing a formal favorable presentation by the civic commission formed a housing commission. One of the Wheaton Commission's tasks will be to establish need and explore feasibility again. However, Wheaton has passed a city-wide rent supplement program at the request of Marion Park, a moderate income development. The rent supplement units in Marion Park, would be the first federally subsidized low income housing in DuPage County, provided an exemption is granted to the frozen funds. 200 units of public housing for senior citizens and consideration of the leasing program have been referred to committee by the Chairman of the DuPage County Board.

Moderate Income Housing.—Some federally subsidized moderate income units have been built in DuPage County. Less than ten of these are "235 homes". Attempts to build "235 homes" on scattered sites by a not-for-profit sponsor found that the combination of zoning and building codes, limited funding, and the HUD red tape made the program unfeasible.

The following chart is a summary of moderate income units receiving federal subsidy in DuPage County for seniors and families. One or two additional projects are in the early planning stages.

LEAGUE OF WOMEN VOTERS OF DUPAGE COUNTY [3]

Name of town	Number of units—type	Details
Naperville Elderly Homes, Naperville, Ill.	210 units, senior citizens	Accepting applications—occupancy soon.
Mayslake unincorporated	322 units, senior citizens	Open 5 years—has shelter care services—recreation center used by community seniors—very successful.[1] Requested of the county Board 108 units of leasing for occupants who no longer have sufficient funds.
Villagebrook, Carol Stream, Ill.	189 units, senior citizens, families.	Occupied 1½ years—long waiting list—residents mostly from local communities—location demands that individuals own a car—otherwise the project is very satisfactory.
Marion Park, Wheaton, Ill	210 units, senior citizens, families (20 percent rent supplement.	Accepting applications—occupancy late spring—rent supplement frozen, but under consideration for exemption. A second phase is being planned.[1]
West Chicago Apartments	189 units	Constructed—no information available—no telephone listed.
Meadows, Addison, Ill	200 units, moderate-middle income development.	Under construction[2]—may have some federal subsidies—rent supplement.[1]
Swift Commons, Addison, Ill	200 units	Planning stopped—property is adjacent to Meadows.
Alesford unincorporated	255 units, senior citizens	Project planning completed and approved by HUD—status of funding not available.
Thorndale West Carol Stream, Ill.	284 units, senior citizens	Planning stage.

[1] Funds for this project are frozen under moratorium.
[2] Funding by Illinois Housing Development Authority, I.D.H.A.

In conclusion—there is no federally assisted low income housing in DuPage County. The need for 8650 low income units as documented by Kracower and associates will obviously not be met with an 18 month moratorium. Approximately 50% of the expressed need (Kracower and Associates) for moderate income elderly units will be met if planned programs can be completed. A minimal number of family units has been constructed and no change in this trend is visible. It is obvious that with an 18 month moratorium on federally subsidized housing, DuPage County will not even begin to meet the documented need by 1975.

STATEMENT OF MRS. J. A. HYNEK, PRESIDENT, LEAGUE OF WOMEN VOTERS

The League of Women Voters of Cook County with its 3,000 members in 31 local Leagues within the county has made a two year study of low-income housing programs, with the focus on surburban needs for housing. This included on-site inspection of various programs of subsidized housing including 236, P.L. 38, city and suburban.

We learned that the Housing Authority of Cook County has built and managed attractive townhouses for families and high-rises for elderly people. It has a good record of many years standing. There are 1242 units under management plus 199 units leased from private owners. Local municipalities in the suburban part of the county have applied for 1500 more units, but 950 of those

will not be possible due to the freeze on construction. More than a year ago, funds for both building and maintenance were severely cut by the federal government.

We fear that public housing, due to its bad image elsewhere, will not be recognized as the boon it is in suburban Cook County. Two suburbs, Franklin Park and Des Plaines, have requested public housing and received program reservations. Four more, Harvey, Morton Grove, Mount Prospect and Phoenix, have requests pending. All of this has been stopped because of the freeze. One other suburb has been assured that its request, held up because of the need to agree on sites, will be honored once the sites are chosen and approved.

Many of our local Leagues, grass-roots that they are, finally succeeded in encouraging indifferent local officials to learn about and, finally, to request public housing. The frustration that they feel after the fund cut-offs is immense.

We urge that economically sound programs like our well-managed public housing be well funded in the next housing legislation.

Senator STEVENSON. Thank you.

Senator Sparkman, do you have any questions?

Chairman SPARKMAN. I want to make just this comment.

I think all of the statements have been very good. Mr. Lucas referred to the program's success, the success of section 235 and you said, I believe, that it had been 98 percent successful here in Chicago, I presume you meant.

I just want to add to that that according to the records of HUD in region V, which includes Chicago and other areas in Illinois, out of 660 section 236 projects completed, only 6 have been foreclosed or acquired.

In other words, that is less than 1 percent failure.

Mr. LUCAS. That is right.

Chairman SPARKMAN. That is pretty good success, I think, and I just thought it might be well to have those figures in together in the record.

Mr. LUCAS. Yes, highly successful, Mr. Chairman.

Senator STEVENSON. Mr. Lucas, you said you were participating in a conference sponsored by the Crisis in Housing Coalition.

Mr. LUCAS. Right.

Senator STEVENSON. We would be very glad to have any conclusions or any recommendations that come out of that conference and enter them into our hearing record, so that we will consider them in Washington.

Mr. LUCAS. Well, we hope to get that in to you, Senator.

Actually, what we hope to come up with is a new housing delivery system and of course, we will need the support of the Congress to write this in or some of the ideas into the legislation.

Senator STEVENSON. Well, we would like to have your ideas and any suggestions about how to change or create new delivery systems for housing. That would be very welcome.

Mr. LUCAS. Shall we pass them on to you or Senator Sparkman?

Senator STEVENSON. Why don't you send them to me and I will take care of them, but either way would do.

Mr. LUCAS. Okay.

Senator STEVENSON. I would like to continue but I have no choice other than to push on.

We will have to recess the hearings at this point and we must do so for 1 hour and 15 minutes, and at that time we will reconvene the hearings here in this room.

Thank you very much, and I apologize to you for the shortened time.

[The hearings were recessed for 1 hour and 15 minutes.]

Senator STEVENSON. The hearing will come to order.

Let me begin by placing in the record, if there is no objection, statements that the subcommittee has received from the Midwest Community Council, from Kaufman and Broad Homes, Inc., and from the Southwest Community Congress and also a transcript of informal, adhoc hearings which I conducted on December 18, 1972, on housing here in Chicago.

[The information follows:]

KAUFMAN AND BROAD HOMES, INC.,
Hinsdale, Ill., March 28, 1973.

SENATE HOUSING SUBCOMMITTEE
BANKING, HOUSING, AND URBAN COMMITTEE
U.S. Senate,
Washington, D.C.

Thank you for the opportunity to present our position in this matter. We respectfully request that this letter and the attached newsletter be inserted in the official record of these hearings.

Kaufman and Board's ability to interpret and meet consumer housing needs has been the basis of our 16 year growth to America's largest multi-national housing producer. To date, we have delivered more than 60,000 homes in 10 states and 4 countries. In Metropolitan Chicago we have delivered some 6100 homes. Only a small percentage have been involved in the much publicized consumer controversy.

In order to provide flexibility and sensitivity to local taste, Kaufman and Broad is organized into semi-autonomous regional operations guided by corporate policies, financial controls and business ethics. Our policy has always been to provide well-designed and well-built homes with the best possible financing and responsible service as we strive to meet the needs of the greatest number of American families.

Metropolitan Chicago was no exception. This division has never been in any way exempt from any of our explicit corporate principles. Top management was most concerned and disappointed when it discerned that Illinois Division management had not performed up to company standards. Company officials took strong and immediate action to bring the division back into line.

The entire management team in Illinois was replaced and the full weight of corporate responsibility and expertise supported the effort to meet the legitimate demands of existing customers and to reinstate company quality and customer service standards. In addition, we cooperated fully with federal investigations into the housing industry.

The company has invested thousands of dollars and manhours to fulfill its warranty, legal and moral obligations to our homeowners in Metropolitan Chicago. We continue to do so. (In some cases, we have worked in communities that are 6 years old with homes well out of warranty and not owned by the original purchaser.)

Many times we requested that the Chicago office of HUD or local government officials act as objective third parties inspecting homes with us, serving to delineate our items of responsibility and then again to witness our fulfillment of those responsbilities. We would add, that these third parties were not always cooperative.

Unfortunately, some groups and individuals have proved less interested in finding constructive solutions to problems than in exploiting the situation for selfish interests. Particularly frustrating have been those homeowners who have hindered our repeated, sincere efforts to satisfy their demands, even to the point of refusing to acknowledge the work we have done. In addition, certain homeowners have publicly accused us of ignoring our obligations, abused representatives and continued a malicious campaign to injure our reputation and obstruct us in our business.

But despite these spectacular, very publicized instances, we are basically pleased with our recent progress in Metropolitan Chicago. Most homeowners are cooperating with us and they are being satisfied. Evidence of this is un-

noted in local media but documented in growing numbers of letters and phone calls to our office. Increased sales also indicate that the Illinois Division is again meeting consumer needs.

In conclusion, despite the fact that almost 100% of our consumer related difficulties have occurred in government subsidized communities, we want to say that we believe the basic concept of the subsidized housing programs was sound. And if properly administered, applied exclusively to new homes and sold to people prepared for home ownership, the programs would serve a great need. We look forward to positive results from the "rethink." We have participated in virtually every government housing program to date because we are sincerely interested in meeting the great needs of the American underhoused. We are confident that further relations with government officials concerned with housing will be constructive and will better meet those needs.

Sincerely,

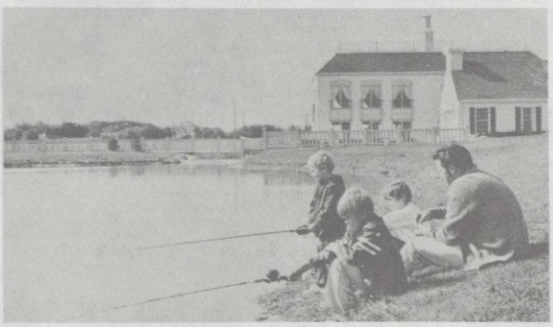
DAVID M. BROWN, *President.*

"Our industry is evolving into a new identity: We are in the business of creating communities . . . quality living environments for people . . . not just building houses. It starts with commitment and becomes reality through ceaseless hard work by dedicated people. We are committed. We're working hard. And we won't settle for anything short of complete success."

David M. Brown, *President*
Kaufman and Broad Homes of Illinois — 1973

Perspective

Kaufman and Broad Homes of Illinois **March, 1973**



Lifestyle is very important to today's homebuyer. Father and sons enjoy lake fishing at Barrington Square, a planned community which includes townhomes, villas, quadruplexes and nearby Barrington Lakes garden apartments. Community life, spirited by an active homeowners association, revolves around the colonial styled clubhouse, providing residents with a great variety of social and recreational enjoyments.

Consumer Progress Report: Our people, our programs...they're working

In the past eight years, Kaufman and Broad Homes of Illinois has produced some 6,100 homes in 16 communities. Many have been outstanding success stories:

- Brandywine introduced the planned community concept to the Chicago area. Property values have doubled for the 1,087 homes.
- Londontowne has been recognized by the City of Chicago and the Department of Housing and Urban Development as a good example of a successful government subsidized community of 800 homes.
- Pepper Tree Farms brought the California Look to suburban Chicago. Property values have increased 30% in just three years.
- Barrington Square, a planned, colonial themed community of townhomes, villas and quadruplexes has become a showplace.
- Barrington Lakes is the first environmentally planned garden apartment community in metropolitan Chicago.

Less than 10% of Kaufman and Broad's homes have been involved in the much-publicized consumer related problems.

"This percentage is still much too high," said Illinois President David M. Brown. "The cost of going back is at least triple what it is to do it right the first time. We have launched a comprehensive consumer program, covering product design, quality control, customer service and community relations, which we believe to be the finest in our industry."

please see page 2

Corporate Strength Supports Illinois Consumer Commitment

It's now axiomatic. Responding to consumers is good business. And, conversely, poor response is bad business.

"We've learned our lesson," said David M. Brown, president of Kaufman and Broad Homes of Illinois. "We intend, as far as possible, to repair our past mistakes.

"More importantly," he said, "we are turning consumerism into a positive, 'good - business' advantage, building quality into our homes during original construction, thus reducing future customer service requests and expenses while stimulating referral sales."

Kaufman and Broad's policy has always been to provide well built homes and responsible service to customers. Unfortunately, the Illinois Division did not live up to the company expectations in 1970 and 1971.

In 1972, the company took strong, direct action to solve the critical consumer problems. Action which included a complete reorganization

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"We are a responsible company. We stand behind our product and the people in our communities."

Eugene S. Rosenfeld, *President*
Kaufman and Broad, Inc. . . . 1972

Editorial: Kaufman and Broad in Illinois...a brand new division

Kaufman and Broad Homes of Illinois is different today. To be sure the name is the same; the goals are pretty much the same; but getting there is a lot different. When we come right down to it, a company is only a combination of its policies, its people and its performance.

Responsible consumer policies have existed on paper since Kaufman and Broad's founding in 1957, but the Illinois Division fell down for a time on people and performance.

"When you come right down to it, a company is only a combination of its policies, its people and its performance."

During the past year, we have reaffirmed the original policies and dramatically altered the other two basic components.

Policy was easy. All it took was pen and paper; a financially supported mandate from corporate headquarters; a fresh approach; a nondefensive attitude; a sense of business which considered the important new realities of consumerism, environmentalism and social responsibility; and a desire to succeed.

People was a little more difficult. Everyone had to be "reprogrammed." Many who could not adjust had to be replaced. Once we achieved a new consumer-think, we translated it into consumer action.

Because performance is what counts. It's what people see and how they judge us. And, of course, it's the toughest.

After six months we are pleased with our progress. Our people are working literally night and day to provide the kind of quality and service that is demanded of us and that we now demand of ourselves.

We are proud of the design and quality of our new homes, the first to be produced under our strictly supervised quality control and self-inspection systems. Sales have been excellent for the first time in many, many months.

Steady sales and a growing stack of complimentary letters encourage us that we're getting closer to our ultimate goal of total consumer satisfaction and a fully redeemed reputation.

I believe that the new ingredient, the extra effort that will put us back on top in Illinois housing, is the way we are now approaching a new community. Once the builder's sole responsibility was to turn out houses. When the people came in, the builder went out.

No more.

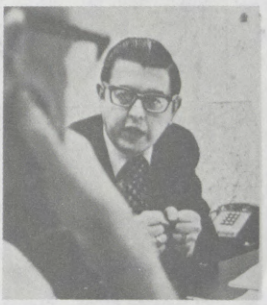
Our industry is evolving into a new identity: we are in the business of creating communities . . . quality living environments for people . . . not just building houses. It starts with commitment and becomes reality through ceaseless hard work by dedicated people. We are committed; we're working hard and we won't settle for anything short of complete success.

"Once the builder's sole responsibility was to turn out houses. When the people came in, the builder went out."

Kaufman and Broad 1973 is selling more than houses. We are helping humanize the communities we create. This means establishing a more personal relationship with homeowners, listening to them more carefully and responding to their needs.

We are now ready to publicly present our story . . . the evidence of our company's new attitudes and recent activities. Our work is by no means finished. But we do want the efforts of the past months to be known . . . and weighed. We want our past problems put into perspective in the light of our present actions and programs which have become our new way of business life. We will continue striving to regain this community's complete confidence in us. Until we get it.

David M. Brown
President



President David M. Brown outlines his policies and programs at a meeting of key executives including the quality control director and the director of consumer affairs, newly created positions responding to the needs of metropolitan Chicago homeowners.

Consumer Progress

Continued from page 1

Program stresses quality, service, sensitivity

Kaufman and Broad's program spans every phase of the business. "We developed a three-pronged strategy," said Brown. "First, and most important in the long run is quality control. If we build the homes right to begin with, we will eliminate 80% of the problem.

"Second, and most important in the short run, is customer service. Since I inherited homes with preexisting problems (and hostile homeowners), my initial challenge was to meet their needs as well and as quickly as possible.

"And thirdly, we began a program to sensitize our employees so they could better relate to consumers and their problems," said Brown.

Production vs. quality: the best of enemies

Production once ran the housing industry. Quality barely enjoyed junior executive status. Today, production is still very important. But at Kaufman and Broad, quality has become an equal partner, promoted by consumer-power.

please see page 6

Community Involvement: reaching in, reaching out

"Today no business can afford to operate with an isolation policy," said President David M. Brown. "Social responsibility or good corporate citizenship is no longer a noble goal, it has become an economic necessity."

Kaufman and Broad's community relations program is organized on two levels: "First we recognize a direct responsibility for the quality of life in our communities. And second, we strive to contribute to the betterment of society," said Brown.

Reaching in to our communities

"Being a vital part of the communities we create is an exciting dimension of the housing industry today," said Brown. "Once we've delivered a well-designed, quality home and taken care of any service requests efficiently and thoughtfully, we can still do more."

For example Kaufman and Broad has worked closely with the homeowners association of Barrington Square, organizing various special interest groups, coordinating special events and community parties. The company also helped neighbors know each other with a community newspaper, the "Town Crier."

Kaufman and Broad also contributed to the community life of Sugarbrook with a park and ice skating rink. In Beaconridge, the company donated its sales office to the homeowners association. In Forest Heights, Kaufman and Broad underwrote a child care center. In Hoffman Estates, the company is providing a meeting place for the Northwest Area Chapter of Junior Achievers. And in Bolingbrook, Kaufman and Broad sponsored a police safety clinic to teach schoolchildren basic safety rules.

Home Maintenance Clinic

By far the most successful program to date has been the Home Maintenance Workshop in Sugarbrook.

"Many of our homeowners are first-time buyers, unfamiliar with the responsibilities and techniques of home care. In fact, many consumer problems have come about partly because homeowners do not fully realize what it means to own a home," said Brown.

"Housing producers are not landlords," Brown continued. "We are responsible for designing and producing a good product. The homeowner must maintain it. Because home ownership is a new way of life to many of our customers, we decided to help them meet this challenge."

According to Brown, the response was phenomenal. "People responded with enthusiasm and told their neighbors about what they were learning. We plan to repeat the class in Sugarbrook and may expand the program to other communities. We are also planning an interior decorating workshop.

Reaching out to society

"Our outreach program has been concentrated on youth. Because we are financially committed to our consumer program, we've had to be quite creative with our contributions. I think we have succeeded.

"We have worked out a special on-the-job-training program with Du Page College vocational students. Several of them are working for us part time in our customer service department. And they are proving to be excellent employees, eager to gain practical experience and good recommendations. We recently donated one of our lots in Cinnamon Creek to vocational carpentry students at Romeoville High School. The kids will build a house from start to finish this spring," said Brown.

Kaufman and Broad also owns a piece of property slated for future development. The company loaned the vacant rundown farmhouse on this property to a group of kids fighting the drug habit.

"Contributing to a community doesn't always mean giving money," said Brown. "It really means caring. We are happy to be in a position to help these kids.

"We know that community relations can never be a substitute for a quality product and responsive service," Brown continued. "But problems can always be solved quicker and better in an environment of mutual good will. This is our goal," said Brown.

Kaufman and Broad's new Chicago President wants a new team dedicated to quality and our consumer

He can't do it alone.

He needs a dynamic, aggressive and dedicated team who will take pride in their work.

He wants sales men and women with positive attitudes.

He wants tough, hardworking superintendents who know the business and will demand accuracy.

He wants professional quality control inspectors who are perfectionists.

In short, he wants the best people — and he's willing to pay for them. The following positions are open and only the sincerely consumer-conscious need apply:

Customer Relations Director (for staff of 25)
Customer Service Manager (for staff of 20)
Customer Service Superintendents
Field Customer Relations Representatives
Quality Control Inspectors
Director of Merchandising
Production Managers
Construction Area Managers
Construction Project Managers
Construction Superintendents
Apartment Construction Project Manager
Apartment Managers
Land Development Engineers
Land Development Superintendents
Sales Managers
Home Sales Men and Women

All inquiries and resumes should be mailed directly to: Mr. David M. Brown, President, Kaufman and Broad Homes, Inc., 2 Salt Creek Lane, Hinsdale, Illinois 60521.

An Equal Opportunity Employer

The "marching orders" given David M. Brown when he took over Kaufman and Broad's Illinois Division were: "Do whatever is necessary to restore consumer confidence and regain our position as industry leaders in metropolitan Chicago."

Brown knew what had to be done. He also knew that people make it happen. Brown ran this ad in all metropolitan papers to attract quality and consumer-oriented newcomers; inspire existing employees to rededicate themselves to their jobs (or lose them); and demonstrate to the Chicago community at large as well as to customers, subcontractors and suppliers, that the words of commitment to consumer responsibility and quality would be backed by action. (This ad ran throughout September.)

Kaufman and Broad's consumer action team works to produce quality homes, satisfied homeowners

David M. Brown:
Commitment at the top

Who is David M. Brown and why has he come to Illinois?

When Kaufman and Broad's top corporate management became aware of the state of affairs in its Illinois Division, it took strong action.

"A primary step was to find the best qualified man in the country to run the Division," said Corporate President Eugene S. Rosenfeld.

"Company-established criteria for the new president included: sensitivity to today's sophisticated consumer; ability to gain the respect and confidence of governmental officials; and proven management skills to restore the company's leadership position.

"After six months of extensive searching and interviewing 120 candidates, that man turned out to be David M. Brown," he said.

Brown was formerly a vice president with the Ervin Company, a housing subsidiary of American Cyanimid. He headed a four state region headquartered in Atlanta. Anticipating the industry trend, Brown developed a strong consumer program three years ago.



Listening is a critical aspect of Kirk Avery's job. He is Kaufman and Broad's director of consumer affairs. Kirk visits numerous homeowners each week. His consistent pattern of prompt, honest and competent response is steadily gaining customer confidence in "trouble spots."

Brown's public service experience includes 15 years in city management. He won the National Achievement Award and was a finalist in the prestigious All-American City competition. He was recognized by Los Angeles County and the State of California for his outstanding work in local government.



Customer service has assumed top priority. Quick, careful and courteous is the style of the increased and well-trained staff under the direction of E. Kirk Avery, director of consumer affairs.

"This background is unique and ideal for the challenging position in Illinois" said Rosenfeld. "He has successfully related housing and government for 13 years on both sides of the desk and has proven his ability to handle the complex problems involved. We are confident that he will lead us into a new decade of quality, consumer responsibility and business integrity."

In August 1972, Rosenfeld gave Brown his assignment: develop a program to turn this division around by providing quality homes and customer satisfaction. Top priority.

Brown went to work immediately, knowing very well that quality is not a thing, but an attitude. He has built a solid consumer action team based on the power of positive people.

E. Kirk Avery:
Consumers are his full time job

In order to effectively meet the consumer challenge in Illinois, David M. Brown established a new top management position, director of consumer affairs.

E. Kirk Avery, formerly Kaufman and Broad's corporate director of executive placement took on the job with enthusiasm, determination and seemingly unlimited energy. Before joining Kaufman and Broad, Avery was a professor of human resources in the business administration department of California State University in Sacramento. His nonacademic activities included consulting for the State of California's human development institute and working with the business community, helping small businesses perform more effectively and fulfill community needs.

Besides increasing and training his customer service staff, Avery made himself very available to his customers. He answers phone calls and letters quickly, and double-checks to see that work is done.

Avery calls on customers daily. He listens carefully to them, researches their problems, and returns with straight answers and a plan of action.

At first he seemed too good to be true.

"Many customers were and still are skeptical," said Avery. "They don't think we'll do what we say. But we do. And the word is slowly getting around."

Avery is currently looking for an assistant. "At first, he or she will do basically what I'm doing, calling on customers, meeting their needs. But the position will soon evolve into a positive, community liaison.

"We want to prevent problems by learning about them early and responding immediately. More than this, we want to create a meaningful relationship with our communities, working with homeowners, adding to their community life with recreation and education programs, community newspapers, etc.

"Already we have been quite successful with such programs. As soon as possible we want to make

positive community relations a full-time activity."

Quality control is name of the game

"Do it right the first time is our goal," said President David M. Brown."In order to make sure our new homes are properly constructed and that our subcontractors are doing the job we're paying them to do, we've hired a full-time quality control director who literally haunts all of our construction sites. We wanted a tough-minded perfectionist who knew the construction business inside out and we've got one.

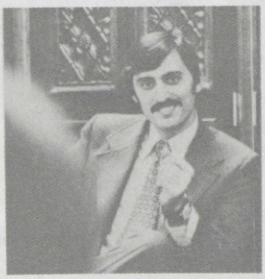
"Our quality control director visits Kaufman and Broad communities on a rotating, unannounced basis. He inspects work at every critical phase, from both the technical-engineering side, and the customer's viewpoint."

Ed Corridori:
Sensitizing employees to customers

To most homeowners, Kaufman and Broad is not a group of tied and suited executives. Kaufman and Broad is the man who sold them their home, the voice on the phone, the customer serviceman.

No amount of carefully-worded policies, not even a basically well-built home can make up for insensitive people. "Sensitizing" people, from the switchboard to the president, is the job of Ed Corridori, Kaufman and Broad's national training director.

"In the past," explained Corridori, "housing has been a production-oriented business. Emphasizing quantity . . . meeting deadlines and goals . . . too often meant de-emphasizing customers.



Sensitivity to customer needs, desires and expectations is important. Today's sophisticated consumer demands honest, competent, dependable response from today's institutions. And it all depends on people. Ed Corridori, national training director, helps employees understand and relate professionally to customers.

"Kaufman and Broad has come to see itself as a retailer as well as a producer of homes. And any successful retailer knows the importance of good customer relations. No longer do we think our job is done when the house is built and sold. Our job is done when the customer is satisfied with his product."

Corridori was challenged to reorient employees. "Our program is divided into two phases," he explained. "First we gather a cross section of employees who contact customers: sales people, mortgage people, service people, etc., and direct a general discussion approaching the problems from the employee's point of view . . . their gripes, their analyses, their ideas of how to make people-contact better.

"The second phase is a series of programs teaching employees how to respond professionally to customers: What do you do with an angry customer? With a confused or anxious customer? How do you adopt a constructive, problem-solving approach rather than risk destructive clashes which neither solve the customer's problems nor enhance the company's image.

"I am very pleased," added Corridori, "with the progress I have seen in Illinois. Employees at all levels are responding and showing a sincere desire to improve their relationships with customers. They are seeing the practical results which in some cases have been dramatic. Morale is boosted with every successful customer contact as the company moves that much closer to its goal."

Josef Mach:
Super-superintendent

Josef Mach is one of the Kaufman and Broad "old timers" who made the new team. He was a good man, quietly doing a good job.

Before Dave Brown became the division's chief, Mach worked part time as a customer service representative in Barrington Square. Brown's first act as president was to look over his territory on a scheduled series of walks.



Josef Mach is an old-world perfectionist: prideful of his work and sincerely commited to the people in Kaufman and Broad's North Area communities where he is superintendent.

He planned to visit Barrington Square with some other executives on a Saturday. "When I got there," he recalled, "No executives. No one was there except a short, stocky Czechoslovakian who introduced himself as Josef Mach. Mach stuck with me the whole day. And I was amazed. People up and down the streets physically came out of their homes to recognize this man, thank him for something special he did or just chat.

"I couldn't believe it. Total sincerity, complete dedication, tremendous pride in his work. And the way he related to people! He knew everyone's name, their kids and more."

According to Brown, one of the most important aspects of good management is knowing how to spot good people. "In this case there was no doubt. I promoted Josef Mach to North Area Superintendent on the spot. You know good chiefs aren't enough. It takes good Indians to run any business. And Josef Mach is a damn good Indian."

Brown said that in the six months he has been president, he has heard enough Josef Mach stories to fill a book.

One outstanding example: In one of his communities there was a leaky roof. Because there was some question whether the home was in or out of warranty, work was delayed and the drip damaged the homeowner's new stereo cabinet. When the leak was fixed, Mach took the stereo to his house and personally refinished it at night.

Consumer Progress

Continued from page 2

"To make sure that our homes meet our standards and our customer's expectations, we have instituted a self-inspection system," said Brown. "Before our homebuyer ever sees his home, it is approved by our quality control director who reports directly to me. We inspect our homes from the customer's viewpoint as well as the technical side."

Customer Service: more people working faster and nicer

"We have substantially increased our customer service staff. Our new people are competent, well-organized and trained to be courteous and thoughtful.

"We respond quickly to customer requests, as time is an important factor contributing to customer trust and satisfaction," said Brown.

Sensitivity: staying cool if they get hot

"We believe that when customers get angry, it's usually a symptom of frustration. They feel that no one is listening, that no one cares. So they talk louder," said Brown.

"Customers are almost always reasonable if you keep them informed and if they believe you are being honest with them: keeping promises, returning phone calls, answering direct questions with straight answers. (If you don't know the answer, say so, find out and call back.)

"It gets down to the Golden Rule: treat people the way you would want to be treated.

"Our training program disciplines employees who contact customers not to react defensively but to listen, think and respond. And we're not talking about inane 'service with a smile.' A smile may well be the least appropriate behavior if a customer's plumbing has broken down. We don't want robots with pat answers; we want intelligent, problem-solving responses," said Brown.

PERSPECTIVE

to inform the community of our policies, activities and plans.

Published by Kaufman and Broad Homes of Illinois

2 Salt Creek Lane, Hinsdale, Illinois 60521 • (312) 325-3010

President, David M. Brown

Editor, Jan D. Hunsinger

Drumcastle: Demonstration of commitment

When David M. Brown took over as president of Kaufman and Broad Homes of Illinois, he quickly became aware that he was faced with a "credibility crisis."

The problem: how to demonstrate dramatically and convincingly that Kaufman and Broad meant what it was saying. That past actions and attitudes were just that, past — the work of a "previous administration."

"It's one thing to achieve an internal about face with new people and programs committed to quality and consumer responsibility," said Brown. "But it's something else again to convince external publics: the press, city officials and homeowners who look for performance, not promises."

Article's "slum-maker" charge offers opportunity

Brown found an opportunity to demonstrate the reality of the company's commitment to consumers when the "Chicago Tribune" turned out a front page blast by a young reporter accusing Kaufman and Broad of "creating a slum" with "shoddy construction," "weeping willow chimneys" and "giant cracks in the walls." The community was six-year-old Drumcastle.

Brown invited the city officials of Schaumburg, which includes Drumcastle, to inspect the community. "We were all pleasantly shocked to find that what had been labeled a 'slum' was, in fact, a lovely community," recalled Brown. "Property values had increased more than 50%."

Claims of shoddy work, disastrous defects and abandoned homes turned out to be either untrue or highly exaggerated. "The reporter later admitted to me that he had not checked the story which was based on a single phone call to the "Tribune" because he was eager to turn in what he thought would be his first front page story," said Brown. The reporter also wrote a letter the Schaumburg's Mayor Atcher acknowledging the story's inaccuracies.

Commitment is followed by action

Despite the fact that the six-year-old community was well out of its one year warranty, that no complaints had been filed with Kaufman and Broad, and that many of the homeowners were not the original purchasers, Brown pledged to investigate all complaints and repair any items which could possibly be Kaufman and Broad's responsibility.

Letters went out to every home in Drumcastle asking residents if they wanted their homes inspected. 180 residents replied. Kaufman and Broad executives and city officials conducted a joint inspection and prepared a mutually acceptable list, itemizing all problems not obviously due to a lack of homeowners maintenance.

Brown then organized a Drumcastle service team to correct the problems, giving them a mandate: satisfy the people. A follow-up story in the local community paper acknowledged homeowner satisfaction.

Homeowners are satisfied

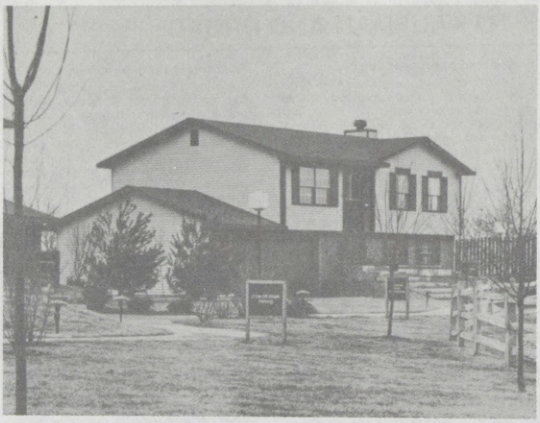
Mrs. Donald Welder, 622 Fairview Lane said, "Anyone who had complaints has been taken care of. I am extremely well pleased with my house now."

Another resident, Mrs. Paul Wise, who had insulation blown into her home said, "People here are getting satisfaction now."

Mrs. William Smith said, "Everything is fine now as far as we're concerned. Kaufman and Broad fixed our garage a week after we complained."

President Brown said, "The 'Drumcastle File' cost us a lot of money. But we felt it was a necessary investment. Legally and technically we weren't obligated. But ethically we were. We wanted to show the community . . . the press, the city officials . . . that we are taking seriously our responsibility to satisfy homeowners with quality and service.

"Kaufman and Broad is determined to prove itself," said Brown, "It can't be done overnight. We have to show a consistent pattern to restore our credibility. It won't be easy and it won't be inexpensive. But we are doing it."



Kaufman and Broad is showing off its new single family models at Woodgate Greens.

Looking forward: Nine communities, a range of lifestyles

Kaufman and Broad is offering metropolitan Chicago homebuyers the kind of home value that has been the company's success story in four countries, according to President David M. Brown.

Kaufman and Broad is currently active in nine communities in north, south and west suburban Chicago with a spectrum of contemporary lifestyle alternatives. These include traditional single family homes, stylish townhomes and luxury garden apartments. Several communities boast recreational and environmental attractions.

These communities are priced from about $18,000 to about $38,000:

- Barrington Square Townhouses, Hoffman Estates
- Villas of Barrington Square, Hoffman Estates
- Condominiums of Barrington Square, Hoffman Estates
- Barrington Lakes Garden Apartments, Hoffman Estates
- Stone Mill, Bolingbrook
- Pine Meadow, Bolingbrook
- Meadowbrook, Bolingbrook
- Greens of Woodgate, Matteson
- Woodgate Condominiums, Matteson

"Our entire product line has been revamped," said Brown. "We are showing six new single family models and all of our interiors have been redecorated."

Sales have been excellent in recent months, according to Brown.

Brown was especially enthusiastic about the response to the newest single family homes which debuted in Greens of Woodgate. "These homes are setting the style for our 1973 product," said Brown.

Kaufman and Broad is also pleased with two new Barrington Square products: the Villas which are townhomes with angled roof lines and all wood exteriors revealing a distinctly California design influence and the Barrington Lakes Garden Apartments.

Barrington Lakes was produced jointly with Ring Brothers, a California-based firm which virtually invented the garden apartment lifestyle. The community features elegant apartments and showplace clubhouse complete with indoor-outdoor pool and abundant greenery. Landscaping is extraordinary.

Kaufman and Broad's near future plans are directed toward three new markets: Hanover Park, Tinley Park and Naperville. The company will design a new line of luxury homes for these areas.

Corporate Strength

Continued from page 1

of the Division's management, placing David M. Brown, a proven, consumer-oriented executive, at the helm after months of extensive searching.

In the past year, Kaufman and Broad's efforts to regain consumer confidence, intensified in the past six months under Brown's leadership, have made marked progress. The effects of the new consumer program and overall business lifestyle are reflected in increased sales and favorable consumer feedback.

"What we are doing," said Brown, "is systematically solving old problems and, at the same time, seeing to it that old patterns are not repeated to become new problems."

In the meantime, Brown expects his customer service cash drain will continue to be significant. "Enlightenment means accepting short-term obligations. Obligations which our corporation, Kaufman and Broad, Inc., is willing and able to underwrite," he said.

Multi-national housing company

Listed on the New York Stock Exchange, Kaufman and Broad is America's largest multi-national housing producer. It currently has 78 housing developments underway in 53 cities in Northern and Southern California, Illinois, Michigan, New England, New Jersey, New York, Canada, France and Germany.

Manufacturing operations include ten mobile home plants from coast to coast. Housing-related financial services include Sun Life Insurance Company of America, Kaufman and Broad Asset Management, Inc., and International Mortgage Company. Total assets at year-end 1972 were $283,769,000 and capital stood at $176,266,000.

Success depends on consumers

"Our success has always depended on our ability to respond to consumer needs. During our 16 years in housing, we have maintained the flexibility to adapt to changes in the economic and consumer environment," according to Corporate President Eugene S. Rosenfeld.

"In 1973," Rosenfeld continued, "we anticipate continued strength in all of our operations. We also look forward to regaining the leadership position we once held in Illinois."

LETTERS TO KAUFMAN AND BROAD

Editor's note: Our "people policy" is simple and unequivocal. Keep promises; work quickly and carefully; treat homeowners with courtesy and sensitivity. Our job is not to satisfy a technical code book. Our job is to satisfy our homeowners. But how do we know that this new humanism is not just on paper? Recent letters from customers report increasing satisfaction . . , not only with work done but also with the basic attitude change in our service people. The following are excerpts from letters received in recent months.

Superintendent wins dissatisfied homeowner

I have previously written letters to Kaufman and Broad to express my dislike for the warranty services and incompetent field representatives. Up to a month ago, when someone asked my opinion of Kaufman and Broad, my answer was certainly one you would not like to hear.

There has been a change now, and my contact with your field representative, Mr. Josef Mach, has changed my opinion of Kaufman and Broad 180 degrees. Mr. Mach is courteous, capable and honest, assets which describe none of his predecessors. He recognized my problems (which had been previously shunned and ignored by everyone else) and corrected them with exceptional dispatch.

Where his predecessors put things off for months, even years at a time, allowing more damage and ill will, he is correcting them immediately and thereby saving you money.

Mr. Mach is a definite asset to your corporation and I wish to express my sincerest thanks to him and Kaufman and Broad for making my home livable again.

Mr. T. C. Gipson, Jr.
Barrington Square

Homemaker amazed at our change

I want to compliment your service people who came to my home. I must say I am amazed at the change in Kaufman and Broad. They were courteous and very efficient.

Mrs. Farshtchi
1105 Duxbury Lane
Schaumberg

Official notes new company spirit

Kaufman and Broad has shown a recent willingness to cooperate with Bolingbrook on a level not anticipated in the past. This Village has always believed that mutual cooperation serves not only the Village's best interests, but also helps to create a better, more marketable product for the developer and customer.

R. F. Reeves
Village Manager

VA shows clean slate

Congratulations, as of this date (January 10) there are no open Kaufman and Broad complaints on file.

George Maliga
Construction Analyst

Experienced homeowner satisfied

I have lived in my home since 1965. When I first bought it I found some problems that needed to be corrected.

Kaufman and Broad representatives visited my home and corrected the problems. I was always treated courteously. This year, I contacted Kaufman and Broad again with another problem. The representatives came to my home, evaluated and corrected it.

I have always been treated very well by your personnel. I am very satisfied with this home. I have owned seven different homes in the past and through my personal experience this is a well built home.

Murray A. Stern
Schaumburg

Homeowner appreciates cooperation

This past year has been a period of problems with our Kaufman and Broad home, but also a period of corrections and solutions on the part of our home builder.

We have been patient and understanding and you have been responsive. The workmen have performed their tasks effectively and with a sincere interest in satisfying us.

There remain only a few incomplete items and we are confident of your usual fine cooperation. We thank all of you.

Dennis John Carrara
269 Rockhurst Road
Bolingbrook

Grateful homeowner defends K & B

I would like to take just a little of your time to thank you for your decision regarding the repairs in my home.

Your men were already here on Friday afternoon and started some of the work and the carpet has already been removed. Your new man Mr. Watts assured me he would call to let me know when the plumber would be out.

I just do not have the words to tell you how grateful I am and if there is anything I can say to offset the bad publicity Kaufman and Broad has received I certainly will do so.

Mrs. Sylvia Martinez
17318 South Peach Grove Lane
Hazlecrest

School enthused over building site donation

On behalf of the Board of Education of the Valley View Community Unit School District we wish to extend sincere appreciation for the building site in the Cinnamon Creek subdivision. Our vocational carpentry class is very enthusiastic about this project and is looking forward to starting the building as soon as possible.

It is our hope that we will be able to continue working together for the benefit of the young people of our community.

Kenneth Hermansen
Superintendent
William R. Rutter
Deputy Superintendent

Resident praises quick service

Having resided in Bolingbrook these past five months, it would have been impossible not to have heard complaints about the poor services rendered by Kaufman and Broad.

This letter, however, is one of praise rather than complaint. On November 13, I noticed water leakage in my family room. It was late and the rain had stopped, so I waited until the next morning to contact your Mr. Clinton at the local construction trailer.

Both my wife and I work so it was not possible to contact us the rest of that day. However, bright and early (7:30 a.m.) on November 15, Mr. Clinton and a customer service man showed up at our doorstep. Within 15 minutes the leak had been located and by that afternoon repaired.

I cannot speak for other homeowners, but Mr. Clinton has given us excellent and prompt service. I want to thank him and his co-workers.

Owning a home is a heavy responsibility and knowing people like Mr. Clinton are around when needed is both a relief to me and a credit to your company.

William R. Lubin
156 Creekside Drive
Bolingbrook

Ice rink provides community recreation

On behalf of the Executive Board and members of the Sugarbrook 5 and 6 Homeowners Association, I would like to thank you for building the ice skating area. It will be enjoyed by many of our neighbors and youngsters.

Mrs. Irma Rovello
Secretary



Youth has been a favorite target of Kaufman and Broad's community relations program. The company donated one of its lots in Cinnamon Creek to a vocational carpentry class from the local Romeoville High School. The students will start from scratch and completely produce a home.

MIDWEST COMMUNITY COUNCIL
3309 West Monroe Street
Chicago, Illinois 60624
Nancy B. Jefferson
Executive Director

The Midwest Community Council is an association of over 100 block clubs on the west side of Chicago, primarily in the East Garfield Park area. We have all of the quote unquote "urban problems" which really don't need to be enumerated once again. We, frankly, are tired of talking about them. We would like to express today our members individual point of view toward the housing crisis and its latest chapter, the freeze on housing funds.

The impact of the moratorium on housing funds will probably not be much worse than what we have been witnessing for some time. We have been watching our neighborhood deteriorate for years, and so has everyone else. We've been studied and targeted by all kinds of public and private agencies, but we are not a model cities area, and we have but one small urban renewal area within our boundaries. The riots of 1968 were concentrated in this community and they gave us immediate pronouncements and promises of new housing, but it was three years before the administrative machinery was able to grind out a small housing development. That development, still not occupied by the way, is like trying to cure cancer with an aspirin. Since we were long since red lined out of the private housing market, the moratorium on federally subsidized housing programs suspends our last hope for new housing.

On the positive side we possess many of the characteristics essential to the rejuvenation of inner city neighborhoods. We are situated in a prime area of the city, a short distance from the Loop, excellent public and automobile transportation lines, and many fine old residences and apartment buildings.

On the negative side, our population steadily decreases due to the accelerating rate of building abandonment. The resultant population shifts cause pressures in adjacent neighborhoods - the familiar changing neighborhood cycle and its related white exodus effect. The abandoned buildings and/or gaping vacant lots, reminders of buildings which used to house our friends and neighbors.

Time does not stand still for us. THERE IS NO MORATORIUM ON THE DETERIORATION OF OUR COMMUNITY. THE MORATORIUM IS ON ITS IMPROVEMENT AND SALVATION. Therefore, our primary request for your consideration is that Congress exert all possible pressure to have the moratorium lifted immediately. At least, some exemptions and exceptions are mandatory to meet the housing needs in communities in crisis such as ours.

Further, the revision of the housing programs should include:

* Administrative machinery which will enable swift retrieval of abandoned buildings. Buildings abandoned because of fire or major physical systems breakdowns have all too often sat vacant for long periods of time awaiting approval for rehabilitation loans.

* Rehabilitation loans for small owner occupied housing units i.e. two, three, and six flats. Without some sustaining program for this category of home investors, communities such as ours are doomed to become anonymous canyons of concrete requiring immense expenditures of law enforcement monies.

* Incentives for a substantial private market to return to our community. Many of our current structures beg for the individual renovation occuring in areas such as New Town and Old Town. Temporary tax reductions, subsidized home improvement loans and publicized models of the potential may attract middle and upper income professionals to pioneer in this city community. Several years of such incentives may begin the momentum to return a balance of income and racial characteristics to our census data, which is now 99% black and median family income of $6,350.

* Direct subsidies for low income families to compete in the open market and enable them to remain in the community as it takes the upward trend and return to a normal market. Direct subsidies, rental or purchase, will force builders and landlords to compete for the housing dollar by meeting the consumers needs. The current subsidy programs deny the consumer an effective choice in selecting his housing unit, which leads to a careless, even destructive attitude toward his surroundings.

* Conversion of rental units to coops and condominiums will increase community pride and activate peer pressure for maintenance and upkeep of property. Only 15% of our housing units are now owner occupied.

* We need increased use of community organizations, churchs, etc. as developers. The responsibility of allegiance to a familiar entity, as opposed to a stranger from the outside, contains deep implications for successful housing programs. Technical assistance must be provided, however, along with some refinements in the joint venture concept for developing housing.

* Demolition funds for buildings which cannot be rehabilitated and use of the vacant lots as temporary parks and gardens might be encouraged in some manner. Factors which discourage the owners from holding property bound by demolition liens and back taxes, and facilitate that property's return to the market place for redevelopment should be instituted.

Restating briefly, new housing legislation should enhance community and family life, not destroy it, encourage economic and racial integration, and enable the consumer to regain control of his housing selection. The alternatives for our community are most unpleasant. We face deterioration and demoralization on a scale untennable to anyone's human sensitivity.

THE HOUSING CRISIS AS WE SEE IT

Statement of the Southwest Community Congress

Submitted to the Senate Banking, Housing and Urban Affairs Subcommittee

March 30, 1973

Southwest Community Congress
5911 S. Kedzie
telephone: 436-6150

Miss Pat Kinnerk,
Spokeswoman
3420 W. 61st Place
telephone: 776-8384

I. A description of our community

We are a White, ethnic community on Chicago's Southwest side. Fifty-three per-cent of our population are first- or second-generation Americans (primarily Lithuanians, Irish, Germans and Polish); we have many older citizens (eighteen per-cent are sixty-five years and older); there is less than two per-cent unemployment; the median family income is $11,648; sixty per-cent of us own our own homes; three-quarters of the homes in our area are single- or two- family structures. We have been working for many years to pay off mortgages on our houses, and we take a great deal of pride in keeping our homes in good condition and our neighborhoods quiet, safe and good places to raise our children.

II. What FHA is doing to our community

FHA has made it possible for rapid racial turnover to take place on the Eastern fringe of our community. In three years (from January, 1970 to January, 1973), eight square blocks between Ashland Avenue and Damen Avenue, 59th Street and 67th Street, have turned from White to Black. This means that almost 3200 homes have changed hands. This turnover is relentlessly moving Westward on a block-by-block basis, with Black families moving in and Whites moving out.

We believe that FHA contributes to this kind of turnover in two ways. First of all, the Federal Government insures the loans and provides the subsidies which make it possible for lower-income people to purchase homes in our neighborhood. No counselling is provided for these new homeowners, no escrow account is kept for repairs, and much of the new FHA 235 construction has been substandard. As a result, seventy-one foreclosures have occurred in the eight square blocks between Ashland and Damen mentioned above.

Secondly, and far more importantly in our eyes, the Federal Government conspires with local Lending Institutions and with unethical real estate dealers to predetermine that this turnover is going to take place. We cite as evidence of this the following practices which have occurred in our community:

1. Lending Institutions make the first decisions which signal the impending death of a community. For years they take in our savings(see Appendix A - Growth in Assets of Savings and Loan Associations in Our Area), benefitting from the fact that ethnic Whites are notoriously good savers. However, when they see the Negro coming within range of a White neighborhood, they

arbitrarily decide that they must draw a "red-line" and not invest any more conventional mortgage or home improvement money in the White neighborhood, unless an exorbitant downpayment is made on a short-term loan(see Appendix B-1 and Appendix C-2). The Federal Government in 1968 passed the Housing Act which made it possible for Lending Institutions to withdraw conventional mortgage money entirely from an area. Lending Institutions were now able to invest exclusively in 100% insured FHA mortgages in changing and peripheral neighborhoods, which they effectively did(see Appendix C-1). Lending Institutions also found many other advantages in the use of FHA, besides having their loan guaranteed 100%:

-they were released from the responsibility of inspecting property, verifying appraisals, and controlling speculation by the unethical real estate dealer

-they had no responsibility for counselling the prospective homebuyer

-they were released from the responsibility of giving home improvement loans, which they would ordinarily give to protect their investment

-they collected points

-more recently, they are retaining liquidity by selling their FHA mortgages to the Federal Home Loan Mortgage Corporation, set up specifically for this purpose in 1970

-also more recently, they are receiving(in Illinois) more and more liberal branching privileges so that they can channel our savings into "safe", conventional, high-interest investments in the suburbs

-they have been able to claim that they are doing business in the inner-city, even though their only business has been 100% risk-free FHA business.

In addition, Savings and Loan Associations have not just been passive recipients of the benfits of FHA but have also actively conspired to discriminate against our neighborhoods by refusing conventional mortgages for such reasons as "that is a deteriorating neighborhood", or "'they'(the Negroes) are within three blocks of that address"(see Appendix B-1).

2. The decision by Lending Institutions to withdraw conventional mortgage money from a peripheral area provides the tool that unethical real estate dealers need to begin the process of destroying a community. They begin by steering stable White families away from peripheral areas, saying that no conventional mortgage money is available in these communities(see Appendix B-2). They then begin heavy solicitation and harrassment of the White homeowner in the peripheral neighborhood, telling him that he will not be able to get his money for his home unless he sells now. At the same time, the real estate dealer uses FHA selectively to steer low-income Black families into the neighborhood in order to further scare the White homeowner into selling cheaply. The unthical real estate dealer hopes to end up buying the house himself for the purpose of speculation, holding it or renting it for as long as necessary, obtaining an inflated FHA appraisal for the property, and then selling the house on FHA to a minority group family(see Appendix D).

3. FHA further contributes to pre-determining the downfall of a community by failing to take into account the effect that new and larger and predominantly non-Catholic families will have on area schools. Elderly White persons are replaced by large Black families, who are often moving into FHA 235's which require at least three children, and as a result, the school population soars by as much as one classroom a week(see Appendix E). Overcrowded schools mean split shifts and crowds of young people roaming the neighborhoods with nothing to do. Fights break out, vandalism takes place, and crime becomes an added problem to the dying community.

4. FHA also contributes to economic blight in a community through the loss of businesses and higher insurance rates.

The White homeowner thus is hit with a multitude of problems simultaneously: he cannot get a home improvement loan, he is told that the value of his property is falling and that there soon will be no demand for his home, his insurance is cancelled, he is harrassed with solicitation and rumors from real estate dealers, his children attend over-crowded schools, he sees businesses leaving the community and his local Savings and Loan Association setting up a branch in the suburbs, and he knows that crime is increasing. In this context, is it a surprise that the White homeowner decides that he must move? And is it a surprise that, angry and embittered, he blames FHA for his problems, seeing as how FHA has consistently refused to take any responsibility for the impact of its programs which are concentrated solely in his neighborhood?

III. What the Federal Government must do to save our community

In conjunction with other White homeowner groups in the city of Chicago, we propose the following solutions for our problems:

1. That a U.S. District Court Order be obtained defining fringe areas in Chicago, stopping FHA sales in these areas, and forcing the FHA 203 program to be utilized throughout the remaining Chicago Metropolitan area. This means that points charged to the seller by Lending Institutions on FHA mortgages must be eliminated, either by subsidy or a floating interest rate.

2. That in these Court-defined fringe areas, all contract sales be banned so that they cannot be used as a substitute for FHA.

3. That a new Federal Housing Commission be initiated to monitor, on a monthly basis, where all FHA 203 mortgages are being written.

4. That this Commission have the power to force all Lending Institutions to invest a sum of money proportionate to the amount of savings on deposit from local community people, back into the local community in the form of conventional mortgages.

5. That this Commission monitor the portfolios of these Lending Institutions on a monthly basis.

6. That FHA not back any mortgages 100%, so that Lending Institutions will always have some stake in the loans they are making.

94-280 O - 73 - 14

APPENDIX A - Growth in Assets of Savings and Loan Associations in Our Area

Talman Federal Savings and Loan - Total Assets - 1972 - $1,047,166,112
5501 S. Kedzie

1968 - $609,504,136
1969*- $736,990,485
1970 - $806,375,356
1971 - $835,701,656

Gage Park Savings and Loan - Total Assets - 1966 - $22,046,157
2740 W. 55th Street
1967 - $22,857,017
1968 - $22,783,233
1969*- $21,703,881
1970 - $22,045,201
1971 - $23,359,808

Marquette Park Savings and Loan - Total Assets - 1966 - $4,782,113
2748 W. 63rd Street
1967 - $5.283,395
1968 - $5,849,584
1969*- $6,213,142
1970 - $6,248,938
1971 - $6,611,491

Lawn Manor Savings and Loan - Total Assets - 1966 - $10,476,942
2700 W. 59th Street
1967 - $11,018,020
1968 - $11,000,045
1969*- $10,893,364
1970 - $10,940,345
1971 - $12,195,242

Chicago Savings and Loan - Total Assets - 1966 - $85,217,680
6245 S. Western
1967 - $92,288,004
1968 - $90,150,433
1969*- $85,120,465
1970 - $84,809,237
1971 - $86,444,739

*In 1969, escalating interest rates and yields available on on direct investments caused disintermediation and lower assets for Saving and Loan Associations in most of the U.S.

APPENDIX B - Statements Showing Techniques of Steering

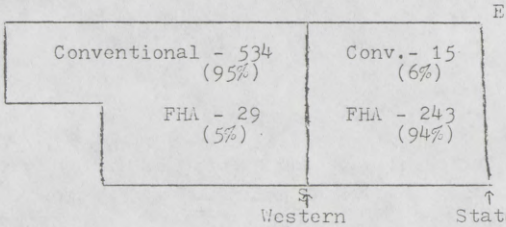
1. A man who identified himself as Mr. Joseph E. Kwiatt, President of Loomis Savings and Loan Association, now located at 6350 W.63rd Street, cited figures requiring a 40% downpayment on a new single-family dwelling to a member of our staff who requested a conventional mortgage for this house, which is located at W. 51st Street and Laflin Avenue in a peripheral area. Mr. Kwiatt gave the following reasons for the high downpayment: "That is a deteriorating area", and "'They'(the Negroes) are within three blocks of that address". He did not make any inquiry as to the applicant's credit-rating or ability to pay.

APPENDIX B - Statements Showing Techniques of Steering (cont'd.)

2. Mr. Edward Jasnoch , broker, of The Right Realty located at 26501/2 W. 63rd Street, used such statements as "Do you want your children to go to school with Negroes?" and "Do you want your wife to be raped?" to dissuade a prospective White homebuyer with a solid credit rating from buying into what is still a stable, all-White peripheral neighborhood between Claremont Avenue and Bell Avenue, 63rd Street and 67th Street. He also said that there was no conventional mortgage money available in that area.

APPENDIX C - Lending Institutions' Exclusive Reliance on FHA-Insured Loans in Changing and Peripheral Neighborhoods

1. W N E / W. 55th Street



The area West of Western Avenue is an entirely White area(the 1970 Census listed ten Negro persons in this area) which still lies over one mile away from the Black border line.

The area East of Western Avenue is predominantly White for between one and two miles and then is predominantly Black.

These figures are from the Residential Sales Data of the Society of Real Estate Appraisers Market Data Center, June,1971 - July,1972

2. The average downpayment on the fifteen conventional loans made in the peripheral neighborhoods East of Western in the above diagram was 30%.

APPENDIX D - Profits Obtained by Brokers Using Panic Peddling and FHA Appraisals to Make Double Sales

6439 S. Hermitage
Shlick to Adib Abusharif (broker)
$6,500
Abusharif to C. Jennings
$18,000 on 1/20/70
Profit: $11,500

8055 S. Paulina
LaSalle National Bank to Abusharif
$27,000 on 6/15/70
Abusharif to John and Lemuel Palmer Profit: $11,000
$38,000 on 1/8/71

APPENDIX D - Profits Obtained by Brokers Using Panic Peddling and FHA Appraisals to Make Double Sales (cont'd.)

6039 S. Marshfield
A. Statkus to Abusharif
$7,000 on 5/12/70 — Profit: $8,000
Abusharif to H. Brown
$15,000 on 7/1/70

6110 S. Hermitage
J.B.Heindenreich to Abusharif
$10,500 on 11/10/70 — Profit: $5,500
Abusharif to Robert Skinner
$16,000 on 1/29/71

6513 S. Wolcott
R. Gamoerl to Abusharif
$17,000 on 10/27/70 — Profit: $3,000
Abusharif to O. Mixon
$20,000 on 2/17/71

APPENDIX E - Enrollment Figures and Racial Composition of Students at O'Toole Elementary School, located at 6550 S. Seeley Ave.

YEAR	STUDENTS	NO. WHITE	NO. BLACK
1963	867	867	
1964	945	938	
1965	969	952	
1966	981	962	
1967	981	960	4
1968	1015	987	21
1969	1160	981	168
1970	1368	850	492
1971	1595	558	1011
1972	1251*	367	858
Jan., 1973	1350	260	1064

*opening of new Ralph Bunch Elementary School at W.65th Street and Ashland Avenue

According to our statistics and those of the Society of Real Estate Appraisers Market Data Center, 90% of homes sold within the boundaries of O'Toole School over the past five years have been on FHA.
O'Toole Elementary School still lies in a neighborhood which is predominantly White.

STEVENSON. I would like to welcome you all and thank you for joining me this morning. I might introduce two members of my staff who I have asked to sit with me here to try to help answer questions and also to record your complaints. This is Les Goldman, who I believe has been in touch with many, if not all of you. Les is on my Washington staff and is primarily concerned with problems right across the board in Illinois. This is Harold Wolman, also of my Washington staff, who works on legislation principally in housing, and works with me on the Senate Housing Subcommittee.

Let me say just a few words before we throw the meeting open. Homeownership has always been a part of the American dream. For you and for those you represent, it has become the American nightmare. I know something of that nightmare because I have received complaints from all parts of the state, from all neighborhoods, peoples of all backgrounds, all races. Not long ago we sent out a questionnaire to determine the nature of these complaints and give ourselves more specific information. I thought I might read a couple of comments, picked from random, from these questionnaires as an example of the afflictions of our housing programs and our housing practices. They are all too common.

"We had to have siding installed to prevent water from coming through the walls." "They told us that there was an eighteen inch crawl space under the house that is big enough to work under if something should go wrong with the plumbing. And the plumbing went bad and the plumber was here. The original one would not come as he said. Once the damage was done there was nothing he could do. He had to cut a hole in my living room floor to get to the pipes in the crawl space. The plumber said that the pipes were too small for the house. The toilet keeps backing up. It is filled with waste, it had backed up from the toilet to the bath tub. This past summer for two days, we waited for a plumber to fix it. We called the builder several times stating existing problems. The bank sent out an investigator. We have a one year warranty and a five year warranty on our home. So far it's worthless. The molding is stripped, whole ceilings need to be replaced, the walls are literally decayed, every room in the house is moldy—on the walls and ceiling. If something is not done soon, this house will be unrepairable. The Attorney General's Office sent out investigators. They found loose pipes, the roof literally raising off the roof of the house, bad insulation in the attic, pipes through the roof, no felt or sheeting under the shingles. I don't know what else. Please help us or we won't have a house left to live in. We have done everything a person can possibly do to make a new house beautiful but when you see it sinking and the walls splitting and falling apart, you get sick. I hope something can be done. We love our home and are very proud of it. Please help."

We face all across the nation a housing shortage. The vacancy rate for home ownership in Chicago is about 1.2 percent, nationally about 1.0 percent. That in effect means that there is little if any housing available across the country. To make it available, to find a home, you go through an ordeal. You are too often victimized by shabby real estate financial practices. Practices at the time which cause everybody to profit except the homeowner and, of course, the taxpayer. The sorriest part of it all though, for me, is the reliance which homeowners, home buyers, place on their government. A misunderstanding that an FHA insured home is a government inspected, government approved home. The reliance which is too often misplaced, trust in one's own government which all too often is disappointed.

We have been in touch with many of you, I want to continue to remain in touch, I want to continue to be as much help as I can. We have also been in contact, as I think most of you know, with builders, with FHA–HUD, with others, and I think we are making some progress. We are getting some results, we have brought a little relief to some people. We have a long way to go. I want to be of more help to you and to those you represent, homeowners in the state. I want also to spare others the deep troubles. As part of this continuing effort, I have asked the Senate Subcommittee on Housing to hold hearings on housing practices and housing policies in Washington and out in the field. I expect such hearings will be held starting in the next Congress, and I hope very much that at least one of those field hearings will be held right here in Chicago. So that you can come forward with your complaints and your suggestions. There is no need to wait for those hearings—that's the meaning of this morning. I have invited you here because we need to know all of your complaints. We need to

focus public attention on the issue and pressure on those to blame. We need answers and those answers may include changes in the law. Our concerns this morning are principally with homeownership, although mine and the concerns of the Housing Subcommittee extend to all forms of housing including public housing. Today, though, it is homeownership. So, let us begin. It is wide open. I think the most orderly way to proceed is to raise your hand to be heard. I will recognize you and I hope that you all will before we are through. I see a hand up already. Let's start with comments from Gail Cincotta from the Westside Coalition.

CINCOTTA. First of all, I would like to commend you, Senator Stevenson, for having these hearings and I know that working with the Westside Coalition, that you did try to get legislation introduced on a 203 Reimbursement Act that didn't get passed.

STEVENSON. The Reimbursement Act, Section 518, we will try again.

CINCOTTA. I think that what we have here today is a chance. We have people from the lake front, from suburban areas, inner city and fringe communities, which are going to have to have input into the new Housing Bill so that this time the programs are people-oriented. And I think that if you listen to the different groups, like I have, that what we find is that the mortgage brokers, the builders, the real estate men, have all been protected and nothing has been done for the protection of the people. And the people's community, of all the urban centers, have gone through the time when we had contract salesmen and looked forward to the new HUD programs as a way of getting away from the problems we had then, only to find that we are in big trouble within the whole metropolitan area. And I think the biggest thing I can say is that we have got to make these programs people-oriented. We have to have the people protected so that again, the American dream of owning a home becomes a reality and not ever having disruptive communities spawned by programs and caused by money experts. And I think the wide range today will tell you it is not a race issue, it is an economic factor that is destroying every metropolitan area.

STEVENSON. Gail, you said that the housing program should be more people-oriented. You know many housing programs originally started with a preoccupation with financing. FHA is a financing institution. The concept from the beginning has basically been one of providing financing and through financing, in some cases and in some programs, subsidies for housing, to try to bring homeownership into the reach of everybody. You say it should be more people-oriented, not even the concept has been very people-oriented. I wonder if to do that makes it more people-oriented. There should be far more attention—in the housing program—to counseling services, before FHA can guarantee—there should be a requirement written into the law that the porspective homeowner has had at least the opportunity to avail himself to counseling services, including legal services—maybe rendered by some agency outside of FHA or HUD—which is oriented not so much to housing or the industry, but to the interest of the consumers, the people.

CINCOTTA. I think that that kind of a counseling service has to be on-going so that it is not only for the sale but after the sale. But again, I think that in addition to counseling the—which I think these people need—I think that more money is given to builders, more money is given to mortgage brokers—they have to provide a good home. They have to provide that these people do know about counseling services. The way it is now, everybody gets their money and the people in the community are left on all the programs across the board. New construction, all to often falls apart soon after builders finish, and they couldn't care less. I think we have a problem which affects the entire urban area about repairing it. What we find today is everybody suffers; whether you go from the desolution in Woodlawn, or the suburban areas where poor quality homes are built. We are all victims of the whole process. People in one area think they are a little bit better off, but eventually the whole process will go through the whole metropolitan area. People are being victims. They are playing with—you have to have a house to live, you have to have it and the government has to protect your need for a home.

STEVENSON. What we have here is not only a affliction of the inner city area——

CINCOTTA. But the whole area.

STEVENSON. Everywhere. And of course, as I think I mentioned this eariler, I don't see why we shouldn't throw it wide open and consider answers at a local and state level, too, it is hardly just a federal concern. Building codes that are

there to be enforced. Why should people be permitted—*builders* be permitted—to build on flood plains knowing perfectly well that come the spring, those houses are going to be flooded. Anyway, I saw a hand . . .

JUDY YEAGER. I am from the Southwest Community Congress. We did a study on the southwest side of Chicago in a nine block square area. Now we counted 43 real estate offices that went into that area and ripped that community apart. Now in that area before these problems started, there was 34 percent elderly. Now the elderly have a stabilizing effect on a community because their children are raised and they no longer have any children in school. Then you have another one-third whose children are in high school and then the others with small children. When these real estate men ran the elderly out and replaced the community with people with small children, this concentration was so bad that our classrooms swelled to the tune of one classroom per week. It has split shifts, so we were hit in the face with the problems of schools. Then you are hit with another problem—to level off a whole block of houses and put up a new school or do you bus them into other communities and have everybody fighting over that. Then we noticed that everything was FHA. So we thought why can't we do the way they did in the Back of the Yards in the old days when they had all these ethnic communities and all these savings and loan associations and you went in and negotiated your own deal if you wanted to sell your own house. We figured that would be the free enterprise system. You could freeze out the panic peddlers and negotiate your own conventional loan. So we started visiting savings and loan associations and said, "Well what's going on, fellows, you know we have money just like other people and we are willing to pay." The big pitch we got from a lot of them was, it's insurance. Well, then, we would have women come into our office—complain, like the woman from 52nd and Peoria. She had insurance on her home for fifteen years with the same insurance company. Then the insurance agent asked her if she was renting her house to a Negro. "No, I'm renting to a Latino." By the end of the year her insurance was cancelled. Well, we feel that they are giving us a pretty shady deal and we are getting dumped into these fair planning legal excuses that are used for not letting us go conventional on our mortgages. We went to several lending institutions and one of the largest ones in our area, 15 percent of their savers lived in five miles of the area, so you can't say that they are unstable people with a billion dollar institution in the area. We figure that we are stuck in the middle of these insurance companies. The lending institutions are using the insurance companies for an excuse for not giving us conventional loans so we can go back to the free enterprise system. If we could get conventional loans we could freeze out all of these crackpot, orange crate operators, calling you thirty times a week telling you to sell your house and get out of the community. You could negotiate your own deal. This is like watching a run on the stock market 'cause to most of these people, the biggest thing they have is their home. If you keep telling them that they are going to lose it or it will be devalued, you are sending them into a state of panic. But you have to show them a way in which they can do it so they can freeze out these other people.

STEVENSON. Could you just tell us a little bit more of how the elderly get frozen out of your community?

YEAGER. Oh, my Lord—the poor elderly!

STEVENSON. I might say that we are keeping—taking notes up here. We are making a recording of everything that is said here so we are going to have a complete transcript, a taped record. I am asking a lot of questions, that's one of the reasons we want to get . . .

YEAGER. They get harassed with these telephone calls. The South County Newspaper on May 9, 1971, quoted one woman who kept a record of just one week of the telephone calls she received. She received in excess of 30 telephone calls in a week. Now that's harassment. Real estate men tell you they have a right to call you up—but, my gosh, not thirty times a week. And these poor elderly, when they start telling you that the neighborhood is going and that they are going to lose the last bit of money that they have. People saying that if it goes, I'm wiped out. It's tragic to hear this kind of thing.

STEVENSON. There is another committee of the Senate which has been investigating this block-busting tactics with particular reference to the insurance company. You are familiar with that committee.

YEAGER. Yes, we are. We were lead to be believe by Mr. O'Leary at a meeting we had last March at St. Sylvester's, that as long as the insurance industry had to answer to the state legislature, they would enjoy immunity from antitrust

laws. But since they no longer have to answer to the state legislature in the State of Illinois—the key figures of legalization come under antitrust laws because they can increase the rate in the State of Illinois on anybody—and not have to give any explanation to anyone for doing it. And you can leave this meeting and drive home and stop for a stop light and if your car gets rear-ended, you will be penalized for five years even though it is not your fault. It's not just homeowners, it's auto insurance and everyone else. They are making a profit. I don't care what an insurance company does with my money as long as when I buy insurance I get what I pay for. When it comes time for them to pay off, they pay off. But when they have all these loopholes and they are keeping them on the side—then I think we have a right to squawk.

STEVENSON. I think one—some thoughts we ought to pursue on the basis of what you say, is the possibility of HUD anti-blockbusting regulations—there shouldn't be any dealing between HUD or FHA with agencies guilty of practicing the practices you have described. Secondly, well, I mentioned the Senate Subcommittee, the Antitrust Subcommittee chaired by Senator Hart, looking into the antitrust implications and—this is one state which does not have a state law on blockbusting. There is now a uniform commissioners of law model statute on blockbusting. There is a real limit to what a Senator can do with the U.S. Senate, let alone the Illinois legislature. But that is the sort of thing you can do—a great pressure to bear on legislators.

YEAGER. Well, I'll tell you we did. We tested the antisolicitation law and we kind of got a dirty deal out of the deal. We figured they can call as many times as they want—well, we can call them 30 times a day and paralyze their lines and put them out of business that way. I mean we can make it work for us, but we have to work pretty hard.

STEVENSON. Well, in the legislature I know the special interest groups are very well organized. They know every step of the way what's happening. It's much harder for the unorganized citizen or average citizen. There are ways of finding out and bringing pressure for all these organizations on everyone of these representatives. Mr. Stefaniak of the Northwest Community Organization. Let me just remind everybody, once again, please identify yourselves.

STEFANIAK. In reference to what the lady was saying from the South Side, we have a very poor department in the State of Illinois which covers the real estate brokers. There is no control over the real estate brokers in the State of Illinois, period. That is a fact.

STEVENSON. No, if I can interrupt there again. I think it would behoove you to selectively or individually to bring your concerns to the newly elected governor who will be appointing soon the director of that department. I'll mention it to him, but you are in every bit of a strong position to make suggestions to him as I am.

STEFANIAK. On the full FHA mortgage plan, I think it has left out the responsibility of paper housing of those who handle FHA mortgages—like you would handle candy at one of the concessions stops. They do this day in and day out and they have nothing to lose. They are totally excluded from any law, yet, they make a trillion dollar profit each year from the handling of just plain FHA papers. There is nothing in the law that puts any responsibility on them. There must be some responsibility on financing of mortgage houses that handle this type of financing so that they are responsible in some way for the quality of building in which they are picking up the paper on. It's not just enough to say that we are picking up the financing, isn't that great. You see, they are making money on these deals. Yet the only one that loses on the foreclosures—the only one that loses in any way—are the people on both ends, the taxpayer and the person who buys the home. There is nothing on the part of the mortgage house that says let's do it on a conventional loan but go out and do an inspection on the house ourselves.

They depend strictly on FHA to do the appraisal on it and the inspecting. Well, write something in the law that covers the mortgaged houses participation in the inspection so that they know what they are buying—so that they know what they are picking up the paper on.

STEVENSON. If they pick up the papers, it's guaranteed paper—it's an incentive.

STEFANIAK. Yes, that's right, but you see there is—it's a hundred percent profit with no risk.

STEVENSON. Well, that's the point I'm making. I'm still not sure that we've got the answer. Let me ask you a question that I've heard—you can tell me if it's

true—that some finance companies encourage the owners of defective housing to default on their mortgages.

STEFANIAK. Yes. You find one mortgage house calls up the owner and says, "Let's make a deal. We can set up a special escrow account for your monthly payments instead of going into your regular financing of a house—put it into an escrow account and you can save that. We won't pressure you for a year and a half. Then you can use this money for a down payment on a new home or a different home."

STEVENSON. In that case, not even the homeowner is short-changed. Everybody makes a buck, at least the homeowner is bailed out.

STEFANIAK. Right.

STEVENSON. The taxpayer is the one left holding the bag.

STEFANIAK. The taxpayer in the community is left with holding the bag. Because the community is left with a bad house which nobody will buy the second time around, let's face it. HUD won't insure it the second time around because they've been burnt one time—they know what the situation is—and it's the community that's left. The next thing you have is an open, abandoned building, the next thing you have is the fire gutting, and you have the urban problem taking place. There's a vacant lot to tax, then what do you do with a vacant lot?

STEVENSON. It is estimated, if not now—soon, the taxpayer will own roughly eight percent of all of Detroit, that's billions and billions of dollars. But I still don't know how you get the finance companies out of town. If you've got more ideas. . .

STEFANIAK. Part of the pay-back program on the 518 program has to be put into effect, it has to be strengthened. We do it legally, so we encourage people who are now in buildings which have bad construction or if they are in dilapidated condition, that they are encouraged to stay and rework the building. If the inner city buildings are reworked, if your suburban builldings, so that improvements are made on the building, the building is brought up to standards, so there is no abandonment.

STEVENSON. Well, one obvious point is simply the necessity for FHA appraisals, inspections which are fair and are accurate and fairly appraise the homeowner of the true condition of his house so he doesn't pay more money than it's worth.

STEFANIAK. And we should also insist that the mortgage house go out and do their own appraisal of each building so that you have two appraisals on it. Let's not bank on FHA totally. There is an interest, there is an involvement of the mortgage house in this process. So they protect themselves on a normal conventional loan, so why don't they protect themselves on a normal, FHA loan?

STEVENSON. They should, but as long as they are 100 percent insured, you're not going to have that.

Lady in the pink. . .

COUNTS. Thank you, Senator. I'm Maxine Counts from the Harvey Area Community Organization, I'd just like to mention something of what we are doing as far as what can be done on state level. There was a House bill passed by our state. I'm sure you are aware of it—House Bill 3636. This was passed by a very, very powerful lobbyist group for the real estate people. It takes all control of licensing or regulating what the real estate profession can do, out of the hands of communities or municipalities and turns it over to the state. Now I'm sure that everyone in this room is aware of what the state has done—nothing. We are trying to combat this by holding meetings with our legislators. We've held quite a few meetings with mayors in this vicinity and if everyone in this room would work on something like this with their local legislators, I'm sure we could get something going. But one small part of the state doing this is not going to get anywhere. We have to organize the way real estate people do.

STEVENSON. And not only with your legislators, but also with your governor, who I think, you will find very sympathetic and responsive—to be made aware.

COUNTS. Yes, we are going to meet with him. I'd like to say a few words about our community. Through Harvey, we represent three cities—the city of Markham, Dixmoor and Harvey. Now in Harvey we have close to 200 homes put up by one man whose name was Macerman. These homes are so substandard that we have walls that if you touch them, they move—we have split level houses that are splitting. People are ending up with two houses instead of one. I could go on and on down this list, but I'm sure that. . . .

STEVENSON. Could you tell us how these houses were financed?

COUNTS. These were all HUD certified.

STEVENSON. HUD certified?

COUNTS. Right, and they were all—everyone of these homes in all of these three cities I have mentioned, were all sold to blacks, which is causing new ghettos, new slums—we're losing. I'm sure you've heard it all before. In Markham we have 115 homes built by the Real Estate Company of America. They're all very substandard. We've had the HUD investigators out there, I don't know how many times. This has been going on for two years already. Nothing is being done, all we've had is promises. When we go to the HUD officials, we get the door slammed on us. This is always the run around. We went to Washington and they wouldn't speak to us. We've gone here to the HUD offices and we've been shut off, we've been pushed out. The doors have actually been purposely locked.

STEVENSON. I've heard that the—clarify this for me—I heard very recently that the city of Harvey is attempting to come to grips with the problem of overburdened schools and public services by simply denying more building permits. The builders have recently gone into court demanding, demanding the right to building permits and, as one court settled for, in this case, saying in effect, "I guess that the city doesn't have the authority in which to mass distribute building permits." Is that true?

COUNTS. There is quite a bit of this thing going on in the county. In Dixmoor—this is a very small community, it's about a mile square. It is a very, very poor community and it's got 99.9 percent black. They have nothing. They have no recreation. They have three schools, one has been condemned and the other two are on double shifts.

STEVENSON. No transportation, no fire department?

COUNTS. They have no transportation, no fire department.

STEVENSON. Very small schools?

COUNTS. Right.

STEVENSON. HUD....

COUNTS. They are cheating these people. The community there is so poor now that it can not afford the people it has. If something is not done with this whole scandal—you know we are going to have—we're sitting on a time bomb here. And I just don't mean Illinois, or just in Harvey, I mean all across this country. Something has to be done, and I want to thank you so much, Senator, for doing what you have done. I really appreciate it.

STEVENSON. Yes, sir.

ATTORNEY. Senator, I'm an attorney from the Hanover Park Homeowners Protective Association. I feel that there should be a change in the whole of FHA completely. I feel that in what they've tried to do, they have simply fallen on their face. I think they should change from guarantor to overseer and the person that actually finances the people in the beginning, to a certain extent. First of all, there should be the before-stage and the after-stage for purchasing. On the before-stage, Senator, I think FHA should go the same route—as in California and other states—that the mortgage house has more responsibility. California has laws so that the person can sue the mortgage house. We don't have any laws in the State of Illinois where the person can sue the mortgage house. The mortgage house is usually an independent third party which could sign a note to someone else or something like this, and coming off really saying that they were no part of it. I feel that the FHA should put money into the mortgage house, your honor, pay a closing cost of whatever the mortgage house needs for the experts and they have the experts in their assoication. They can also get MAI's who have a performance bond behind them stating that this house worth this amount of money. This is step one. I feel we need a law that, one, says the person can go against the mortgage house. Two, that the MAI's have a performance bond as to what they say. Secondly, I don't think it should be the government versus business, I think it should be business versus business. If the mortgage houses get together, they are going to know the builders that are bad. And if the mortgage house will not work with these builders, the builders will have to conform because the builders need the money from the mortgages. Therefore, I believe it should be money versus money, business versus business. And I feel that they can resolve it. As far as my experience, city versus builders, cities are merciless to the builders. The builders are much too large and the cities cannot fight against the builders at all. They are not equipped to have experienced people on their village boards. They cannot combat the professional builders with

lots of money. There is no contest there. I don't think you can look to the city for their ordinances or anything else. I mean it's not one on one, Senator. There is an expert group versus an inexperienced group and it's usually a community that's not very knowledgeable about expansion in their community. Then I would like to also see . . .

STEVENSON. What would you do about that?

ATTORNEY. What can I do? I feel that . . .

STEVENSON. Statewide? Planning or zoning?

ATTORNEY. Disclosure form. The same as they have in other states.

STEVENSON. Discolsure?

ATTORNEY. Disclosure form. And that they have to . . .

STEVENSON. And contracts? And the mortgage papers?

ATTORNEY. Correct. If there is a school going there, there is a school going there. If something is going there, something is going there. It's in black and white. It's not just something that the salesman tells me or my client.

STEVENSON. I was about to ask that question, because before you can sue the seller, the builder, the mortgagee or anybody, you have to have a right, a cause of action. And I think it might be helpful if we could get from you and from any others here, statements about what happens to that right in the contracts—in the contracts, the efforts or the lack thereof—to apprise homeowners of their statutory rights. In some cases I found efforts to not only withhold information about the rights of the individual, but even block it out in the FHA contract forms. In fact, I saw one contract not long ago which, on conventional housing, specifically said that the homeowner had no right to inspect his house before buying it. I couldn't believe it.

RAY FLIGG. Could I answer that, sir?

STEVENSON. Is that Hanover Park? Yes, you can answer that.

FLIGG. Ray Fligg with the Hanover Park Homeowners Protective Association. No matter what type of a check list we had, had you gone to the town hall and asked for a map of the area looking for schools, they didn't show where they had a garbage dump or whether they had a sewerage plant or a cemetery or highways or anything. Whether or not you would ask them to at least be able to inspect your home, you were told, "You can walk through it, go right ahead," before you closed, but at the time you purchased your home, it was explained that you were not allowed.

You were not able to go onto the land site because of insurance purposes. "It's too dark, it's too muddy, the homes are not layed out yet," and even if you had that chance you wouldn't know which house is yours. And it wouldn't help you one bit because even if you complained, at the time of closing, about defects in your home, they gave you a 90-day letter of reassurance. I've been there eleven months, and I still have a number of complaints on there.

STEVENSON. Could you describe that form of the rights layed out?

FLIGG. With the builders? It was the offer to purchase. On the front side it just showed that you were making a contract to buy, on the back side it explained that insurance-wise you were not allowed, the buyer or his agent were now allowed, to enter the development at any time.

STEVENSON. Did you also have some—I gather some problems with the FHA 2800–6 form?

ULSHIP. This is fantastic. I'm Tony Ulship, I'm a homeowner in Hanover Park. When we went in to close on our home, or before you went in to close on your home, you were told that FHA waived the inspection. That there was no FHA . . .

STEVENSON. Who told you that?

ULSHIP. This was presented by the contractor. And when you called on the phone to ask, or if they contacted you to come in to close two weeks before your home was done—I kept insisting that there must be an FHA inspection. And they said that FHA waived the inspection. So at the time of closing no FHA papers were signed, at all. Now through the mail, you received a form, not really a form, it's a copy of the form 28–2800–6. But this is a copy given to me by Mr. Goldman and this is the way it should be stated. On the form the homeowners receive, the part that says that FHA is responsible for anything that goes wrong with the home, if the contract cannot be held responsible, is x'ed out. And this comes after you close, after you own the home. There is no signature by the homeowner or anything on it saying that you have read this and signed it. It is just a xeroxed copy that is sent through the mail, that's all you get from FHA.

STEVENSON. Did you receive that form through the mail?

ULSHIP. Through the mail but I don't know from whom. Everyone signed but no one walked out with it. Later you received a xeroxed copy. What I would consider the rights and warranty were stamped out and there was some other writings over it.

STEVENSON. When you signed it, it was not stamped yet?

ULSHIP. As far as I understand, yes.

STEVENSON. And you get it in the mail. That's suppose to come from the Office Chief.

ULSHIP. Yes, it comes through the mail. I guess the point is, who did this form come from and who mailed it to us. I have no idea.

STEVENSON. Would you like to—I don't know how we cope with this problem for the sake of our records. It would be helpful to hear a little about the problems you had with representation of the kind of communities you live in—not just the housing but other problems.

FLIGG. Well, the problems we faced were not only with homes but environmental. You read the brochures. You were insured that this was an ecologically and environmentally controlled development. After living in the house no more than 48 hours, you couldn't help but notice about 100 garbage trucks passing on the west side of our property, a land fill known as a garbage dump on the south side directly adjacent to our property. You couldn't help but notice the odor from the sewage plant on the east side, approximately 10 feet from the homeowner's property are open vats, and on the north side the park that was promised turned out to be a cemetery. And all we . . .

STEVENSON. What do those houses cost, on the average?

FLIGG. $25,000 to $32,000.

STEVENSON. Perhaps we should consider some HUD criteria not just for the housing itself but for the total . . .

FLIGG. Well, back to that disclosure form. Let's say this, we've been told up to now that we moved in on a 2000–4, and 2000–5 and a 6. But one question that was brought to our group was, why wasn't this made available at the time you close? Why aren't you reassured? When you close you just sign. Your hand gets sore and you just sign. A number of us are told, buyer beware, but on $30,000? You don't trust a large firm plus FHA? Now I don't.

STEVENSON. Have you gone with your case to law enforcement agencies for due process?

FLIGG. Yes, sir, we have gone to the Attorney General's Office, the State Attorney's Office, the U.S. Attorney's Office. In fact, one of our, what I would consider our best accounts for mailing and talking to the agency was Senator Percy's office. I consider him an agency, at least I did. This individual talked to a number of the newspapers, stated to our attorneys and the newspapers that he would investigate. When he found out who was backing our firm he told us to be calm and take it easy and mediate.

STEVENSON. Well, what was the response from the law enforcement agency?

FLIGG. They are all investigating and that's about it.

STEVENSON. How long has this been going on?

FLIGG. Approximately four months.

STEVENSON. Yes, the lady in back, Concerned Homeowners Association of South Elgin.

JANET VASKUHL. I represent CHASE and would like to thank you for the opportunity to speak to you today. We feel that we have been victimized by a unethical builder and unscrupulous contractors. The land some of our homes were built on encompasses swamp area, land in the sludge plains and the Fox River. According to the map of the Geneva Quadrangle published by the U.S. Geological Survey, three of our homes were condemned as being unfit for human habitation in November of 1972, because of raw sewage flooding into the lower living level. One of the homes was built on a spring; water is pumped out at the rate of 4 gallons of water per minute. Building code violations which include no cold air returns in lower living quarters, furnace and heating ducts improperly installed, being a fire hazard, and many other construction defects. The houses do not meet specifications filed with the Federal Housing Authority. The fixtures are not specified by the housing authorities and have been replaced by some of our homeowners. We have been informed by Mrs. Brown of the Regional Offices of HUD that we were in our rights to call the subcontractor. We haven't even been able to get a list of the Subcontractors and we have requested them repeatedly. We make numerous requests of copies of our contracts with the Great Lakes

Mortgage Company, FHA, Witmer Builders and O'Hara Real Estate. We've been told by all of these people that they have no such copies in their possession. When the Attorney General's Office came out to visit us, members of his office had copies with them which they obtained through the offices of the Chicago area HUD. In August of 1972 our vice president, Helen Godfrey, had a meeting with John Waner in reference to our problems. He promised us a thorough investigation and rectification of everything in two weeks—to date nothing has been done. 518 forms were issued, we filled them out, sent them in, and nothing has been done about those. We realize that we have a lot of responsibility in regards to our home, but we feel that the builders and the inspectors should do something first before we even obtain these homes. They wouldn't be falling down now if they had.

Our vice president asked Mr. Steve Warden if we could locate soil sampling reports. He asked why we needed them: "any idiot can see that this is a swamp area". But we were passed for approval for building. Our secretary, Mrs. Kiscowski, owner of one of the homes condemned by FHA, had been repeatedly harassed and pressured to sign for a SBA loan on the pretext that that is the only way she could get her home repaired. Funny enough, her home flooded five times with raw sewage before this enormous storm caused this area to be declared a disaster area.

STEVENSON. Please, I'd like to interrupt at this point to ask a question about the SBA. I heard that there was pressure brought to bear to persuade the homeowners to acquire SBA, the Small Business Administration, loans, with which to pay the builders for the necessary repairs. Those SBA disaster programs have a $5,000 forgiveness indemnity. The effect of which means that if you can get the $5,000 loan it need not be repaid. The taxpayer comes off subsidizing the builder who repairs the defects which he is responsible for. And if the cost of those repairs goes beyond $5,000, you the homeowner, instead of the guilty builders, are responsible. You are responsible for repayment of the excess over the $5,000 limit. So once again, if that's what's happening out here, it sounds like everybody's profiting except the homeowner and except the poor taxpayer, who in this case ends paying the builder for what he should have done . . .

VASKUHL. What he should have done in the first place when he built it . . .

STEVENSON. Maybe we could get a little more evidence and some pressure to bear from where to take out those SBA loans.

VASKUHL. Well, they have repeatedly harassed us . . .

STEVENSON. They?

VASKUHL. Members of the SBA association. One man is on FHA—his office was in his house. His house was in the condition of being repaired before this flood ever happened. This home—this is not the only one, there are many more. This particular case—Mrs. Kiscowski is here today—and she can verify what we are saying—that these are bad situations as far as the loans are concerned.

STEVENSON. Well, we are working on that. We have recently been assured by HUD that the 518 reimbursement rights will be made available. Let's now go from South Elgin to Austin.

MARC SLOAN. Yes, Senator, I'm Marc Sloan. I'm the president of the Organization for a Better Austin. In the discussions, I've heard a lot of interesting things—the gentleman here from Hanover Park—and it seems that most of the urban communities are concerned with being subject to blockbusting and things of this type which they are presently suffering from. In my community and most of the black communities on a whole, these things don't happen anymore. They have happened already. I think what we're concerned with is what can FHA do for people that have been victimized; what sort of legislation can be presented that would render some sort of financial aid to people who have been victimized because of inferior inspection of services on the parts of the Federal Housing Authority. We are living and suffering with schools, insurance, and all of these things in the Black community. But what I hear more than often, now, is that we would like some sort of financial aid, not only for the program under 235, which is terrible in my community and obviously in a lot of others, but financial aid for people who have bought under 203 and other such programs under the Federal Housing Authority. There are no housing programs being insured in the Austin area like Prairie Shore, or South Commons. Instead, we have very shoddy constructed 235 housing and we are very concerned about these things. People need some immediate aid.

STEVENSON. As I mentioned a moment ago in South Elgin, we have been working with FHA on 518 reimbursement rights—there is a right—it is a law now—

it is a right that has not been granted for reimbursement of certain cases. Those cases do not include your section 203 case for existing housing. I have introduced in the last session of Congress the legislation that could extend those rights uniformly for all subsidized housing programs. That has now become law. All I can do is try again, this time I think it has a pretty good chance of getting passed.

SLOAN. Yes, you see Senator what I'm saying, in regards to some of the conversations we have had during this meeting, is that people are talking about the possibility of making conventional mortgages more available. To the members of my community conventional mortgages are not the answer. When in fact there is a federal housing program that should be much more responsive and accountable to these people who cannot afford a down payment. These are the things we are talking about. Under a 235, which is the only program for which you can get money for structural defects, very few people in Austin are eligible for this. Again I would like to repeat that there is an urgency for some financial relief for people who are poor. People who seem to fit largely into this category. Not hung up on a 235. Our community could do without that at all. We are not pursuing the avenues of conventional mortgages because most of the people in my community cannot afford that. What we're talking about is making the Federal Housing Authority, under the 203 programs, for instance, much more responsive to the people, making it adequate instead of having suffered some of the things other communities have suffered besides Austin.

STEVENSON. Would you support counseling?

SLOAN. Counseling is one remedy. But what I'm saying, in fact, is that my community has gone through that. Counseling at this point is too late. We need some money to replace broken-down apartments. Counseling won't do that. I realize that some of our buyers are unsophisticated but they are owners now.

STEVENSONS Well, I think the most immediate chance of financing your plans is the reimbursement bill which as I say I plan to introduce again. Yes, Father.

FATHER DODARO. Father Dodaro from OLA Area Committee. I would like to go a step further. I think we've got an extraordinary situation on our hands. We've got people here with their different cases that sound like a life-long history. First of all, we've had to deal with what has been done in the past, and take care of it. These people cannot and should not have been taken at their word. I feel that the responsibility goes right back to the Federal government who initiated this program. Talking of closing doors on people, we were in Washington and pounded on doors and they did not want to hear it. In Chicago after we did go down and they heard us once, they put in some $2,000 worth of steel doors so we couldn't get in. As soon as they hear us coming up—the elevators don't work. If they see the wrong people coming in, they close the doors. What they try to do specifically is take one community, for instance, the Spanish community, and say we'll give you this and the other people are bad. Then they say to another community we'll give you this and the other people are bad. They do it to start the in-fighting among the people and the people are really sick of that, that kind of garbage. And I think the things of the past we really have to make recompence for but, we have to look to the future, too. The people, I'm sure, in all these different communities don't want this happening to someone else. And if we don't do something—I don't know what it is—I don't know if it's to fire everyone in HUD and start all over again—maybe that's the best thing to do. Another thing is that we need someone up there who's gone through it. Maybe we need one of these men from Hanover Park to get a position of administration, instead of a man from some fancy suburb coming downtown and sitting down and saying, "Well now, what are the problems of the poor ghetto, what are the problems of these different suburbs." Another thing we are finding out is that the market in the inner city is being tied down by FHA. They set the market, they say what it goes for. They are the ones who have the control. Over 98% of the inner city homes are being turned over simply by FHA. There's something wrong here. This whole idea of free enterprise is wrong.

When you go out to the suburbs, you go out to a certain street and on the other side of the street the insurance rates are down, the taxes are somewhat okay but the important thing is that you can get a loan where the banks are willing to bend over backwards to take your money. But when you come into the inner city and to banks where people have saved their entire lives savings and made loans there for years and their money is there, they can't get a loan. Somewhere we're wrong. FHA is supposed to help people move wherever

they want to move and make homeowners out of them, but we also have to give them good homes and they have to be administered right. The third point—the most important—is that they have to go where they want to go. We've been fighting to see the suburbs open. When we say open, we're not just saying the suburbs, we're saying the cities. The city is dying and it's dying very quickly.

Pretty soon FHA is going to own the city, the inner city, and I don't know what they're going to do with it. Probably the same that they have done with everything else, put a bulldozer at one end of the street and go right straight down. From what we gather, they've got enough money to do that. It would be much better if they would help the entire state, not only our state but every state, to open up the suburbs and open up the entire metropolitan Chicago or wherever they want to go. Have a good counseling program, get after industry who has a real obligation to the communities that they live in, get after these mortgage companies. I think, if they take their money out of the cities, which is what they are doing when they buy this paper from FHA, which is guaranteed 100% fault-free, they don't have to worry about it. If the people don't pay they get their money anyway.

See, we should put the burden right back on them. They're the ones making the buck. And to put the burden on them; to put some of that money back into the city—let's get rid of this blight system where the person who is selling is ruined, and the person who is buying comes in and gets sub-housing. It's such a complex system, like trying to hold 20 plates up in the air and keep them all spinning. Where do we point? We can point to the state officials, to the Federal government. They put in a program that became a monster and they haven't got the guts to say that it was a monster. Something has to be done very quickly. It's only because of that program plus a few other things that have happened that we have these unbelievable Chicago realtors. But I think that if FHA were right and did what they were supposed to do—helping people the way it's supposed to—a people's thing, instead of the realtor's thing, maybe these realtors would start to go out a little bit and earn an honest living.

STEVENSON. You know, it doesn't take guts to say it is a monster. It is a monster! The situation is complex. As you know, housing costs money. We spend about 30 billion on space. Something is wrong with our priorities.

YEAGER. Senator Stevenson, in 1971 the Chicago Daily News published an investigation on the Woodlawn area. In Woodlawn, as the paper reported, a Negro couple owned a two room flat and they had $3,000 in a Savings and Loan Association. They wanted to get their back porch repaired. They called the Savings and Loan Association and asked for a home improvement loan to fix their porch. They had $3,000 in their savings account. The Savings and Loan Association told them that they didn't make loans to anyone in that neighborhood. Now these people had $3,000 in that bank, why couldn't they have frozen that money and used it for collateral for the loan. They wouldn't even talk to them. Then you wonder why when you get on the El and go through these neighborhoods and everyone of the buildings are burned out. If they won't even give you a loan when you are a good risk, you might as well not even try.

STEVENSON. One possibility we should be considering in Washington is the provision of public credit directly to public lending institutions. It would cost a lot of money, I knew that as State Treasurer, with about $1 billion in custody. What we tried to do, strangely no one ever thought of it before, was to channel those funds to the banks who would use them to the benefit of their owners—the public—including housing. Well, I had $1 billion, that was before I became a U.S. Senator.

But treasuries could be investing those public funds in public depositories which could be making it available for those, not only for construction work, but also rehabilitation. There are a wide variety of things. That's a rather ambitious prospect. Mr. Davilla?

DAVILLA. Senator Stevenson, my name is Mr. Davilla, from the Northwest Community Organization and I'm Puerto Rican-American. I would like to say this, when it comes to the politicians, when election time comes, they come around our Spanish community with slogans you hear on the loud speaker. So and so is walking because he likes to walk, or somebody else's family has a big name. All the streets are decorated with red, white and blue—looks beautiful—and then on the other side of the street you don't know what color it is. It is suffer and that is a color you just can't paint.

WILE. The position in HUD at this point seems to be they have a sweetheart relationship with the builders of the area. And anything that is done in the area

is passed on to the tenants or the new homeowners. Everything seems to revolve back to how much can we pull out of the poor suckers who are living in these buildings. How much can we milk the territory for? What can we do to get more profits for the people that are building these homes? The original concept of FHA–HUD was to help the people to have decent homes. And what they've done at this point is to destroy this concept by just allowing the realtors and mortgagees to run wild and just take all of the things the government has tried to do. The government agencies have become so bureaucratic at this point that they won't listen to the people. It has to come back to the people. The people must be given some protection under the programs that have been written for the people. FHA–HUD was set up to help people to get decent housing. Now if they're not going to help give us decent housing, then let's change that concept and get back to its original plan. Let's get it back to the point where these people are doing what they are supposed to do and not just having a relationship with banks and real estate developers because they do nothing for the people.

STEVENSON. In this particular case we are beginning to get results. We are getting the assessment of homes, we are getting—the rents at first were not going to be rolled back enough. In fact, it looked as if the living principal beneficiary of the roll back assessment was going to be the owner of the house. But we have recently received some assurance from HUD–FHA and there is some, in this case, a possibility of lower assessment that will result in lower rents.

WILE. Senator, we have come back for a very simple thing. We have an Administration in Washington, the Nixon Administration, which has frozen rents across the country. There is a 2½% increase allowed on rentals and buildings. And suddenly you get a 25.6% increase on a federally subsidized house, where people are not suppose to pay more than 20–25% of their income. We have people in our building paying up to 80% of their income for rent. And this was all set to start with so that we would have a place to live where we could afford to live. Now we come to a point where the assessor says 25.6%, but it is still a hardship on these people living in these buildings. That rent increase shouldn't be any more than 2½% the same as any other house in the country.

(UNIDENTIFIED). We also had an audience with HUD officials, the day before he cancelled, but permitted us to later come down in two busloads to let him know about the complaints and the situation. Mr. Waner did cooperate with us. There were a hundred and nineteen homes that he would promise he would cut off. And so far, this is all they can build is these 119, if his word is good and I believe that there were newspaper men there and photographers when he made this statement, and I'm pretty sure that he will go through with it. But we did get some satisfaction from Mr. Waner, at least I hope he will fulfill his promise.

STEVENSON. I wish you would continue with that after this meeting with Les Goldman.

JARRETT. My name is Mrs. Jarrett, and I'm here with the 34th Ward, Concerned Citizens. I'm here to prevent the unscrupulous practices in FHA. I can name the violations. Number 1, the builder is also a public official. He has been allowed to put these buildings up in violation of the law. He doesn't have a permit. Not only that, he's putting buildings up right now in adverse weather. I have the pictures to show you. We feel that these houses are going to tumble and what will happen? We'll all go talk. Some of these men on the construction sites have told us that these men are going to pay them. Now as taxpayers of Chicago, we are asking Senator Stevenson to exercise his power. We have been to several officials, with the exception of President Nixon, and it seems to us that everyone has the same tune.

Now Senator Stevenson, speaking of the building permits, every law on the books has been violated. I have this documented. Therefore, I went to the corporation counsel and after talking with him, he tells me, "Mrs. Jarrett, you are getting very technical." Well, if the law is technical, well I feel sorry. But what we are saying is that we are not going to permit 12 families to move into that death trap and allow a catastrophe to go on, then we will enforce the law. Now, the same officials who helped make the law are breaking the law. Now we as taxpayers are not even allowed to exercise the conditions and what has happened. I ask Senator Stevenson with all his power and his office to enforce the law and not allow those 12 townhouses to go up. Thank you.

STEVENSON. You know my name is Stevenson, but I'm not sure about all that power. We will try to help this as you represent one organization one of the few that we have not had a long association with. We will be in touch. We'll

give you as much information as we can. It sounds to me that this case, maybe we can get some special HUD inspection for. We'll be in touch with you.

JARRETT. We have been to Mr. John Waner and he has turned off and we feel that there is a collusion going on among certain politicians and builders and this is what we are complaining about.

STEVENSON. Yes, sir.

FRANK FARRELL. My name is Frank Farrell from the Richton Hills Homeowners Association. I would like you to give the Subcommittee an experience they lack in the life of a citizen purchasing a home other than conventional, so that they may have a better understanding of the problem. This basically naive individual full of enthusiasm and armed with the knowledge that the FHA will not guarantee his home, that HUD has not approved the plans and that local and FHA inspectors must approve of the building construction, is quickly exploited by sales people using verbal statements which later can not be proved. Let us now follow his education in the realities of life. He finds structural or other problems in his home and attempts to have them remedied by the builder.

This attempt takes the form of personal telephone calls. There is no record of his complaint based on the cost factor allowed for after sale maintenance. Delay is incurred. Less than professional directive action is taken. He may be told that his complaint is normal, if it gets worse call us. "After all, you didn't pay $60,000 for your house; you can't expect the best workmanship." The delaying tactics forces the buyer to make a big mistake. He tries to fix the problem himself. Now the builder states that the problem is no longer under warranty due to the owner making the problem worse than it was originally. The owner now tries to interest the local authorities in his problem. Their assistance is in direct relationship to their political inclinations. The owner cannot obtain assistance from local government. He is sent up the ladder of influence to those governmental bodies which originally allowed him to be assured that his rights would be protected since they are created and maintained only to serve and protect him. He still may not believe that he has to document his case, so he phones or writes a single page letter to the federal agency. The federal agency explains that they are very busy and will get down to his problem as soon as possible. Just about this time it dawns on him that they are terribly busy, the only thing they can be terrible with are complaints on homes that have already passed their inspection and maybe they were just too busy to inspect the homes to begin with and that really is a problem. When they finally appear and make a cursory examination they talk to the builders and make some passing inadequate gesture of fixing the house and nothing is done to fix the deficiency. He is naive if he has one more layer which will be presently stripped away. He writes his elected officials in Washington. Their answer can be, I'll put your letter in my file on the subject, I'll look into it and get back to you, I'll take it up with the proper agency, and one suggests you look into an item called 518. This last suggestion you grab because you are drowning and you need a life preserver.

You contact the FHA director in your district and you receive your final education in bureaucratic red tape. He tells you that application for the 518 can only be approved after you get the FHA inspector, who originally disclaimed your problem, inspects the situation and you cannot have the application until the inspectors report it favorably. The circle of inefficiency is now closed and somewhere between 6 months and 3 years have lapsed. Your nerves are in a state of collapse and everyone thinks you are some kind of a nut or at best an aggitator. The problem remains.

Your family's health may be in danger. But worst of all, your confidence in the government and the country has been shaken to its very foundation. Just about then you may turn your TV on and hear the rows of officials who are claiming themselves servants of the people. You may say to yourself "next time I'll know better. Maybe I can finance a bribe or a contribution to my purchase price to insure myself my rights as a citizen and a taxpayer. Even if I'm caught, I'll at least be given a well-constructed home and my punishment may only be a fine. As for that agency employee who caused the problem in the first place by not doing the job he was paid to do, he will be put away. This punishment is right and just. We all know by now that bribes are never thrust on people, they are only solicited. And it certainly justifies everything."

That, Senator, is an experience that probably the people who are actually in charge of this should live once in a while. They should actually live an experi-

ence so that that experience becomes a part of their knowledge. And then that knowledge is put in part of their legislation.

STEVENSON. Yes.

LESLIE ROSS. I'm Leslie Ross from the Parkwood Homeowners of Elgin. We have had numerous problems due to pretty shoddy workmanship, defective material, improper landscaping and very lax FHA inspection. As far as the FHA inspection goes, I have a conventional loan and although my house has been inspected by an FHA inspector and I have an FHA number, why doesn't FHA help you or the other people who are doing the development, who have FHA conventional loans?

STEVENSON. It must not be conventional or it would not be subsidized.

ROSS. Well, I had an FHA Inspector out to my house and he looked at all the problems that I had complained about. He agreed with the work problems in there and he told me that the legal department of FHA would follow through and they would be taken care of in 7–10 days.

Well, that was the last thing I heard of it. The next thing I know, about two weeks later, I get a letter in the mail that FHA cannot help me with my problem—hope you get your problem solved. I had no place to go.

I wrote to the bank where we received our loan. And they have not answered me; they have ignored me. I really don't know where to go next. We've contacted the Home Builders of Chicago, SPA for those people without loans, FHA, the bank, Home Federal Savings and Loan, the City of Elgin. We are just about at our end; we don't know what to do.

As far as the builder goes, they will come out, they will make a half-hearted attempt to make repairs—those that aren't major. But sometimes they will tell you they will make major repairs. But the problem is that the people sent out to do the repairs do such a rotten job that they have to come out two and three times. And even then the problem isn't solved.

STEVENSON. We'll see what we have on this particular case. I think one of the things we should ask the victims or what we should be seriously considering is to have written into the law uniform national standards setting up the rights of owners. Providing among other things, as you indicated before, full disclosure of citizens' rights plus penalties for any failure to comply with those rights. The way it stands now there is very little in the law; there are guidelines but I think they should be made into law—more forcible rights against the government.

TERRI STEINKE. I'm Terrri Steinke of the Parkwood Homeowners. My builder has offered to buy back my house at the original price I paid for it a year ago. While listening to some here, I feel that we have a couple of more years before we get our home taken care of.

I've talked to HUD like all of us have, and I also get the run-around. The inspectors haven't even been out. The people have been living there for a couple of weeks.

I'm sure everyone knows the story I'm talking about. The thing is that irregardless of what the problems are here, what can be done to the builder, through the union or the inspection. I really do believe through the inspection because when they come out they just look at the homes. My home was supposed to represent 79 homes, which I don't think is a good inspection. And paper work on this—well, they say they don't even have a secretary and it has been several months, and the FBI will come out to your house and blah, blah, blah. And meanwhile the builder is in the process of building shoddier homes, they are getting worse as they go along. Then the new homeowner comes in and they have a worse deal than we had.

STEVENSON. Well, I've discovered in my political life sometimes a little daylight helps, a little sunshine has a therapeutic effect on behavior of people. Of course, that is the purpose of this meeting to focus public attention, a little light on some of these practices, including some of the individuals, specific individuals. Yes, sir.

TOM MAHER. Yes, I'm Tom Maher. I'm the full time building inspector from Richton Park. I've had this job for the last year. And what I've seen as far as FHA and VA and, at the time, local inspections is deplorable. You have a running account of some of the paramount . . .

STEVENSON. You are an inspector?

MAHER. Yes, sir, I work for the village of Richton Park. My comment to help and reinforce me as a professional—not by degree but by practical experience—and I am in a building trade, have been in the building trades—is that we have to do something on a national level to get the patronage out of FHA and HUD.

We have to get the precinct captains off the payroll as building inspectors; we have to have a national certification program for building inspectors.

STEVENSON. Well, aren't the FHA inspectors, at least theoretically, subject to the Civil Service?

MAHER. That I don't know. But in my contact with both VA and FHA these guys leave a lot to be desired.

STEVENSON. Do you have any observations, on the basis of your experience, to make comparisons between the quality of inspection by those who work directly with the federal government, employees of the federal government and those, on the other hand, who perform these services on a factional basis . . .

MAHER. Well, I can't identify to the fee-base individuals and the full time. I understand that most of it, and correct me if I'm wrong, I understand that there are only 18 FHA inspectors and these are probably the full time individuals in 19 counties and then the rest would be the contractual guys. Now I don't know how we can do these inspections at the rate they do them. First of all, as fast as they do them. I am comparing my job with theirs, and they come out and do ten jobs an hour. Well, when I make a final inspection, it takes about a half hour to make one final inspection. So I think we have to improve the ranks and get the politics out of upper echelon and down to the rank and file inspector.

STEVENSON. We are trying without much success to testify in the Senate Appropriations Committee to get more funds for the professional inspector. The direction of this Administration is. I'm afraid, toward professional services on a fee basis for inspections. That not only invites more money, but it also invites some relationships outside.

Do you suggest something to improve inspections?

KEN. I would like to cite an example of what happened. Last week I had stopped giving permits in our subdivision and I received a phone call from a prospective buyer. The developer had told them himself that they would have to come to me to get their occupancy permit. The developer puts up the building—they individually sponsor occupancy. I was also—it wasn't a threat—it was a possibility that I would be involved in a lawsuit with the American Civil Liberties Union because a black family tried to move in and I was discriminating against them. My buliding inspector had cited violations, code violations, in this building, and that is why we are not occupying that building. These are just some of the problems we have.

STEVENSON. Of course, there is a question of your codes because of regulations . . .

MAHER. Well, that's another problem which, by the way, Senator, the FHA, and all of these houses in question are FHA, the FHA inspectors have approved these houses on the FHA minimum property standards.

DUKE MCNEIL. I just want to spend a second addressing myself to the very critical housing needs that are obviously tremendous. I think the inner city problem is a tremendous one and is running rampant for two particular reasons. Number one, the lady was kind enough to mention this matter, to publicize the great extent of problems in Woodlawn and place a great deal of emphasis to dramatize this through the Daily News and the Senator's office.

We are talking about vacant and abandoned properties all over the community. Where at one time it used to be peculiar to Woodlawn, we now see the same situation in Kenwood, Englewood, South Shore and all over. We are talking about more than a half million people that are being affected by this. And another critical thing that happens is that these people, whether valid or not, are beginning to believe or are thinking, that there is a conspiracy to move them out of their communities or to stop investments of the inner city community. Whether it is valid or not, it is not very good for a major portion of the community to think that.

I am just as critical of FHA as I think most other people, and there is no question that they are deserving of that criticism. But there is an ABC situation of housing development and housing abandonment that we can all address ourselves to. Number one, there is another culprit. That culprit is, as the lady mentioned, your savings and loan associations and your banks where they have refused to make these mortgage loans for any kind of household or residential improvements. They are normal bits of deterioration that will occur in any situation, but in most situations they could be arrested. So I think it should be identified by some vehicle that the savings and loans associations and the banks have been equally as much of the culprit and perhaps the first culprits.

Now let's deal with point B, that no one is really responsible for. The maintenance and operational costs increase disproportionately to the rental income. So you find the guy, the poor homeowner, or the two flat or three flat owner who

is caught in the fact that there is a rise in the cost of fuel, his utilities are going up, the janitorial services are going up, general services and real estate taxes are going up and there is no corallary increase in rental income.

There is a second factor that comes in. There are community pressures that are brought on by groups like TWO and OBA that have to pressure the building and housing courts to force these landlords to make needed repairs to bring their property up to code. Now here's a poor guy that is caught in the throes of the situation from the beginning—not being able to operate and feels threatened when he has to bring property up to codes. So you have a general depression in rental income with all these other factors going up. What happens? All over the South Side you you have landlords who are throwing up their hands, they abandon the property and everything grinds to a halt. You then have vacant, abandoned buildings. You have fires. In Woodlown in 1971 there were 1600 fires, some accidental, some not quite accidental.

You also get a tremendous source of crime that happens in vacant, abandoned buildings. Now there has to be some sort of solution. We would like to recommend two that are characteristic to what happened in Woodlawn. First there has to be federal legislation required not only to subsidize interest on mortgages, such as the 221(d)(3) program and the 236 program, but it must go further because then you have to subsidize the rental income available to defray these inflationary maintenance and operational costs that I just talked about.

Secondly, I would say that the programs, such as Program Rehab under Section 236, must be made flexible so as not to contribute to the erosion of the economic base. As you know, the guide lines say that persons between the income of $7,500 up to $11,000 can only live there. This is what we call the very poor or the working poor. What happens to a number of people once a person gets a raise or another job and he makes more money, he is then forced to move out. I think if we are going to help arrest the case, and this is the deterioration in the cities, we have to extend those guidelines so we get back to the original poor. It starts out so innocently.

Ultimately, we have to talk about a complete revamping and a changing of all the FHA guidelines to make housing open and available. Otherwise these people can really give vent to this conspiracy that they rather rigidly believe is serving to move them out of the comunity. This is true of Woodlawn, Watts and dozens of other communities.

STEVENSON. We discussed earlier the possibility, which we will check out in Washington, of tailoring some subsidies to increased operating costs, capital costs. Yes, the lady in the back.

MARKEE. I'm Mary Markee of the South Suburban Store Newspapers and I'm glad that you've had to hear, time to hear from the people in our area. The problems are real, as advertised in Forest Heights, Apple Tree, and Rainbow Valley, in Madison and Richton Park. I'm also with the Human Relations Commission in the village of Park Forest. And we have a specific problem that's now and for the future.

We are an island of real integration in a sea of segregation. We are a village of good will where we have not only practiced open housing on the books but in reality. We are not building in our town, there is no more land. However, there is building going on all around us. And there is strange building going on all around us that we have heard about today—poor construction, segregated construction, segregated marketing. Patterns being set up in towns and villages that affect their neighbors. We may live on an island, but we do not live in a vacuum. The Federal government with its subsidies to builders who market—the business about a move out from the city is real—people bused out in loads from the inner city and talked into buying shoddy homes in the suburbs—sold a dream that never materializes—this is all real. A village like ours cannot withstand the pressure. We cannot pretend that we can prove by ourselves that integration can work if we are called upon by housing practices to bear the burden of integration for an entire area.

The federal government with its subsidies to federal housing, road funds, bridge funds, open lands fund, new cities funds pouring in without asking non-equal opportunity communities to bear their share of integration, the federal government is the enemy of integrated housing in the suburbs as well as in the city. Please help us.

STEVENSON. You suggest it is implicit that those rare islands of integration are in danger of being engulfed. Many other communities are in this same situation.

Now, who is next—this is really turning into an endurance contest. Yes, you've had your hands up for two hours.

DEE LEVENSON. I'm Dee Levenson from Rainbow Valley Homeowners Association. Nothing has been said about the responsibility of the builder. And I would like to say something about it.

It is this kind of program that is using our tax money and the builder is getting off scott free. You can talk to different homeowners, believe me. Further, I'd like to see something done to have longer and stronger warranties on our homes. You have a better warranty on a car that lasts approximately three years than on a house that will last approximately 30 years. I'd like to see stiffer penalties for nonperformance. I don't believe the builders are licensed properly. I think if there were stronger specifications for builders to even start to build it would help.

STEVENSON. I think we have talked of the builders' responsibilities today. Just a moment ago we talked about some national uniform standards to go into the contract and sale of all FHA insured housing. Those standards could include warranties, longer warranties.

Builders—there must be some way that they could share—HUD just doesn't deal with the builders. We are talking about licensing, the federal government does not license builders, but it could certainly decide who to do business with or who not to do business with.

STEFANIAK. It's the same in the inner city and the suburbs. The problem is HUD. And what I think we have to do is revamp the whole program so it meets in fact, specifications to begin with. And it has to be people-oriented. We are not a number, that is not a house, this becomes a home, it becomes something that people live in and occupy. Once it gets past that hurdle where HUD keeps thinking "well this is a house with four walls and all we have to do is finance it and, my God, it's going to be beautiful." Well, they didn't take into account all of the shyster elements that they have running around taking advantage of the federally operated programs, which are, as I said before, the mortgage house, the savings and loans, the builder, the real estate broker in the inner city. All are taking advantage of the laxity of the program. Taking it and moving it away from the people into a physical type of thing of being builders. It's not builders, it's people being affected.

CINCOTTA. I think one of the reasons we are running long, is that if everybody knew that we were having hearings in the Spring, that there are going to be hearings before the housing legislation is written and we can testify before Senator Hart and Representative Monagan, that testimony will go in for the full Senate and full House to understand that it is a people problem and a money problem. Everybody is guaranteed something but the people. And I think that when the housing laws are being written, for the new housing bill, all of this testimony, we can have it happen again. I think that all of us have other people in the community that can add to it. There will be hearings where it will be guaranteed that at that point housing legislation will be written with all the testimony of the people that have been brought in to it and all the other hearings. The hearings go on but we need new laws to protect people and somehow make the money people accountable.

STEVENSON. I'm not absolutely certain whether there will be hearings here in Illinois. I think if all of you would write Senator Hart to urge the hearings out here it would help. If everyone were to insist on hearings, it might convince them a little to have the hearings here. If you could, think a little among all of the organizations represented here—there may be some that aren't—how to coordinate your activities so that instead of 17, 18 or 19, 30 witnesses just of homeowners, we could consolidate. There's a pattern among most of these complaints—you cannot help but be impressed with the similarity of the complaints. If there is some form of collaboration, you could think about these hearings and how to organize your testimony to make those central points on behalf of all these organizations with say 4 or 5 witnesses.

I think most of all—the most assurance I could give is that we are not going to get into a maze out here. We have complaints from organizations, individuals and experts who want to hear from authorities on public housing. But as far as getting heard here, the problem in Washington will be cut down I'm sure. It will be helpful. If I can think of anything more to do I will let you know. Just the preparation of testimony in a pointed way can't help but generate concern. Are there any more questions?

FLIGO. I would like to say just one thing. Thank you very much, Senator, for coming and listening to all of our complaints. I myself went a different route and

asked Senator Percy, who had a housing bill in this line, and our recommendations got no satisfaction. At least you have stood up before us and asked to hear from us, and I want to thank you for that.

STEVENSON. I just want to say that I don't deserve any thanks. All I try to do is my job. Now I would like to close with one word. We have been here a long time. It will be brief. You've been very patient. I wish I could hold out more hope. You have your frustrations—we're not without ours. There is hope.

The intentions behind all of these HUD programs were the best. The government is made up of men with a commitment. A commitment to decent housing and a sound environment for every American family. There was nothing wrong with the intentions of the Congress which lead to the creation of all of these programs. For all I know, at this point, the policies—concepts behind these programs—may be sound. I don't think we really do know about all of them. The intentions of these programs were good, decent homes for every family in the U.S. But as so often happens, these programs were misused. The administration of these programs was taken over and used for the benefit of everyone except the people. I'm afraid that's what happened here in the housing program. In too many cases everyone has benefitted from public policies, except the public. Not only are the homeowners intended to benefit from the programs, but the taxpayers paid a mighty high price for the failure of the subsidized programs. Because of these failures—started with good intentions—the instinct of many in Washington is, as often happens, to give up, quit, get government out of housing altogether. Just withdraw the commitment that we made for a decent home for all American citizens.

Just scrape that right off the books and forget about it and go about our own business. That's one way of going. It's one possibility that all of us will have a chance to consider in our hearings. It's not the way I want to go. I want to maintain that commitment for a decent home for every American and I'm optimistic about our chances to do it. We really can deliver on that promise. We really can make that American dream a reality for everybody.

But that is the choice—giving it up or making it work. What makes me—gives me hope today—is that you're here. Because I've just been around long enough to know that government does not work without pressures from the people. Because pressure from everybody except the people has corrupted our housing programs, all of our programs. Here you see people, homeowners, people getting together to organize, to insist on a voice in their own government. If we can only combine that pressure with new ideas. The form of these policies depends on that action. We won't be able to undo all the mistakes of the past, but we may be able to improve the future. All I can promise is to stay in touch—to help every individual case, which we are aware of, based on the hearings, consider all the suggestions made here, stay in touch and I hope we will get more suggestions. Let us know your problems and we will do what we can. And beyond that, I cannot think of anything more to say.

It shouldn't be any higher and the assessor should not be allowed to raise those taxes to force those prices any higher. That's where the basic thing comes in. You get a basic assessment. The assessment is reached, and then when the house is built, they go wild with reassessment. There should be an assessment at the beginning so we know where those prices are going to be. And not just that it's a fluctuation that goes up to $2,400 on the basis of almost 300% of an increase.

STEVENSON. Let me just ask you one question. FHA is a potential owner of this project and subsidizes projects all across the country. How does it—is it supposed to be concerned with the welfare of the occupants of housing in the country. Are you inspected regularly, does someone come by and check up on the management?

WILE. We have seen nobody from anywhere. HUD does not live up to its own guidelines. There are concepts in those guidelines of HUD which HUD does not pay any attention to. There is nothing done by HUD. There is no inspection made. They take the figures that the owners and managers of those buildings gave to them. They use those figures and that is what they use to assess a building on and raise rents on. Not on what is being done in the building. We have not had an apartment painted for a tenant in our building since they've moved in. There is no painting in the building. We have leakage where there are waterfalls coming into the bedrooms.

STEVENSON. We are going to speed up so that we can hear from everybody. I said I would recognize the representative from the Harvey area.

BROADNAX. My name is Frank Broadnax and I represent the Harvey Area Homeowners. We have been fighting this for—since 1967, and we have been

through it all. We have been to the Mayor's office and Mr. Waner's office and have been made many promises, but we haven't gotten anything accomplished and lately, we had one guy come out to the house. He fixed some leaks in the house, but after he fixed it, it still leaked.

STEVENSON. Where did he come from?

BROADNAX. He came from, from the builder. He never did fix the walls. When we would hang something, you could see the walls moving. We also got promised a hand rail down in the basement. None of the homeowners have it. And we were promised an inspection and none of the homeowners have had it. We were promised a lot of things which they never gave us. And I was wondering what to do.

STEVENSON. Well, yes in those cases they are all too simple. We will do what we can with every single individual case to follow up with HUD. This is why we sent the questionnaire to you—to try to give ourselves all the information we could, with which to take action with and through HUD.

BROADNAX. Well, what can be done about this man. He has promised everybody the same thing and nobody got nothing.

CINCOTTA. Senator, this is a case of covering up for HUD officials by these builders. And I do not know if there is anybody in this room who does not know who the boss of HUD is.

STEVENSON. I sometimes wonder too. Theoretically it's supposed to be Secretary Romney. I might say that I have some sympathy for him. One thing is, he was ordered by Presidential directive, as were heads of all agencies, to cut back personnel 5% right across the board. It was a meat ax approach. A penny wise and pound foolish approach. It fell harder on no agency of government than HUD. The case load is going up and the number of personnel is going down. This action, of course, has left the Secretary in charge.

CINCOTTA. Senator, we have been told by officials of HUD that Mr. Nixon is the man in charge of HUD and through him the real estate companies, the mortgage companies, etc., etc. This was not for publication and we were told this by several HUD officials.

STEVENSON. That is a continuing problem in government at all levels, including the Senate, where I serve. We have representatives of HUD and also of builders. This is primarily to hear from those directly affected.

LEVENSON. We're not representatives of the builders, but I would like to call attention to your statement that says that they were going to respond to our complaints. Our complaint is three years old. We are continually given these promises, but they are still not doing anything.

Will our houses last 30 years? They are going to fall down long before that and then what are we going to do? Our houses originally went for $15,000–$17,000. This was in September 1969, but in the middle of 1971 they went for $17,000–$24,000. Those houses are identical, you do not get any more for it. I mean this is not justified. According to statements from the files of the city when they built the houses for $10,000 for a three-bedroom, $12,000 for a bilevel house. Now those houses are selling for $24,000—that's double the amount of what the original price was. And yet we did not get a house. We have flooding, you have flooded basements, you have wiring shorting out.

STEVENSON. We have been in touch with K & B. That too is one of the purposes of the questionnaire.

LEVENSON. Between them and HUD they're not doing anything with our complaints. Your office got a copy of all of the complaints we sent in, and yet they didn't do anything. Romney came out and said "this is disgraceful—we are going to do something." This was back in May. He still has not done a thing.

STEVENSON. I'm receiving these assurances now. It is important for us to get the questionnaire back. The assurance basically is that they will take up with us every single one of the questionnaires. There is new management at Kaufman & Broad.

LEVENSON. Right, we've met the new management. The thing is that you begin to feel after three years, why should I stay in this house that is falling down on my head. I'm going to move out and that is that.

STEVENSON. Let's hear from the Rainbow Valley Homeowners Association. I understand that there has been some motion there. I hope some improvement.

BOUTON. They are out there, they are doing some work, but it comes down to a house that is cracked down the middle and you have to spend money to fix it—about $5,000 on this house, a set house of 4 inches. Now when they poured through the floor, that concrete was 2½ inches. Now something like that should

have been caught on the inspection. I would venture to say that they are all under 4 inches. And speaking of specifications, our specifications have blank spaces. It's either an empty space or a bunch of dash lines. Well, what they are doing is better than what they have done in the past but it's nowhere perfect.

STEVENSON. You've had your hand up from the Appletree Homeowners Association.

TURCOTTE. Senator, I'm John Turcotte. I represent the Homeowners of the Appletree Homeowners Association. We have been speaking here quite frequently about new laws protecting the homeowners and new home buyers. Let's go back a little bit to the law. Every law in the book has been broken, not only federal laws, but state and village laws. We have a general acceptability criteria published by the government. Every section of that acceptability criteria is useless. We have most of the same problems as these people here. Homes falling down, snow in your kitchen, living room, coming through windows. I even have between my wall and the aluminum siding of my home, a gold engraved pen of the federal inspector which was pushed under the sill of my home by me at his request.

He has called me three times and asked if I recovered it yet. And I have told him if I do, he will never get it back. I'll frame it. They say there's no water in Appletree. They have been saying it for 2 years. Well, I lost my soul to my neighbor; she lost hers to her neighbor. Now this Mr. Rockwell has been presenting people with flood maps of the area saying that in the future these homes will be under water. That did not mean anything to the federal inspectors or the local inspectors.

I watched a dream go right down the drain. I had to scrape the bottom of the barrel for the down payment of $200. I had to wait the results of a machine, a computer, to tell FHA and HUD that my credit was fair.

I was a truck driver. I had my own truck and I pulled steel. Because I didn't pay the $10,000 or $5,000 to certain people, I could not get permits to run in the State of Illinois. So I lost my equipment and had to look for employment elsewhere. And now we are talking of new laws. How about the people that broke the laws? The ones that are going to court now? Those people have pleaded guilty to all charges. Charges such as no chimneys in the home.

"Oh, we missed it. We couldn't see it all; it was snowing out." Water coming up through living room floors. Heating ducts full of water and sand. What are these people going to do? They are freezing now this winter, what are they going to do next winter?

You spoke of Detroit. Let them demolish 17 more homes in Detroit right here. There have been 34,000 homes demolished in the past four years at a total cost to the taxpayer, not the builders, of $68,000,000. Boy, could we have a ball on $68 million in Appletree! We could blow them all off the map and rebuild. But you cannot rebuild there. Our homes are going down, down, down. We live in Hell now, a couple of more years and we won't have far to go and our homes will be in Hell. What is going to be done in the next few months for the people? They cannot live in these homes anymore? Absolutely, can't.

You walk across the floor and "squish" is all you hear. Or your child gets up in the middle of the night to go to the washroom and soaks his feet and goes back to sleep and catches cold. No water in Appletree. No health hazards.

Here's a letter from the Cook County Department of Public Health. The water problem over there is so bad that they have written letters to the Attorney General. There's no water over there, Senator. You can go swimming over there in my backyard right now. That is if you want to stay long enough, you might end up in my neighbor's backyard.

I say something should be done not only to the builder, who is K & B who has pulled off one of the largest public swindles in the nation. And I say K & B should be made responsible for the problem. They have bribed our federal officials to the point of no return—anybody and everybody.

Mr. Broad, a member of the HUD association in Washington, has no business on that board. A member of the First National Bank here in Chicago, he has no business being on there where the public is concerned. The federal government today does not have any use for its people. We today are only a number to the federal government—that's all. You're a Social Security number; hell, don't pay your taxes and watch how fast you go to jail. Or refuse to tell a federal official or a policeman something that he wants to know to convict somebody; and if you say "no" in a federal court, or any court—jail. I say, Senator, give

the government back to the people. Get these businessmen and president's and corporations of billions and billions of dollars of profit a year—get them out of the offices, they don't belong there. We don't need a president from a steel corporaton in HUD to tell us people what kind of homes to live in. Put a person in there, a human being in there. Someone that is concerned. Thank you.

STEVENSON. We are trying to get the government back to the people. Yes, sir, in the dark suit.

LOCKETT. Senator, I'm not going to go into detail as far as the type of homes and all of the flaws and the way they are built, but I'm a trustee in a small village of Dixmoor. The population is 15,000 people, radius of 1 square mile. Builders came in there a year ago and wanted to put up 600 of these 235 homes. They were successful in going ahead with that until the civic organizations of Dixmoor and myself tried to put a stop to this.

We tried to meet with Waner and we finally did, prior to this meeting, because I was the only member of the Council who would speak up against this.

I have here a summons and I want to warn a lot of you: if you want to speak up against this you should know what you're about to get involved with. Look at this summons. I had to appear in court and was taken before Judge Healy and really given a good tongue lashing because I was opposed to this.

And then the builders took us into the back room and forced us to agree. Our ordinance calls for a 50-foot lot and we had to agree. I would not agree to build on 40-ft. lots, so they could add additional homes and make a bigger mess of what it already was. I was threatened by their attorneys. If I didn't go along they would take me before that judge again, and I would go to jail. And I absolutely said I would not say anything. But right now speaking here I am under this $10,000 summons and they could now take me to court for speaking like this. I was told I had to absolutely keep my mouth shut. Even a member and trustee of a Council can't voice opinions against this. This was the ruling of that judge.

And our village attorney that represented me, and all the village officials, wrote us a letter stating that as long as the builder was building within the code and the building code, we could not stop him.

And his recommendation, the last paragraph states ". . . I strongly recommend that you discontinue your actions in attempting to stop these projects. In light of the foregoing information and circumstance, I feel as village attorney that this letter clearly apprises each person of his rights and possible loses they may suffer if this practice is continued."

They told me because I own some property. I was told by the builders, by my own attorney, that if I wasn't careful, I would lose everything I had. This is supposed to be a democratic organization, a democratic FHA program, and, when a man who is elected as a village official speaks up he is under a $10,000 bond. And I'm still under this, and by speaking to you Senator, fully and openly here, I could be taken before this judge again and probably wind up in jail. But I still say I would rather be in jail because I know that they are good people. And I live in Dixmoor and this a Black community.

Senator STEVENSON. We are especially pleased to have with us, our next witness.

Our next witness is a distinguished colleague from the U.S. Congress, a good friend, the Honorable Morgan Murphy.

STATEMENT OF MORGAN F. MURPHY, U.S. REPRESENTATIVE FROM THE STATE OF ILLINOIS

Congressman MURPHY. Thank you very much, Senator, and on behalf of the people of Chicago I would like to welcome our distinguished and able Senator from Alabama, Mr. Sparkman, to our fine city and to assure him that the weather outside isn't always this bad.

Spring is just around the corner.

I would first, Senator Stevenson, like to congratulate again station WTTW for their fine public service in airing these hearings, these vital and important hearings to the people of Chicago and Cook County.

I had the pleasure, a few months ago, of conducting narcotics hearings here in Chicago and I am sure your office will receive the same response that mine has, that it is good to open up our hearings in the Federal Government to the people back home and let them know that we are alive and kicking and that we are doing something.

I would like to congratulate both of you, gentlemen, for undertaking these hearings in such a vital area that concerns every major city in the country.

Concering my district, the 2d Congressional District here in Chicago which comprises the south, southwest and southeast sides of the city of Chicago, the housing problem is a very critical problem and especially the 235 and 236 housing programs.

I think in formulating any legislation in Washington we, as legislators, Federal legislators, must take into consideration other factors and just providing homes, as badly as they are needed for poor- and low-income families.

Since entering the U.S. Congress, my staff and myself have spent anywhere from 15 percent to 25 percent of our time working with the regional HUD office here in Chicago, under the leadership of Mr. John Waner and I understand Mr. Waner testified earlier here today.

I would like to state for the record that my office has received nothing but the finest cooperation from Mr. Waner and his staff on problems that are serious problems.

For instance, the movement of the poor and low income is toward the center of my district on the south side and what has happened is that a lot of poor families have applied for 235 housing and 236 housing which they are entitled to, and they need to provide, but what is happening out there, Senator, is that, for instance, in the Brennan School which is at 114th and Eggleston, in the Fernwood area, a fine residential section of Chicago that is racially mixed, right now there are fine buildings, well constructed buildings.

They have the Brennan School which is on double shift.

In other words, the children are going to school in double shifts and also attending school in mobile classrooms about the perimeter of the school.

Now, we have this condition with the Fort Dearborn School and other schools in the community.

Now, I am constantly, and Saturday morning at meetings, meeting in the homes of these concerned citizens, the concerned citizens of the 34th ward.

They come to me and they ask me or tell me that their schools are over crowded and the reason being that we are subsidizing a lot of 235 houses in the area.

Now, they are not against the 235 houses.

All they would like is that under the Federal law, the local administrator in the person of John Waner, or whoever he may be, have the option and the discretion when applicants come in for 235 and 236 mortgages, to go out into the particular area in which they

want to locate this housing and their inspectors can do this and their appraisers can do it and just find out the conditions that exist in the particular public schools.

For instance, the Brennan School at 114th and Eggleston is on a double shift right now.

They cannot hold any more children.

The school was built for and I have the figures here, the school was built for 990 total capacity.

Presently the attendance of April 1972 is 1621 or 631 pupils over capacity.

Now, these figures do not include seven mobile classrooms that are on the school grounds.

So you have—what you have is a situation where when somebody makes an application for a mortgage in an area like that, the housing administrator, all he is concerned with is whether or not they qualify financially and whether or not they have a 25-foot lot without considering the shocking facilities of shopping or the parking facilities.

Now, what I am really asking for here today, gentlemen, is that when we do consider our legislation in Washington, that we give, in our legislation, some discretion to the local administrator so that when he considers granting mortgages, that he take into consideration the over crowdedness of the schools, the recreation facilities and the shopping facilities.

This is really a very, very serious problem in my district and I know it is just one of the many problems that have bothered this program which I think is a fine program.

We have some fine 235 housing out at my district and it is kept up well but then we have some housing that the appraisers—I don't know if—well, they would have had to been operating with fraud in mind because they are built on lots that weren't big enough to hold them.

They are built adjacent to railroad tracks, where, as far as safety features were concerned, they couldn't have a back entrance to the house because they would walk right out onto the railroad tracks.

There have been some indictments here in Chicago regarding officials working with the HUD program, and I must say in all fairness, and I am a Democrat, and I know Mr. Waner is a Republican, but he has done a pretty fair job of cleaning up that office and cleaning out some of those appraisers that were involved in the shabby practices.

I think that we in Congress, and this is another problem that affects all of our legislation, that we also must set up investigating committees after we pass what is good legislation, well intentioned legislation and refund it, but we lose control after that.

We don't go out and we don't investigate how our programs are being carried out.

The Office of Management and Budget is supposed to cooperate with us on that and sometimes they do, but most of the time they don't.

I think that the House of Representatives and the Senate ought to have our own investigating committees, besides legislative committees to see that our well intentioned programs and fundings are carried out.

These are just some of the problems we have out in our district, Senators, and I hope that you would consider them when you are formulating your legislation in the Senate.

I know I have an amendment pending in the Housing Act before Wright Patman's committee in the House and we hope to be able to attach an amendment that will give the local administrator this discretion when applicants come in for mortgages.

I thank you for your time. I know that you are running behind schedule but these are a couple of the issues that have ben plaguing my office since I have been in the Congress.

Senator STEVENSON. I thank you, Congressman Murphy.

Some of those complaints have been expressed before.

The problems that you have referred to are not unique to your Congressional District.

I am not sure, but to some extent it may again be an administrative problem.

The site selection criteria do require the HUD area offices to consider the impaction of federally supported housing on local services including schools.

However, I have received that complaint and have heard about the same problem in many other communities, too.

Maybe since it doesn't seem to be handled as perfectly in some areas, that we ought to consider legislating site selection criteria instead of leaving them to administrative regulation.

Senator Sparkman, do you have any questions?

Chairman SPARKMAN. I thought that was a very good suggestion and I appreciate you appearing and giving us your suggestions.

Congressman MURPHY. Thank you, Senator.

Senator Stevenson, I appreciate the opportunity of appearing here today.

Senator STEVENSON. I certainly agree with you about what you said with respect to WTTW–TV.

Congressman MURPHY. I think they are rendering a fine service to the community.

Senator STEVENSON. I would like to say "Amen" to that.

Congressman MURPHY. I would like to revise and extend my remarks and include them in the record when I get back to Washington.

I will get them to you as soon as I get back to Washington.

Senator STEVENSON. The record will remain open to receive your further statements, Congressman, and thank you very much.

Congressman MURPHY. Thank you, Senator.

Senator STEVENSON. The next panel will be on the role of builders and developments in HUD programs.

The panelists are Mr. Bernard Weissbourd, member, board of governors, Metropolitan Housing and Planning Council.

David Midgley, acting director, Illinois Housing Development Authority.

Marvin Myers, president, Marvin Myers Associates, Inc.

Robert Widdicombe, Jr., executive vice-president Home Builders Association of greater Chicago. And we had scheduled one additional panelist, Mr. William Wallace, president, and Environment 7 Limited, but I am told that he is unfortunately detained in Detroit at the moment and cannot be here.

Why don't we start with you, Mr. Weissbourd.

Mr. WEISSBOURD. Thank you, Senator.

I was privileged to watch some of these hearings this morning on television. I noted that they were unusually informative and I will not repeat some of what the others have said.

I am appearing on behalf of the board of governors of the Metropolitan Housing and Planning Council, and the council wants to go on record as being dedicated to the national goals of living environments and a decent home for everybody.

[Complete statement follows:]

STATEMENT OF BERNARD WEISSBOURD ON BEHALF OF THE BOARD OF GOVERNORS OF THE METROPOLITAN HOUSING AND PLANNING COUNCIL

The Metropolitan Housing and Planning Council has long been committed to the national goal of a suitable living environment for every American family. It further believes that federal subsidy programs are necessary in order to assure that an adequate supply of housing is built each year—particularly during periods of tight money when capital leaves the housing market for other more lucrative forms of investment. The negative effects of the present moratorium, it fears, if long continued will begin to be felt in the housing supply in about 18 months, and the longer the moratorium, the more serious the consequences.

The Metropolitan Housing and Planning Council has gone on record in support of the family housing allowance, i.e. subsidizing people rather than the construction of housing. This strategy, of course, has the advantage of allowing people with low incomes to maximize their options to either rent or buy housing as an alternative to building public housing—though some subsidized housing will still be needed for the larger poor families. We are aware that the Administration, through the Department of Housing and Urban Development, has been experimenting with the housing allowance concept since 1968 in Columbus, Ohio, and 1970 in Kansas City, Missouri. We sincerely hope that the evaluation of these experiments *will permit the undertaking of such programs on a larger scale.*

On the other hand, even though the major emphasis of the federal programs will hopefully shift towards the family housing allowance, a smaller group of programs, similar to those under Sections 235 and 236, will still be required in order—as stated before—to insure an adequate supply of housing. It is more than likely that the demand for housing will increase under the housing allowance program. In the long run, the market may respond to increased demand by increasing the housing supply, but in the short run—and particularly in the event of a tight money market—the 235 and 236 programs will be needed to take up the slack.

The Metropolitan Housing and Planning Council, however, is concerned not only with the number of housing units needed but their location as well. Enough housing must be built in suburban and outlying areas so that residential opportunities are joined with job opportunities—enabling more of our population to become self-sufficient. The growing polarization of white and black populations needs to be reversed through the opening of housing opportunities to all races. This goal cannot be accomplished without a 235 or 236 program.

It is easy to object that there have been serious abuses in these programs and, consequently, they should be scrapped. The proper reaction to abuses, however, is to correct them rather than to abandon the whole program because it has been misused in perhaps ten percent of the cases. After World War II, the 608 program created a great deal of housing in the United States. It has always been a source of regret to me that abuses in that program resulted in its curtailment, and I sincerely hope that we do not make the same mistake with the 235 and 236 programs.

During this period of the moratorium on our housing programs, it might be wise to consider the direction in which we should be moving. The Metropolitan Housing and Planning Council, for example, has advocated the establishment in Illinois of an urban development corporation comparable to New York's,

which would permit the state to obtain, acquire and develop, or dispose of sites for community development. Such an urban development corporation would have the power of eminent domain in order to assemble land for satellite new communities and for new towns-in-towns. Title VII of the National Housing Act already provides for certain benefits to such state and regional agencies. It is my personal recommendation, however, that Title VII be amended to provide for federal grants to state agencies or metropolitan development authorities for the specific purpose of acquiring land for new communities. Such grants might be based upon a 90/10 formula, like the highway program, or perhaps 75/25, but in any event the ratio should be high enough to induce the state agencies to make use of the program.

The City of Chicago, along with 23 other metropolitan areas, epitomizes the urban problems peculiar to large, growing cities with significant minority populations. These 24 metropolitan areas contain within them 72% of the people, 83% of the growth, and 72% of the black population in all such areas of at least 500,000 people. It is my contention, developed at length elsewhere, that any national housing strategy we undertake should focus on:

1. the metropolitan areas with the largest populations, because that is where the people are and size itself creates problems of transportation, pollution, etc.
2. the metropolitan areas with the largest growth, because that is where the opportunities are and where the environment will be destroyed if we do not act quickly.
3. the metropolitan areas with the largest black populations, because that is where desegregation is most crucial.

In a previous study involving the costs of a land acquisition program directed toward a satellite communities program in these 24 target cities, I have shown that a maximum of only three billion dollars would be required.

Finally, let me emphasize the Metropolitan Housing and Planning Council's opposition to the housing moratorium, its advocacy of the housing allowance, and its recommendation for a state development authority with land acquisition powers for satellite new communities and new towns-in-town.

Thank you.

Senator STEVENSON. Thank you, Mr. Weissbourg.

Mr. Midgley.

Mr. MIDGELY. I am very pleased to be able to appear here today and I thank you.

[Full statement follows:]

STATEMENT OF DAVID B. MIDGLEY, ACTING DIRECTOR, ILLINOIS HOUSING DEVELOPMENT AUTHORITY

The Illinois Housing Development Authority is one of a growing number of active state housing finance agencies throughout the country. The basic program of these agencies is to provide mortgage loans for middle income housing from the proceeds of tax-exempt bonds. The tax exempt financing provides some indirect subsidy, but it is a very shallow one which cannot reach below middle income levels. Additional subsidy programs must be combined with state financing in order to reach lower income groups.

To meet lower income needs, increasing amounts of federal 236 and rent supplement funds have been used over the past four years by state agencies in combination with their own below-market interest rate financing. Because of this increased state activity, I believe that any proper evaluation of the 236 program must include an analysis of the use of 236 funds in state programs. In Illinois, the State program has financed approximately 4,500 units over the last 2½ years; about 60% of these units receive 236 assistance. As many units are in various stages of processing by the Authority and have been seriously affected by the moratorium on federal housing funds. In fact, the very ability of state housing agencies to exist as viable organizations is threatened by an extended freeze on federal funds.

The Authority has followed a policy of encouraging mixed-income developments where some units receive 236 assistance and other identical units within the same development are rented on an unsubsidized basis to middle income persons. This mixed income approach, which the federal programs alone do not presently have the flexibility to provide, avoids many of the traditional limitations of governmentally assisted housing.

I believe an analysis of the state use of 236 funds will reveal many positive factors and some limitations. Because of the lower tax exempt financing, the 236 subsidy cost per unit is less than under the regular federal 236 program. The lower financing costs also permit higher quality developments which should be more stable and easier to maintain, and which are more acceptable to the communities in which they are located. Because of the necessity of maintaining the financial soundness of the Authority's bonds, the most serious limitation is an inability to participate significantly in high risk programs or areas without mortgage insurance.

I have included as part of my written submission to the Committee several publications of the Authority which will explain our state program in greater detail.

Last month, housing agency officials from over 30 states met and adopted a position statement regarding the current moratorium and future housing programs. I endorse that position statement which in brief summary calls for:

1. Strong opposition to the moratorium when substitute programs have not even been proposed.
2. The Administration to honor annual allocations of funds to state and local agencies.
3. An opportunity for state agencies to participate in the formulation of new national housing programs.
4. Federal funding of housing programs in at least the FY 1971 and 1972 levels because no restructuring of programs can substitute for adequate funding.
5. Future federal financial assistance for housing should be primarily in the form of block grants to states.
6. A federal structure to continue delivering housing assistance to states not developing their own programs.
7. Continued existence of federal mortgage insurance and the FNMA and GNMA programs which utilize federal credit and do not require major appropriations.

STATEMENT OF POSITION OF STATE HOUSING AGENCIES CONFERENCE, HILTON HEAD, S.C.

Representatives of State housing agencies and State officials concerned with housing assembled at this Conference hereby adopt the following statement of views and positions:

A. CONCERNING THE CURRENT TEMPORARY MORATORIUM ON FEDERAL HOUSING ASSISTANCE PROGRAMS

(1). We strongly oppose the Administration's imposition of a freeze on further commitments for Federal housing subsidies—and its elimination of any requested appropriations for such subsidies in fiscal year 1974—without instituting or even proposing any substitute housing assistance program. This drastic interruption imperils adequate housing production for low and moderate income families, urban and rural, and threatens severe damage to the ability of government and the private sector to meet these problems.

We call upon the Administration to rescind the Moratorium and to request new housing assistance appropriations for fiscal year 1974 in amounts sufficient to maintain without interruption the FY 1971–72 level of Federal housing assistance until new Federal housing assistance programs adequate for both urban and rural areas are in operation.

(2). We believe that there is a need for basic evaluation of Federal housing assistance methods. We will welcome the opportunity to contribute individually and collectively to such an evaluation and to the formulation of new or improved methods of Federal housing assistance.

(3). To avoid severe damage to existing and emerging State housing efforts if the Moratorium is retained, we urge the Federal Government to take the following actions immediately:

(a) Confirm that it will honor under the Moratorium "annual arrangements" agreements that have been entered into between HUD and State and local agencies for Section 235, 236 and rent supplement assistance in FY 1973; and make available the funds and contract authority necessary to fulfill these agreements.

(b) Confirm that State and local agency housing programs, existing and new, constitute a "specific program commitment" excepted from the Moratorium by its terms; and confirm that it will continue to provide 235, 236, rent supplement, public housing and rural housing subsidies throughout the period of the Moratorium in amounts sufficient to enable the presently operational agencies to maintain their on-going and expanding programs, FHA-insured and non-insured, and to enable agencies not yet operational to move into operation in an orderly and effective way to help meet State housing goals. During the period of the Moratorium Federal housing subsidies should continue to be provided to the existing and new agencies through the annual arrangements procedure.

B. CONCERNING THE FUTURE SYSTEM FOR GOVERNMENTAL ASSISTANCE FOR HOUSING

(1). If there is to be a realistic basis for efforts by the States and others to formulate for the Administration's consideration recommendations as to future systems of governmental assistance for housing, the Administration should make known promptly that:

(a) It remains committed to fulfilling the housing goals of the Housing and Urban Development Act of 1968;

(b) It is prepared to seek appropriations for Federal housing assistance in amounts needed to achieve those goals, if effective programs are formulated and adopted; and

(c) Will continue in its commitment to seek partnership with the States and others in meeting national and State housing goals.

(2). We are convinced that Federal housing assistance must continue to be provided in amounts at least equal to the level of FY 1971 and 1972 if housing is to be provided for low and moderate income families in a volume sufficient to meet national and State housing goals. No restructuring of programs can substitute for adequate Federal funding. We see no realistic prospect of a substitute source, State or other, for Federal funding.

(3). We believe that States can play a major role in the provision of future governmental assistance for housing. A number of States already have significant and growing housing programs which we believe demonstrate the effective role that States can perform in governmental assistance for housing.

(4). (a) For those States which have or hereafter establish State programs of financial, development, planning or other assistance for housing, we propose that future Federal financial assistance for housing be provided principally in the form of block grants to the States. This assumes that the necessary level of Federal financial assistance for housing can be maintained under such a system. A vital tool in recent effective Federal subsidy programs has been the ability to commit for multi-year Federal subsidies; such "contract authority" should form part of these proposed block Federal funding allocations.

(b) Under this system, subject to Federal guidelines confined to fundamental policy matters, the States involved would have direct responsibility and broad discretion in formulating and administering State housing assistance programs through which such funds could be allocated to a variety of local and State agency programs and privately sponsored projects. The essential role of the localities and the private sector would continue to be recognized. These State programs would be coordinated with local and State community development activities carried out under the proposed Federal program for community development revenue sharing.

(5). A Federal program and administrative structure should remain to deliver their fair share of Federal housing assistance to States not developing their own delivery capabilities, and to encourage and assist the development of such capabilities.

(6). The existing Federal mortgage insurance, FNMA and GNMA programs, which utilize Federal credit and do not require major appropriations, should continue in coordination with State housing programs using Federal block grants.

Thank you.

Senator STEVENSON. Thank you, Mr. Midgley.

We will enter your complete statement in the record.

Mr. Myers.

Mr. MYERS. Thank you, Senator.

STATEMENT OF MARVIN B. MEYERS, PRESIDENT, MARVIN MEYERS ASSOCIATES, INC.

My name is Marvin B. Myers, my address is 645 North Michigan Ave., Chicago, Illinois 60611. I am the general partner in M. Myers Associates, Inc. a real estate company engaged in the development and management of multi-family residential real estate. This firm has developed 1978 dwelling units constructed under the 236 and 221(d) 3 Sections of the National Housing Act. Our projects are as follows:

833 Buena Apts., Chicago, Ill., 210 units—221(d)3.
5030 N. Marine Drive, Chicago, Ill., 300 units—221(d)3.
4811–27 Sheridan Rd., Chicago, Ill., 187 units—221(d)3.
Bluff Plaza I, Joliet, Ill., 206 units—221(d)3.
812–28 Belle Plaine, Chicago, Ill., 278 units—236.
Rockford Square I, Rockford, Ill., 144 units—221(d)3.
Rockford Square II, Rockford, Ill., 124 units—221(d)3.
Lawndale Manor, Chicago, Ill., 192 units—221(d)3.
Lake Park Manor, Chicago, Ill., 164 units—236.
Walpole Point II, Chicago, Ill., 173 units—236.

We are managing agents for all of these projects, except Rockford Square, Lawndale Manor and Lake Park Manor. We serve as a resource and advisor for the management people at Lake Park Manor and Lawndale Manor.

There are 2 allegations concerning subsidized housing that are currently being used to justify the moratorium imposed on January 5th of this year:

1. Current subsidy programs are not doing the job.
2. Excessive profits are being made by developers involved with subsidy programs.

Our experience clearly refutes these two allegations.

The above listed projects are well maintained, enjoy high rates of occupancy, are economical and racially integrated, are not in default, pay the limited dividends (with some exceptions), and have offered improved and affordable housing for some 2000 families in this area. The charge that current subsidy programs are not working is clearly refuted by our experience.

Our experience demonstrates how some of the administrative and regulatory practices of HUD, regarding subsidy housing, have distorted the original legislative intent as it was understood by us.

We felt the original legislative intent of Sections 235 and 236 was to avoid large concentrations of low and moderate income families in one project. The intent was to achieve economic integration. However, the Act was administered to allow over income occupants after initial rent up and not at initial rent up. Projects were rejected because they were in good locations and would compete with market rate projects. Projects were rejected because they did not meet a preconceived stereo-type of what moderate income housing should be. All amenities were kept to a minimum in subsidy projects. These administrative actions caused subsidy housing to be different than other housing and hindered the opportunity of economic integration within subsidy projects.

The subsidy sections of the National Housing Act were used as a tool to cool racial discord in the late 60's. Projects were approved for political and practical reasons with no regard to established real estate practices. Sponsors without prior experience or sufficient knowledge in the development business were given fund allocations and resultant projects. Such practices were probably valid to maintain order in our society, however, the resultant high default rate should not be used to condemn subsidy housing. Similar practices in any real estate venture will result in a high rate of defaults.

Whatever case can be built to suggest the failure of subsidy housing finds derivation in the administration of the Act and not in the Act itself.

Financial rewards for a developer in a subisdy project are 50% less than a conventional financed multi family project of equal size. The time, red tape, and frustration of doing subsidy projects is many times the comparable experience with conventional developments. The charge of excessive profits being made with subsidy programs is simply not valid.

The normal method a developer uses to profit from a multi family project is to sell the limited partnership interests in such projects. The market for limited partnership interests offers considerably more profit for a conventional project than a subsidy project. At this time the profit potential in a conventional project is 50% greater than the profit in a subsidy project of equal size. Only during periods of tight money do subsidy projects become the most profitable alternative. However, the lead time for subsidy development is so long

and the financial market is so dynamic that any success in being able to have subsidy projects ready to go when money becomes tight is more luck than intelligence.

WALPOLE POINT

Walpole Point is an unusual development located in the Lincoln Park neighborhood of Chicago. It consists of 252 dwelling units. One third were sold, one third are rented and will be sold ten years in the future, and the remaining third are rentals. The sale units sold from $27,900.00 to $60,000.00. The rental units were built under Section 236. They are being rented at market rates, 236 rates, and leased under Section 23 Public Housing Leasing. The rental and sales units are mixed throughout the site on a salt and pepper basis. The project is now 80% complete. The project has been very successful. The sales units sold within three weeks and we have had a large waiting list of people wanting to purchase units. This project clearly indicates one of the possibilities of recreating our urban neighborhoods.

This project must stand as a high water mark for enlightened cooperation between a neighborhood, the Dept. of Urban Renewal, and a developer.

The Lincoln Park neighborhood formed a planning committee to study the urban renewal sites in their community. Based on their study they recommended a land disposition program that would allow a mixture of income among the occupants on the proposed housing. Enclosed is a copy of the recommendations for land disposition made by the Lincoln Park Conservation Association, Sub-committee on Housing, dated May 29, 1968. Based on this document the Department of Urban Renewal prepared bid forms for the properties based on the community's recommendations. Also enclosed please find portions of our bid documents showing the objectives of the community and urban renewal documents and how we intended to meet those objectives.

The project itself gives best testimony to the possibilities of existing legislation.

Thank you.

Senator STEVENSON. Thank you, Mr. Myers.

Mr. Widdicombe.

Mr. WIDDICOMBE. First, I should like to echo the comments of my fellow panelists that we are indeed privileged to have the opportunity to appear here to represent the interests of our industries and the interests before you, Senator Stevenson and Senator Sparkman.

[Completed statement of Mr. Widdicombe follows:]

STATEMENT OF ROBERT K. WIDDICOMBE, JR., EXECUTIVE VICE PRESIDENT, HOME BUILDERS ASSOCIATION OF GREATER CHICAGO

Nothing is ever wholly bad and frequently can be bent into usable shape without great effort. Such is the case with the subsidized housing programs, with which we are concerned here today. There is no need to re-invent the wheel, we need only examine means and methods by which we can simply repair what may be no more than a broken spoke.

In our society we have mandated through housing acts over the years that all of the people should have decent housing, but we seldom are willing to give any one program which we may adopt a full fledged opportunity to flower and prosper and achieve its objective. Thorough and prolonged study commissioned by major national organizations, seriously concerned and deeply involved in meeting the housing needs of the nation, have concluded that federally subsidized housing programs have by in large been effective in meeting the congressional subsidy objectives, as well as conforming to other criteria of desirability, such as low annual budgetary cost per unit.

The many inadequacies encountered in the execution of FHA 235 and 236 programs emanate not from their design, but rather from a combination of poor administration by HUD and the inherently higher risks of capital investment in housing for relatively low income households in often deteriorating areas.

These problems are dealt with thoroughly and in exhaustive detail in the referenced comprehensive study on *Federal Housing Subsidies: Their Nature and Effectiveness And What We Should Do About Them*, sponsored by the

National Association of Home Builders, the National Association of Mutual Savings Banks and the United States Savings and Loan League, and conducted by Anthony Downs of the Real Estate Research Corporation—copies of which I am confident the Committee already has. I am, however, prepared to see that additional will be made available.

My own concern in testifying relates entirely to new construction. FHA 235–236 programs have created housing opportunities which would not have otherwise existed in a form with dignity and with the ultimate opportunity for the recipient of the subsidy to extricate himself has his own fiscal circumstance improves. Housing areas in the Chicago region where FHA 235 living units have been integrated with housing in similar price ranges are virtually undistinguishable and many have worked their way out and are now on a regular payment basis. Some because of employment transfers and other changes in circumstances have sold their homes—realized a profit and went on to other areas with funds enabling them to purchase without the benefit of subsidy a home of their choice in their new location.

There appears a consuming need to concentrate, therefore, on the good that has been and can continue to be accomplished by these programs. If there are difficulties, they stem not from the builder, because he is but one of the elements of which a community is ultimately composed. There are at least three other significant influencing elements—the FHA standards which have to be met in building the living units; the building codes and inspection mechanisms of the communities which must approve them; and finally and perhaps of greatest importance, the people who will occupy them.

People of modest circumstance must understand that a house requires care. Further, they must understand that a $20,000 house is really very different from a $80,000 house, even though they are both houses. They are different in exactly the same way that a Chevrolet is different from a Cadillac, even though they are both automobiles. It should be noted, however, that both well serve their intended purpose for many years to come if they are properly cared for.

Just because the moratorium has been declared on FHA programs, it does not mean that concomitantly there is also an equally percipitous change in the requirements for the housing produced by these programs. The government in its wisdom must be ever aware that the housing will have to be produced one way or another. It becomes, therefore, a matter of which way is most expeditious and least expensive. Clearly, some of the alternatives to the FHA program are excessively expensive, such as public housing, which takes twice as long to produce and is inevitably done without style or concern for the needs of the intended inhabitants.

In the short term and while mortgage money is available, the housing industry will be able to meet some of the needs, but as money tightens the new homes construction industry will turn increasingly to FHA insured and FHA subsidized programs where they exist.

In Illinois this is particularly serious because of unrealistic usury limits, which simply preclude providing of housing with very low down payments, high points and high interest rates. As the financial circumstances worsen in Illinois, FHA 235 and 236 quickly become of critical importance. Our own Illinois Housing Development Authority, while an effective program for producing multi-family housing, is of genuine value in meeting housing needs, it too has been crippled due to its dependence in large measure on FHA 236. It should be noted here that FHA 236 programs have been a major force in the Chicago region and have been virtually untouched by the irregular and notorious difficulties of the sort which has reached alarming proportions in the media beyond any real portrayal of the facts.

With regard to the cost of subsidized programs we sometimes as a nation treat ourselves to statistical safaries into the unreal world by dividing the cost of the operation of HUD by the total units built under these programs and shock ourselves with astronomical figures that are unrelated to the cost of housing. I submit that the bureaucracy and the staggering enormity of its cost is not an invention of the nation's housing needs, but rather is a fixed cost of human endeavor and would have existed anyway.

The FHA 235 and 236 programs as well as other insured programs over the years have had the unique and to be greatly valued feature of preserving and perpetuating the only proven viable and effective means of producing housing—the private sector. Every step we take away from housing produced through free enterprise is a step toward the houser of last resort—the government. And the government has proven over and over again that it cannot do the job.

There is another critical essential which we cannot ignore. Housing subsidies are but an assist to bring people along to a point where they can carry themselves. Pride of ownership and full participation in the society demands involvement and involvement means putting up some of one's self—little though it may sometimes be—to enjoy the good things we hold dear in our society, chief among them a living unit of our own. This means financial involvement—and we must not ignore it in any program put forth—for things free are viewed by the recipient as being worth what they paid for them.

We have long provided a tax break (which is nothing less than a subsidy) for middle and upper income families to encourage home ownership. FHA 235 and 236 are representative of similar relief forms for lower income groups and we should think of them as being no different.

Finally, we should not forget that typically the people who do the planning and make the decisions and provide the guidance for assisted housing already have a living unit of their own and are not experiencing similar pressures and are frequently oblivious to "what it is really like" for the people whom they would help.

It is true that there may well be a $6 billion plus bill for subsidized housing by 1978, but forget not that there is no other way to meet these requirements without spending these sums—that if we are going to have housing it is going to cost money and the problem becomes then how best to spend the money to provide that housing. There does not appear on the horizon at this time to be anything approximating the value and emphasis toward that end of these FHA programs 235 and 236, and we urge their reinstitution and perpetuation.

Thank you, Senator.

Senator STEVENSON. Thank you, Mr. Widdicombe.

We have heard, as you know, about defects in newly constructed subsidized homes.

Can you tell us a little about how these problems have come about, and why they have occurred, and also whether your association takes any steps to prevent them.

Mr. WIDDICOMBE. Yes.

As I mentioned earlier, as with any human endeavor, there are imperfections.

Now, with respect to our part of the function of our association, that is to make a continuing effort to help alleviate those conditions wherever we find them, wherever they surface.

Now, they are adjudicated by an ethics and arbitration committee which has, as its purpose, to cause our builders to perform where they have been in any way deficient.

Furthermore, we are in the active process of developing a strong program which we refer to as the bonded registered builders program.

We are hopeful that this will be instituted very shortly and that it will have as part of its premise the full and continuing cooperation of all members, and wherever there is any difference between a homeowner and a homebuilder, that those will be promptly brought to the attention of the committee, which will be a committee of peers and typically peers are harder on their fellows than other third parties are.

So that they will quickly resolve the differences where the builder is at fault and he will be asked to make these corrections and if this should not obtain, then the bonding company will move in and cause them to be done.

In other words, the home buyer will be assured of performance, where performance does not happen as a consequence of builder's efforts.

This has been, by the way, very modest in our efforts so far. Most of our builders have always performed.

Senator STEVENSON. Do the maximum mortgage limits for FHA housing make it difficult to build a good housing under the FHA programs?

Mr. WIDDICOMBE. Well, we are certainly subject to price pressures from all sectors, and yes, it is very, very difficult.

We frequently find the FHA price limitations are not realistic, and they don't take into account the costs of materials, labor, services, and land, and particularly they don't take into account that there are such things as sewer moratoriums.

If we limit the price of land, we drive the price of land up all of which puts pressures on us and makes it almost impossible to meet the prices set by FHA in a partial vacuum.

We would hope that they would be cognizant of these price pressures or that they would be cognizant of the other pressures and that is with respect to escalation in the economy so that when the economy does escalate we won't be inhibited in producing adequate housing.

You are right, they do make it difficult, Senator.

Senator STEVENSON. Do you know the average price for a new house in the Chicago area?

Mr. WIDDICOMBE. We have been using as an average the figure which ranges around $24,000 or $25,000.

Now, this varies throughout the area and the averages are so difficult to deal with but that is the figure that we have been using in the metropolitan area.

Senator STEVENSON. In the metropolitan area?

Mr. WIDDICOMBE. Yes, in the metropolitan area.

That is the average figure for the statistical situation and the comparative situation.

Senator STEVENSON. Has that figure been rising over the last couple of years?

Mr. WIDDICOMBE. Yes. Over the last several years, yes, and in the recent past we have been subjected to severe pressure from lumber dealers alone.

In the average house, as we speak of it, the lumber alone has caused an increase of approximately $1,200.

Now, that is an added cost without added value.

The homeowner gets nothing for that $1,200 additional cost.

Senator STEVENSON. $1,200, I heard it was higher than that in the last 9 months where the figure has gone up by about $1,500.

Mr. WIDDICOMBE. That is true, Senator Stevenson.

We have attempted, in all statistical portrayals to be conservative.

You are right, it is higher and it is a serious impediment to meeting or supplying a good house at a standard price.

The prices are limited by the FHA programs.

Now, that doesn't mean that we produce a bad house because of the limitation.

It just means that it is difficult and it drives builders out of the market in search of other means of finance to provide housing.

Senator STEVENSON. The President's action recently placed controls on food prices.

Lumber prices have been rising at a rate considerably in excess of the rate that food prices are rising.

Would you favor controls on lumber prices?

Mr. WIDDICOMBE. Well, unfortunately, the lumber price situation is broken into two parts.

The kind of relief that the President has ordered in the immediate past tends to be long range relief: more cuttings from the forest lands, some inhibition of the support of logs, a little more priority given to railcars in comparison to grain, and all of these will have a lag in their effect in the immediate marketplace.

As a consequence, we need to have short range relief and as much as we abhor price regulation, we do need short time price relief.

We do not believe that the price relief that was afforded in Phases I, II, and III were adequate.

They did not function in the way intended and there appeared to be deliberate intent on the part of those who violated them to circumvent the intentions of the President to try to stem inflation.

Senator STEVENSON. Mr. Midgley, you suggested future Federal assistance for housing should take the form of block grants for States.

How would such block grant programs work?

Mr. MIDGLEY. Well, I think there could be many ways it could work.

Several agencies have been meeting to draw up some alternatives of how that might work, and we intend to submit those to HUD, so that they might get some idea of what alternatives are available.

I think the major thing that I would point out would, that is, that there are many States which do not have the same problem as each other and even within the State.

Within the State of Illinois, for instance, the southern half of the State has much different housing problems than the northern metropolitan area.

I think that it might be appropriate to develop production related subsidies and strategy similar to the present programs for certain areas where the amount of housing, a continued great amount of new housing is needed.

It might be appropriate to have assistance payments which are not related to production in any way in other areas, where there is declining population, where there are adequate amounts of units.

I think that is the kind of differing program that could be worked out at the State level in each State.

Senator STEVENSON. Does anybody else care to comment on that proposition?

It is still somewhat vague.

Mr. MIDGLEY. Well, it is vague, yes.

Senator STEVENSON. Bloc grants, with respect to the States as opposed to the Federal programs to support housing, would any of you care to comment on that?

Mr. WEISSBOURD. The metropolitan housing and planning council is opposed to bloc grants to States except for specific purposes.

In other words, the Federal housing programs, as they are largely worked out, they are for areas that are not working—rather that require special attention, not throwing out that part that does work.

The area that we think requires special attention and national strategy to permit opening up of options for people to live everywhere in the metropolitan area, that is the one we are concerned with.

Now, in that area the grants are required for land acquisition and perhaps in the satellite community developments but that is quite different than substituting bloc grants for the entire Federal housing program.

Chairman SPARKMAN. Do you make a distinction between bloc grants for the State and bloc grants to lower units of governments, cities and counties?

Mr. WEISSBOURD. I think that distinction needs to be made.

There are two approaches to such a problem.

One is bloc grants to the State and the other is something like metropolitan development authorities.

Chairman SPARKMAN. With bloc grants to the State would it be your idea that to channel it all through the State and let them decide or rather divide it up to the lesser governments?

Mr. WEISSBOURD. I am sorry, Senator, but we are opposed to bloc grants to the State.

Chairman SPARKMAN. I thought you said they ought to be made?

Mr. WEISSBOURD. No, no.

Mr. Midgley spoke in favor of the bloc grants.

Chairman SPARKMAN. Maybe that was it.

Mr. MIDGLEY. I think that is the concept.

Chairman SPARKMAN. There is one thing for us to remember, that there are two different approaches.

There is revenue sharing—

There is the general revenue sharing. Then there is what has been called special revenue sharing.

Now, the Senate changed the special revenue sharing proposal into a bloc grant approach that would go to a city or to a county, or a metropolitan area, where it is organized. Those bloc grants are to be used for program activities as in the past replacing individual category grants.

Do you understand this approach?

Mr. MIDGLEY. Yes.

Chairman SPARKMAN. In last year's housing bill, we adopted the bloc grant program for community development.

We didn't follow the President's recommendations. We made some changes. We think we improved his program.

Now, I assume that we will do much the same thing this year.

The bill last year, as you know, did not pass the House.

Do you have any comments to make on the bloc grants for the community developments?

Mr. MIDGLEY. Only that again we are talking about special grants for a special or specific program and we believe that the land acquisition for community development needs to be funded.

That the metropolitan areas like Chicago. it has become almost impossible to assemble large enough tracts of land for new communities and, therefore, there should be grants for this purpose to the local or State agencies involved in land development.

Chairman SPARKMAN. Yes.

Now, Mr. Widdicombe, you said something about tight money.

You are in the home building business?

Mr. WIDDICOMBE. Yes.

Chairman SPARKMAN. You have seen on occasions before, then, when we have had tight money, haven't you?

Mr. MIDGLEY. Yes.

Chairman SPARKMAN. Did it hit at the home building industry pretty hard?

Mr. MIDGLEY. We feel badly that our industry is very often the one that is mostly responsive to tight money because all of the money that we work with is borrowed or most of it, and it has an effect upon the economy immediately.

Interest rates are rising and that is what I mean by tight money.

Here is a limitatio nor there is what appears to be

Interest rates are rising and that is what I mean by a tight money situation.

There is a limitation or there appears to be a coming limitation on the availability of 90 percent and 95 percent loans.

This then takes us out of the realm of trying to produce low-income housing.

There is no way to do it where the down payments are amounts beyond the reach of people to buy.

As a consequence, we also find ourselves, as we move away from those areas, we move into higher interest rates and more points and the two combine to exceed the usury limits of our State which are unrealistically low.

We have made a concerted effort to get an increase some years ago and it was raised one point. It helps a little but not enough.

As a consequence of all of this we tend to move FHA, VA, and other programs which will help alleviate the conditions that are occasioned by the tight money.

The unrealistic usury limits in our State have to be taken into consideration.

Chairman SPARKMAN. Do you have any water and sewer problems in connection with the moratorium?

Mr. MIDGLEY. Well, our sewer problems have been serious when we begin to approximate the difficulties they have caused for us, probably the best example of the effect they have on us is that a year and a half ago we did a serious in depth study on the impact of the sewer moratorium.

Now, sewer moratoriums occurred in various areas different times and the minute the sewer system is placed on a proposition of issuing limited permits or limiting the issuance of permits, rather, or is denied the right to issue any further permits already required by law which they must do, they have to bring the plant then in line and in operation, however, there is a moratorium on the issuance of permits and this results in a housing ban in effect.

We took 21 communities on the north shore which were particularly hard hit in 1971.

We did an impact study and we discovered that for all of the things that wouldn't occur during the course of the year, as a con-

sequence of that sewer ban and in turn a housing ban, we found that 7,000 living units would not have been built and then with all of the goods and services that would not have been bought and rendered, we discovered an impact of $1 billion as a consequence.

Now, many of these are subtle effects that aren't easily discernible but at the other end of the year the people migrating to other areas to find work, a service station on the corner in the community will be boarded up, a shoe store will not renew its lease, and various other things take place that can't be abstractly or strictly identified with the sewer moratorium but they are a factor.

Now, those effects nonetheless are very real and to answer your question:

Are we plagued by these and are they difficult for us?

Yes, they are.

Chairman SPARKMAN. Well, thank you, very much.

I could ask a lot of other questions but it looks like we are getting behind time again.

Senator STEVENSON. Let me just ask Mr. Weissbourd a question.

This morning we were told that a house allowance would drive up rents and the cost of housing and would have the effect of subsidizing the landlords and the sellers of homes instead of the consumers.

How do you respond to that complaint about housing allowance?

Mr. WEISSBOURD. Well, the housing allowance goes to the consumer so that it is directly to his benefit.

Now, if there are more people that can afford better housing because they have the rents, the rent certificates to help pay for it, that may drive up prices if we don't also do something on the supply side.

So that this is why we say that if you have a housing allowance we also need the 235 and 236 programs to insure an adequate supply of housing while you increase the demand.

Senator STEVENSON. That probably gets pretty expensive.

Mr. WEISSBOURD. Probably less expensive than the present program.

The private market, we constantly continue to build and the increased demand accelerates the situation with respect to the private market but you need the 235 and 236 programs to supplement that, particularly in times of tight money so that the supply doesn't oscillate; go up and down, go up one year and down the next.

Senator STEVENSON. Well—I have many more questions to ask but no more time.

Thank you, very much, for giving us your testimony and we really appreciate it.

The next panel is on the "Role of mortgage bankers in HUD programs."

The panelists are Lawrence Knobel, president of the Chicago Mortgage Bankers Association.

Charles Tatum, Chairman of the FHA Multi-Family Subcommittee, Chicago Mortgage Bankers Association.

Ronald C. Nelson, Chairman, FHA Single-Family Subcommittee, Chicago Mortgage Bankers Association.

Dempsey Travis, president, Sivart Mortgage Corp.

And finally Jack Korshak, vice-president, Multi-Family Division, Percy-Wilson Mortgage Co.

I am not sure that Mr. Travis has gotten here yet.

No, I see that he hasn't.

Mr. Knobel, let's start with you if we may.

[Statement follows:]

STATEMENT OF L. R. KNOBEL, PRESIDENT OF CHICAGO MORTGAGE BANKERS ASSOCIATION

I appear on behalf of the Chicago Mortgage Bankers Association which has about 150 member companies in this area and includes many, but not all, FHA approved mortgagees. Before talking about the Chicago area, I think it imperative to take a brief overview.

From the 1930's up to 1968, FHA established itself as a major force in American life to the point where today it insures about 5.4 million single family homes and 1.2 million multi-family units. In many areas where private lenders had withdrawn from the housing market, FHA provided the only financial basis for housing. The program created a national mortgage market and is responsible for housing millions of Americans who otherwise would not have had decent housing. Despite occasional cases of mismanagement, fraud and the like, the program was financially successful and built up reserves of over $1.7 billion. FHA's contribution to our national economy cannot be overestimated.

In 1968, Congress enlarged the original underwriting test of "economic soundness" which had effectively kept FHA out of many central city areas, to one of "acceptable risk," provided that the area was reasonably viable. Congress also set up a "special risk fund," recognizing the expanded responsibilities it had given to FHA.

Thus, FHA entered two new areas—the inner city and various new programs involving subsidies. In addition, Congress imposed additional critera, all socially desirable, such as environmental requirements, site selection, and affirmative action programs. These add to processing time and, in the case of site selection, make it extremely difficult to build in the inner city.

No one in his right mind would expect that any agency given these new and awesome responsibilities, thrust into a thicket of social, economic and political problems, could successfully operate without criticism, or without error. There have been errors—but they have been blown up to the detriment of the whole program. For example, according to the Washington Office of HUD, foreclosures on the low income purchase program in 1971 amounted to .64% of all contracts in force, with .91% estimated for 1972 and 1.11% for 1973. The highest rate was back in 1964 at 1.12%, before subsidy. This is hardly a monumental record of failure as some would have us think.

Believing, perhaps too optimistically, that the traditional unsubsidized federally insured program—pre-1968 FHA—is as firmly embedded in our national life as social security or unemployment insurance, I will limit the rest of my remarks to the subsidized program in the Chicago area.

The incomplete figures I have from the local FHA office indicate that the newest multi-family subsidized program, Section 236, completed some 4,500 units in the past three years of which more than 50% are in the suburbs. Under that same program, some 8,200 additional units are still under construction, with about 40% in the suburbs. Together, that means decent housing for some 50,000 people.

The moratorium imposed by the administration stopped further processing of 3,863 units in the Chicago area, again according to figures furnished by the local FHA office, more than 56% of which were in suburban areas. That is a loss of decent housing for some 15,000 people.

There are miles of streets in Chicago, and indeed in every major city of the United States, where housing is dilapidated, deteriorated and doomed. No private lender will listen for one second to a financing proposal in such neighborhoods. Land costs, building costs, operating costs and financing costs make it economically impossible to build at prices people in these areas can afford. Without subsidized programs which are now stopped and indeed without many new programs that have yet to be devised, these areas will not be stabilized,

these people will not live in decent housing either in their present area or elsewhere and by our inaction we will add to the social, economic and political problems that we all deplore.

The administration and operation of FHA requires skilled and dedicated people. A sub-committee of the House Governmental Operations Committee recommended in 1971 the hiring of additional personnel for FHA—but the staff here in Chicago is being cut by 7½% in fiscal 1973 and another 7½% in fiscal 1974.

It takes time to develop and train capable people and that is certainly true in real estate and in financing and in analysis. That is not going to be accomplished in the climate of uncertainty and fear that must prevail among FHA personnel today.

Gentlemen, the Chicago Mortgage Bankers Association believes that the moratorium should be terminated at once; processing should recommence; the pipeline be kept full, with such safeguards against abuse as past experience indicates. Let us not stop or terminate a program as vital as this one until we are ready to begin another and better one without any loss of precious building time.

Thank you.

Senator STEVENSON. Thank you, Mr. Knobel.

Mr. Tatum.

[Statement follows:]

STATEMENT OF CHARLES A. TATUM, EXECUTIVE VICE PRESIDENT, SIVART MORTGAGE CORP., CHICAGO, ILL. AND VICE CHAIRMAN OF THE BOARD, GATEWAY NATIONAL BANK, CHICAGO, ILL., AS CHAIRMAN OF THE FHA/VA LOANS COMMITTEE OF CHICAGO MORTGAGE BANKERS ASSOCIATION

Senator Sparkman, Senator Stevenson, and other members of the Subcommittee on Housing and Urban Affairs, my name is Charles A. Tatum. I am Executive Vice President of Sivart Mortgage Corporation, and Vice Chairman of the Board of Gateway National Bank. This afternoon, I am appearing before you as Chairman of the FHA/VA Loans Committee of the Chicago Mortgage Bankers Association.

My remarks will be primarily concerning subsidized multifamily housing or Section 236.

The housing act of 1968, which created Section 236, set as its goal the production of six million housing units over a ten year period. This amounted to six hundred thousand units per year over a ten year perod.

In 1969, one hundred eighty-seven thousand subsidized units were produced; and 1970 and 1971 averaged four hundred thousand units. It is estimated that by the end of this fiscal year, ending June 30, 1973, the subsidized housing starts will hit two eighty thousand six hundred and by fiscal 1974 they will have dropped to two hundred forty five thousand. You can see by these production figures that we have fallen far below the national goal.

According to the local HUD office, some four thousand five-hundred units of 236 housing have been built within the past three years, with two thousand one-hundred fifty-five being located in the city. While these production figures are low for the Metropolitan Area the size of Chicago, it has provided good and decent housing for large numbers of the low and moderate income population.

Even before the present moratorium on subsidized housing, construction of 236 housing in the central city had virtually stopped because of the implementation of Project Selection Criteria which was first drafted in September 1971. The guidelines set forth in this Criteria produced some interesting contrast: (1) It practically stopped construction in the central city, (2) It encouraged the construction of low income housing in suburban areas. The problem being that suburban areas had to approve by local referendum by local resolution a plan to accept this subsidized housing. The net effect produced was that the housing did not get built where it was needed—that is, central city.

To demonstrate the need, when we dig a foundation for a new building in the central city, about five applications come in for every available unit. This illustrates the fact that there is a tremendous demand which is not being met, and which will become even more critical with the imposition of the housing moratorium.

In order to build multifamily housing in our central cities, land must be available at a price to make the projects economically feasible. In order to do this, some form of urban renewal program should be continued; that is, where the local government is able to acquire land at market prices and then write down the cost of the land which will permit the development of housing for low and moderate income people. If urban renewal dies on June 30th as it is scheduled, then this form of land availability will no longer be possible. The developers of multifamily housing have into considerable difficulty because of increases in building construction cost versus the time that it takes to process the application through FHA. For example, building costs in the Chicago Metropolitan Area have changed or increased about every six months. If it takes a year or two from the time you put your application in to the time that you start construction, some serious imbalances can result. Therefore, there is a definite need for the recognition of realistic building cost and for improvement of processing time.

Next I would like to mention some items which should be modified in the existing 236 Housing Program or which should be included in any proposed new housing legislation.

First is the income limits which were set up by the housing act of 1968. These are artificial limits which have not been adjusted since 1968 and which limit the economic feasibility of the project. In the last five years, operating expenses for 236 projects have risen dramatically while the income limits stayed the same. This is a totally unrealistic concept.

Secondly, the real estate taxes which should be in the area of 15 to 20% of gross income. In some instances, they have amounted to 30 to 50% of gross income of the project making it an economic disaster. I think that any new housing legislation should allow for some form of tax exemption or tax abatement for all subsidized housing projects.

Next, I think that there should be some new and more liberal housing legislation for housing for the elderly. Current legislation and current expense ratios make it almost impossible to develop housing for the elderly in the city of Chicago.

Large numbers of senior citizens in our Metropolitan Areas have incomes so low that they have difficulty even getting into subsidized housing projects. These older persons should not be abandoned.

Next I think we should look at housing subsidies as a way of life in America. For many years, in the United States, we have been subsidizing airlines, railroads, ship builders, farmers, and even some business corporations as in the case of the $250,000,000 guarantee to the Lockheed Corporation. All of these subsidies that I have mentioned are apparently acceptable, but when we talk about housing subsidies, it produces a negative reaction for some which has resulted in our present housing moratorium. In order to provide decent housing for low and moderate income people in the United States, and particularly in the Metropolitan Areas, some form of housing subsidies is going to be necessary, whether it be 236 or whether it be in the form of new housing legislation.

I think that we as a nation must re-examine our national priorities. It cost us over twenty-four billion dollars to put men on the moon. We are presently spending billions of dollars a year on foreign aid. Yet, even when the 236 program was operative, we had to wait months, or sometimes years, in order to get a project funded. This economic imbalance must be corrected.

After world war II, we poured millions of dollars into Japan and into West Germany. Today Japan is an industrial competitor of the United States. Today the West German mark is worth more than the American dollar. If we could put American dollars to work in foreign countries to correct their faultering economies, we should be able to put American dollars to work in our central cities in order to provide better housing.

We recommend that the housing moratorium be ended immediately, with adjustments where necessary to make the 236 program a more workable plan to produce housing; and we recommend that study be continued on new housing legislation which would either augment or replace 236, but which would still provide some form of subsidy to make good and decent housing available to the low and moderate income people of America.

Senator STEVENSON. Thank you, Mr. Chairman.

You are next, Mr. Nelson.

STATEMENT OF RONALD C. NELSON, CHAIRMAN, FHA SINGLE-FAMILY SUBCOMMITTEE, CHICAGO MORTGAGE BANKERS ASSOCIATION

Mr. NELSON. Thank you, Senator Stevenson.

Senator Stevenson and Senator Sparkman.

My remarks today will be addressed to areas of the FHAs role in the single-family home area.

Now, most of the areas with respect to the single-family situation especially out in the northwest suburbs have grown and prospered.

Now, a majority of the homes are presently financed by conventional lenders with the cooperation needed to bring this about.

Now, the impact of section 235, subsidize homeownership program as it relates to the Chicagoland suburban community has largely become academic.

The reason for this is not the current imposed freeze by the Administration but rather the cost of construction and the land.

In other words the builders of Chicagoland cannot purchase land, improve and construct houses thereupon and sell them today for $24,000, which is the maximum allowable for a four-bedroom home under 235.

Now, as FHA relates to the inner city programs:

The Federal Housing Administration, to my knowledge was never a financial vehicle in the city of Chicago until 1968 as far as single-family homes or properties were concerned.

When the oridnance went into effect in 1968, HUD decided to utilize the Federal Housing Administration as a vehicle for social change.

Now, how was this accomplished?

HUD required them to make alterations, to underwrite criteria and instead of each house meeting its economic soundness criteria, they changed it to "acceptable risk standards."

Also at that time they lowered the credit underwriting standards as they relate to income capability and also the situation with respect to the mortgagors.

Now, these two changes, as I mentioned, as interpreted by the local insuring office made all but the obviously structurally unsound properties in the city of Chicago eligible for Federal insurance.

At this point in time, 1968 and 1969, the Federal Government was discussing with the life insurance industry, their possible investment in FHA insured loans within the inner city.

The Administration was successful in their efforts to convince the insurance firms to invest and this resulted in vast sums of money being made available to the industry to finance the inner city's housing needs, at least most metropolitan areas.

Now, that set the stage for the commendable action on the part of all other parties involved, however, that was, really the commendable action, which resulted in this result, to reduce properties from "economic soundness" to "acceptable risk," and the sums of money made available and at hand at this time, it is my opinion that these factors resulted in financing many people ill prepared for home ownership and also ill prepared to handle the maintenance of property.

They became really the victims and instead of the American dream of homeownership, for many it became a nightmare.

Now, that is not to say that many did not benefit from the program because they did but there were far too many abuses.

At this point in time the FHA workload, due to both the new 235 and 236 programs as well as the new innercity program, and keeping in mind the FHA way typically not involved actively in the inner city in the city of Chicago in 1968, became almost a processing impossibility for the in-house personnel who lacked the training, the people such as appraisers who were familiar with the inner city of Chicago and they also lacked the trained in-house personnel and in the main their population levels of people were not increased accordingly to handle the increased work load.

So the entire situation became untenable and only through the constant hard work of the career employees did they cope with the situation.

However, since that time, the investment of the insurance industry entered into the inner city and the FHA, they found certain abuses and they have set aside certain methods for handling them and have, in the main, accomplished what I consider to be a fine job.

Now, new people were brought on line and the activity of the FHA insured other proportions has dropped and they have gotten a handle on the situation.

It is my opinion they now serve a dual function as opposed to their initial function, that being that the intent of Congress asto insuring and assisting the moderate- and middle-income families in obtaining homeownership and also HUD's intent to make it a vehicle of social change.

In conclusion it is the opinion of many members of the industry that the subsidized housing programs should be separated from FHA normal insurance function.

Thank you.

Senator STEVENSON. Thank you, Mr. Nelson.

Mr. Korshak.

Mr. KORSHAK. Senator Sparkman, Senator Stevenson.

I am told that I would limit my remarks and reduce the delivery time of same to 3½ minutes.

However, I will file with you 16 pages of testimony covering 10 points for your consideration.

(Mr. Korshak's complete statement follows:)

STATEMENT OF JACK KORSHAK, VICE PRESIDENT, DIRECTOR, MULTIFAMILY DIVISION PERCY-WILSON MORTGAGE AND FINANCE CORP.

To those of us involved in the housing industry it is an encouraging development to have a distinguished sub-committee of the Senate go into the field to discover first hand the strengths and weaknesses in the National Housing Programs.

As an officer of a major Mortgage Banking Firm, my full-time activity and that of my staff is devoted to the Multifamily Programs federally-insured under the Federal Housing Administration. My experience, in short, is with *rental* programs, not ownership programs.

I speak of the FHA although aware that the preference of the Administration is that this name be downplayed in favor of the title "HUD." But to many of us who are veterans in the work of implementing federal programs, there

was always a distinction between FHA and HUD. To us, FHA was the branch which embraced the technically competent people; the architects, the cost-analysts, the credit analysts, and the like. HUD was the home of the philosophers and the cosmic thinkers; the source of expansive pronouncements. FHA dealt with the specifics, the nuts and bolts of actual construction. HUD was at the other end of the spectrum.

The most notable accomplishment of Secretary George Romney was drowning the FHA operation in the Sargossa Sea called HUD. The effect might be explained this way: Assume you were tendered a small glass of a reasonably good wine. Then, before being allowed to drink it, the glass was emptied into a quart of clear water. The resulting drink is barely potable but now is neither wine nor water. And so with FHA immersed in HUD.

We welcome the Committee to Chicago and we hope a small demurrer will not appear inhospitable.

In leaving Washington to come to Chicago, the Committee is leaving the source of our problems and coming to view the results. Let me say this another way. The greatest difficulties that I encounter as a lender, the greatest problems that the sponsors, the contractors and the sponsors encounter, all go back to one source. That source is the Washington HUD heirarchy. There is where all the confusion begins. There is where the unreal requirements originate. This is where the inaccessible people reside. There is where so many suggestions are ignored.

I want to make plain my sincere belief that the inept leadership of George Romney not only created new confusion within FHA/HUD but compounded that which previously existed. The rules he promulgated, the appointments he made of unskilled and unknowledgeable people, the total lack of administrative skills which he evidenced, hit new lows in bureaucratic inefficiency.

I would like to offer ten points for consideration of the Committee. A greater number might be made and I must say also that the sequence of the points does not necessarily reflect their relative importance.

1. HUD's failure to make effective use of Mortgagees.
2. The acute shortage of trained and experienced personnel within HUD.
3. The near-fatal impact of rising real estate taxes.
4. The flood of Directives originating with HUD in Washington.
5. Our failure to consider and cope with the *social* aspects of FHA.
6. The failure of private management in handling subsidized housing.
7. Sponsorship by Not-for-Profit Organizations.
8. The myth that everyone wants to own a home, not rent.
9. The effect of drowning FHA in HUD.
10. The failure to involve HEW in the social aspects of subsidized housing.

1. HUD'S FAILURE TO MAKE EFFECTIVE USE OF MORTGAGES

There seems to be an impression that all FHA-approved Mortgagees are members of a local or national Mortgage Banking Association. This is not true. There are literally hundreds of Mortgagees such as Savings and Loan Associations and others who are not. Within a major Mortgage Banking Association there is a constant attempt to educate and train personnel to better hand'e the intricacies of FHA processing. Many Mortgage Banking firms (such as the one for which I work) have created a separate division with the sole responsibility of developing and processing FHA Multifamily cases. In my own division there are ten such people whose full time work is Multifamily processing not only in the Chicago area, but throughout the country.

Throughout my years in this work (between 7 and 10 years) the role of the Mortgagee has been largely ignored in the flood of Directives and Regulations which originate with HUD in Washington. An examination of the literature available makes relatively little mention of the Mortgagee. Any citizen is perfectly free to enter an FHA office whether well prepared or poorly prepared. He may require and receive the attention and time of any number of key personnel. The burden which this places on any FHA office may better be understood by a parallel.

It has long been my opinion that the FHA approved Mortgagee stands in the same relationship to FHA and his client as does an attorney. He has an obligation to his client. He has a corresponding obligation to FHA. But if every person who chose to represent himself in Court, had free access to our nation's Courts, the judicial system would be in total disarray.

The Mortgagee is well equipped by training and experience to act as a *screening agency* for the FHA. Suppose that a citizen came to the FHA for information on a Multifamily project, either general or specific information. Suppose that he was handed a list of all the FHA-approved Mortgagees in the City and told that any of them would be glad to assist him.

He picks the Mortgagee of his choice. He discusses his interest with the Mortgagee. If the case is specific and appears to have merit, the Mortgagee will carry on from that point.

But suppose that the Mortgagee feels that certain essentials are lacking and cannot be overcome. He gives the client a short letter to that effect and with that letter the client returns to FHA. The letter recites the facts and the basis for rejection by the Mortgagee. If the FHA agrees that might well end the matter. But if the FHA does *not* agree, feels that there *is* a potential in the case, it hands the citizen a short letter so advising him and telling him that he may take that letter either to the Mortgagee whom he saw or to any other Mortgagee of his choosing.

Armed with a letter from the FHA, you can be sure the citizen would receive an immediate hearing from any Mortgagee.

Once the months of preliminary work have ended and FHA is ready to issue its Commitment, the Regulations *require* that the application for a Commitment be submitted by an FHA-approved Mortgagee. How much more rapidly would this point have been reached had professional assistance been guiding the sponsor (the FHA term for an individual organization or group seeking to develop a multifamily project) from the very beginning!

There are scores of similar illustrations of ways in which Mortgagees could cut down the time now used in processing, save government time, money, and the need for additional FHA personnel.

Let me offer another illustration of a government agency which *does* employ private assistance.

If you are with a large firm and do a great deal of mailing, the Post Office requires that you separate and bundle your mail. You are not paid for doing this. You are simply *required* to do it in order to bring some measure of efficiency to the postal operation. The practice has been generally accepted and countless hours of postal employees' time is thereby saved.

Another point to be observed in connection with Mortgagees is the conflict of interest situation condoned by HUD. Although the objectivity of the Mortgagee is *critical* to the success of a working relationship between the government and Mortgagee, there is no objection on the part of HUD to a Mortgagee who may be a wholly owned subsidiary of a general contractor, acting as Mortgagee, acting on the very case in which he has a quite different interest!

Yet this practice is wholly inconsistent with another FHA Regulation which makes *very* good sense. That Regulation bars an architect who has an identity of interest with the Sponsor or Contractor, from acting as the supervising architect during actual construction. In such case, while the architect may *design* the project, a *different architect entirely* must be brought in to *supervise the construction.*

All these points and a dozen more have been made to HUD in the past. They go unheard.

Let me make another point. This one concerns the inspection of projects under construction. At present that responsibility is purely FHA's. An overburdened inspector tries to keep on top of every project to which he is assigned. For that purpose FHA receives an inspection fee which is one-half percent of the Mortgage amount. (i.e. one-half of one percent).

I had experience with one case in Ohio where the FHA inspector said the project was "acceptable completed." That was in February. But *13 months later we still had not completed the project.* Why?

It was discovered (after FHA said "acceptable completed") that there was plumbing defects of so large an order that the project could not be rented. Thirteen months after the project had been ruled "acceptably completed," it was *still in the process of correction.* Thirteen months! And the case is still open!

How could this have been avoided?

In my opinion, the inspection of the projects should be undertaken by the person whose interest in efficient and rapid construction is the greatest. That person is the *Mortgagee.* It is *his* money involved. It is *he* who can lose those funds. If he were given a fee *less* than that required by FHA for inspection,

he *would* inspect; regularly, diligently, carefully. He would even file a report with FHA as well as his own office reporting his findings. And I predict that the inspector he would hire, an *engineer* or an *architect*, would be well enough paid to withstand the temptations that arise in the field.

Of course there are Mortgagees who would not want this responsibility even if payment were available. I would not *compel* them to do it. But the point is that Mortgagees who *WANT* to do this are not permitted to do it under current policies. Here again is a way to spend *less* money and get better results.

And before I leave the subject of the Mortgagee, one parting comment.

It is a fundamental of good management that authority and responsibility must be co-extensive. You cannot demand that I *achieve* specified results if you deny me the *authority* to compel the results. Yet there are scores of illustrations to prove how limited is the authority of the Mortgagee. One example:

After a building is finished, it is the Mortgagee's wish, and that of the government, that the case be *closed* and the project be *put into operation*. But if the owner does not WISH to cooperate in the paperwork and technical requirements of a closing, there isn't a blessed thing I can do about it. There is no way short of declaring a default (or foreclosing) that I can compel anyone to finish his paperwork and let me close the case. Every experienced Mortgagee knows this and sometimes despairs at his frustration. HUD knows this as we do.

But this and a hundred other problems CAN be solved. They aren't *construction* problems, they are *administrative* problems. Gather in one room a dozen of the country's most experienced Mortgagees and within hours they will develop any number of practical and money-saving solutions. In point of fact however, we are usually on the *outside* pounding vainly for admission. That could be changed.

It is only fair to say that the Chicago Office has always required that a Mortgagee earn his fee. He is expected to be familiar with the Regulations and to comply with them. As a result, there is a considerable mutual respect between the Chicago FHA technical people and those in private industry. This is not to say that our suggestions are always accepted. But at least we can obtain a hearing. If the matter requires a decision by the Director, the present director has shown the same readiness to consider a major problem as did the Director who was his predecessor.

2. THE ACUTE SHORTAGE OF TRAINED AND EXPERIENCED PERSONNEL WITHIN HUD

FHA is one of the most notoriously understaffed agencies in the government so far as *technically trained* people are concerned. While that has been true for years, the situation has become particularly acute within the last 18 to 36 months. Now we are told that instructions have gone out to the field from Washington to *further deplete* the staffs. The process is *already underway*. If it continues, it will not matter whether Congress does or does not vote funds for housing. Lacking people, everything halts.

Many qualified people have already left Government Service; many technically unqualified people added. (I keep stressing the *technical* competence of personnel). Architects, Engineers, Cost Analysts, Mortgage Credit Specialists, and the like, are the people in very short supply. We have an abundance of people who can *lecture* Sponsors, Contractors, and Mortgagees on their social obligations. It seems to occur to no one that among the latter there may be those whose involvement in the social problems of our day is of *longer standing* and *deeper* than many of those doing the lecturing!

Much of the public anger at FHA can be attributed to this steady decline in the number of experienced and competent technical people in the employ of HUD.

3. THE NEAR-FATAL IMPACT OF RISING REAL ESTATE TAXES

There was a day when real estate taxes in this area were projected at *18%* of gross income. Today the figure is *25%* to *30%* and steadily climbing higher. It is commonplace to attribute the failure of rental housing to an unbearable tax situation. As Mark Twain said about the weather, "Everyone discusses it but nobody does anything about it."

Various proposals are made, some of them obviously self-serving. Thus it is suggested that slum property be relieved of taxes. No one mentions the corresponding assistance which many slum lords would receive! Given a tax break, would they happily *reduce* rents?

Again, it is suggested that *new* buildings be given a tax break. Presumably the same tax break would be given to a building on Lake Shore Drive or one in the heart of the ghetto. Is that really equal treatment?

One proposal has been advanced so softly that no one seems to consider it. Let me spell it out.

First, we cannot *compel* local taxing bodies to select the taxing methods which seems best to us. But if the Federal Government cannot *compel* adoption of a fair taxing method, it could without difficulty achieve the same objectivity by *offering an apple instead of applying a whip.*

Suppose we said that the fairest real estate tax on income-producing property is to relate the tax to the income which the property produces. Each building might then bear the taxes it is capable of supporting. This would be true whether the building were new or old. It would be true whether the building were on Lake Shore Drive or in the heart of the ghetto. If occupancy in a building were to *decline*, taxes would go *down*. If occupancy *rose*, with a corresponding rise in *income*, the real estate tax would be adjusted *upward*.

Suppose now the Federal Govorenment said that where any community elected to adopt this method of taxing residential income producing property, the Government would pay a subsidy towards the local real estate taxes. Is this a radical idea? Is the word "subsidy" a *bad* word when it is related to housing for poor people, but a *good* word when related to *farmers* to encourage crop-growing, to the producers of *oil*, to the builders of *experiemntal air planes?*

4. THE FLOOD OF DIRECTIVES ORIGINATING WITH HUD IN WASHINGTON

The Directives that come out of Washington are often beyond belief. HUD does not simply issue Directives. It pours them out. Sometimes they are obscure. Sometimes contradictory. Almost always they add to the complexities of processing, some new ivory-tower concept that drives Sponsors, Contractors, and Mortgagees to the edge of madness.

Before George Romney we had Dr. Weaver who has since retired to the college campus where his sincerity and exhortations may prove more of an inspiration to *students* than they ever did to *builders*. It was once proposed to solve the nation's housing problems by laminating Dr. Weaver's speeches, and using the new product as a building material. But it took George Romney to make Dr. Weaver look like a born Administrator.

No one ever questioned the sincerity of George Romney or his desire to do a good job. It was only his ability which came into question. As the confusion originating in the HUD building in Washington increased, there were those cynics who wondered aloud if Romney's appointment has been designed to produce exactly the effect that it had.

If intensive *public relations work* could produce housing, HUD under George Romney would have established new world records. Thus, it was only a few years ago that an official HUD publication, the "Challenge," spoke glowingly of the smoth transition in the Detroit office of FHA when Mr. Romney converted that office from a *local* office to an *area* office. The change was described as occurring without hitch. Yet there was scarcely a person in the housing industry who was not aware that the Detroit office of the FHA was at the very time the most fouled-up office in the country. And that foul-up was reaching for new heights at the very time that the "Challenge" said quite the contrary.

An exciting new concept called "Operation Breakthrough" was announced. The country is still waiting to learn what sensational new developments, what economies, what great technical gains resulted from the multimillion dollar program. Incredible sums of money went into "Operation Breakthrough." A serious and objective evaluation of that effort has yet to appear.

Desperately needed at the top of HUD is the employment of a management consultant firm to bring some measure of order into the operation. Lines of communication need to be perfected. People with administrative experience need to be employed.

It must not be forgotten that in recent years a man named Dieman was brought into HUD to straighten out matters. Mr. Dieman came from the postal service and everyone knows what a training ground for efficiency is to be found in that agency.

As someone has observed, a bottle-neck is always found at the very head of the bottle.

5. OUR FAILURE TO CONSIDER AND COPE WITH THE SOCIAL ASPECTS OF OF FHA PROGRAMS

In its early years, FHA was criticized for lacking social understanding. No one appeared to understand how difficult it was to combine in one person, a good grasp both of *economics* and *social* requirements. (The only man I ever knew who possessed this ability was about 12 years old when we went to school together in Chicago long ago. Today he is a Nobel Prize Winner and far removed from my acquaintance. His name was Paul Samuelson).

It simply is not possible to solve problems in housing which involve people of modest and often *desperate* circumstances, purely through consideration of the *economics* involved. All the rhetoric in the world cannot overcome this fact.

In simple terms, there is no such thing as low-cost housing. There is housing for people of low *income*. The cost of constructing an apartment building is great. The cost of operating that building and paying the Mortgage on it must *usually be met out of the income of the building.*

Let us suppose that some owner would be content with enough income just to meet his operating expenses and his Mortgage payments. He expressly disavows any interest in a return on his investment. Let us suppose that obtaining that income requires a rent of *$160* for one bedroom apartment and *$195* for a two bedroom apartment. What are we to do for people who can only afford to pay *$100* for a one bedroom apartment and *$130* for a two bedroom apartment? Indeed, this very rent may require well above 1/3 of the total income they are able to earn.

What shall we do with such people? What will be done to aid these citizens in the richest and most powerful nation on earth.

FHA is constantly called upon to reconcile the economics and the social interest involved in each of its programs. Faced with an almost impossible requirement, the local offices do the best that they can. By no means do I suggest that FHA is lacking its share of incompetent people. By no means are they lacking people who are weak and some who can be corrupted. But government has no monopoly in this respect as those of us in private industry must quickly acknowledge.

At a later point I will refer to HEW. I will ask why HEW was never joined with FHA in the area of housing consultants on social problems. Instead, there is planning to develop *within HUD* a department which in time may learn to do all the things for disadvantaged people that HEW *already knows how to do.*

6. THE FAILURE OF PRIVATE MANAGEMENT IN HANDLING SUBSIDIZED HOUSING

Only in very recent years has awareness been developed that the management of income-producing real estate requires skills of a very high order. It is, in other words, a field for professionals.

But if this is true generally, how much more true is it where the tenants arrive with a host of problems. Problems in connection with jobs. Family problems. Educational problems. Problems in purchasing. Problems in being deceived or tricked or misled.

Many sponsors saw the 5% or 6% (5% of gross income to the project) as an added opportunity for gain. They had to learn the hard way how wrong they were. And the government and all the rest of us had to learn along with them.

Not only should *professional* management be *required*, but in the case of management of low-income housing *extra dimensions in management ability must be required.*

7. SPONSORSHIP BY NOT-FOR-PROFIT ORGANIZATIONS

Let us consider our attack on the shortage of adequate housing in this country as a part of the overall "War on Poverty." Disagreeable as the term "War" is, let us consider the analogy.

War implies an emergency situation, a time when we mobilize rapidly the entire resources of the nation to overcome a problem. When was the last "war" in which our first step was to establish not-for-profit organizations and charge *them* with a major responsibility for a rapid and efficient response to an emergency situation?

Now, it is not correct to lump together *all* not-for-profit organizations. I have encountered one or two, staffed with people of exceptional competence,

where the necessary minimum funds were available, where there was an understanding of the FHA processing, where a competent architect had been employed, where the contractor was strong and experienced, and where the cooperation with the Mortgagee was excellent. I say I have found one or two such cases. Not many.

But many not-for-profit organizations, having read the FHA literature, have been led to understand that they are assured a 100% loan and that little is expected of them besides good will. Such cases can become a nightmare. Rarely does such a sponsor begin a *second* project if he is fortunate enough to finish the first!

The Committee might inquire how many of the *subsidized* loans in default (there is no provision for not-for-profit sponsorship on *unsubsidized* loans such as those under 221(d)(4), 207, 220, etc.) were born of NFP Sponsorship. Without having access to the figures myself, I would predict that the Committee would discover that the number in default is far out of proportion to the number of projects started under NFP auspices.

The point then, is not a wholesale condemnation of not-for-profit organizations, but the unfairness of expecting these groups, where technical competence is the exception rather than the rule, to be responsible for any significant proportion of the housing units needed nationally.

Not-for-profit sponsorship has, however, given risen to a fee-assistant called a "Consultant." Again, it would be unfair to condemn all such people en masse. I have, however, encountered consultants who, in return for a very substantial fee, simply share their own ignorance with their clients. Sometimes these consultants come out of one of the not-for-profit foundations which in the main, publish a wealth of material for the assistance of not-for-profit organizations desiring to sponsor projects.

The qualified Mortgagee not only *can* do everything the consultant *should* be able to do, but in addition he will provide the funds for interim construction and receive a fee *only if he is successful in opening a loan.* Also, while a consultant can give bad advice and still remain in the business, the FHA-approved Mortgagee who makes repeated errors can have his credentials lifted by FHA and be put out of business.

If it be said that much of my thinking reflects the bias of a professional Mortgagee, I am no different than the lawyer who believes that his knowledge of law is greater than that of the average citizen, or the doctor who believes himself better qualified to practice medicine and perform surgery than the untrained person. Mortgagees cannot design buildings. They cannot perform the work of a general contractor. But the trained Mortgagee can very efficiently discharge his financing and administrative responsibilities.

8. THE MYTH THAT EVERYONE WANTS TO OWN A HOME, NOT RENT

Is it correct to say, as so many of our social philosophers do say, that the major need of every American family is to own a home? To question this proposition is almost equal to questioning the sanctity of motherhood. I may be in a distinct minority but I regard the proposition as a myth.

As a very young man I accepted the idea that the most desirable goal was to *own a home.* Own the home. Not pay rent to some landlord. At that time I did not own a home and had little idea of the obligations of such ownership.

I did not know that I must either develop skills in repair and maintenance (or be able to pay for them), I did not know that in addition to mortgage payments, there were taxes, assessments, a new roof, storm windows, sidewalks to be shovelled, grass to be cut, window frames to be painted, fuses to be replaced etc.

In short, I did not realize that ownership of a home carried heavy responsibilities in time, work, money, etc.

There are people who take a great pleasure in work about the home. But the fact is that the percentage of housing construction which is *rental* housing has risen steadily year after year.

I suggest that the basic need of a great many families is *adequate housing.* Better a well-run apartment building than a poorly run house. I suggest that we inquire whether families with a host of problems, a need for better jobs, a need for better schools, a need for better medical and health services, a need for many of the things which more fortunate people accept as normal, really would want the additional burden of owning a home, if they clearly understood the implications.

What I am saying is that there has been tremendous over-emphasis on the *home* as a feature of *urban* dwelling.

With the rising cost of land, the rising cost of construction, the rising cost of financing, home ownership is difficult at best. I think we need to review the proposition, reconsider the dogma that the *ownership of a home* is the foremost consideration.

In my opinion, the real consideration is simply more and better housing, produced faster.

9. THE EFFECT OF DROWNING FHA IN HUD

The current emphasis in government circles that the term "F.H.A." be replaced everywhere by the term "HUD" implies to me more than a change in nomenclature. It implies a major shift in policy.

There are many rooms in the house called "HUD." The house is massive. FHA is only one of the rooms.

The FHA role needs to be redefined. FHA needs to be separate from the all-embracing HUD. It needs to be strengthened and the operation tightened. It needs two things: A policy plainly designed and a mechanism for administration which is engineered by people competent to do so.

The ways of doing this would require almost a book. I have previously suggested that gathering in one room a dozen of the nation's most experienced Mortgagees and adding the guidance of a trained management consultant could work miracles within FHA.

What we do not need are more efficiency experts trained in the postal system. Such people have a major problem right in their own backyard. We need professional *administrators.*

10. THE FAILURE TO INVOLVE HEW IN THE SOCIAL ASPECTS OF SUBSIDIZED HOUSING

It is amazing that with the general recognition that FHA must address itself to housing problems which have *social* origins as well as *economic* origins, no one has considered how a division of HEW could be coupled with a corresponding division of FHA in a joint "housing management—social guidance" program.

Heaven knows we need no more additional branches of HUD! We have too many already. It is not necessary to enlarge the payrolls, not necessary to spend even more money. We need to redirect the effort. And here again the professional management consultants regularly employed to perfect the operation of the nation's most complicated business organizations, could bring a measure of sanity into government.

CONCLUSION

As I prepare this testimony, there appears to be an impression current in Chicago that the essential mission of the Sub-Committee is to attack the operation of FHA in Chicago. I refuse to believe that. I cannot bring myself to question the sincerity of members of the United States Senate in seeking *information* to better fulfill their responsibilities.

The policies of the key people in FHA do not concern me. What does concern me is the degree of competence and since effort which they bring to the job.

In any FHA office with which our firm deals whether in Chicago or elsewhere, the Director is on a hot spot. He can rarely please one person without displeasing another. He is required to defend and enforce the Regulations that come from HUD, Washington. I have tried to make clear where, in my experience, the source of difficulty lies.

The ten people in my department deal with FHA day in and day out. Ninety-five percent of our work is done with FHA staff people below the level of the Director.

The volume of work which originates in our office (which is probably one of the largest FHA multifamily units in private industry) places considerable pressure on us. We make mistakes and FHA requires that we correct them. FHA makes mistakes and in such cases we find them willing to correct theirs.

The Chicago office operates in one of the most complicated communities in the country. The Director must have a sense of purpose, he must have energy to pursue the steps which will fulfill that purpose, he must avoid pitting the local authorities in opposition to his own Federal programs, he must select competent people, he must accept people transferred by HUD into his operation, he must attend meetings and make himself available to community groups,

and very often he must accept brickbats for situations he did not create and could not easily resolve.

This was true of the former Director whom I knew for a longer period than I have known the present Director. I respected the latter and I respect the incumbent. Each man had his own style, his own way of trying to get the job done.

I say all this to put the situation into perspective. When we have needed an answer from John Waner, we have found him responsive. When we needed a decision, we got that decision. If we do not always agree, that is understandable. He must reconcile both the interest of the government and the interest of private citizens. Representing clients, my job is different. I must be a special pleader. It would be unfair to charge him with the faults of HUD and I do not think the Committee so intends.

Let's all understand what it means to process through FHA in Chicago. The Affirmative Action Program. The N.I.P.C. clearance. The site selection program. The labor standard provisions In short, the endless creative writing material which encrust the hull of FHA's housing effort. To thread your way through the tangle of red tape requires tact, patience, boundless energy, endless hours of planning, doing and re-doing. The Chicago FHA did not invent these difficulties, but like the rest of us, they must cope with them.

Criticism is easy. Only those who do nothing can avoid error. But the job is to produce housing. In the scheme of things that may not be the nation's top priority, and there is persuasive evidence that it is not. But those in FHA and those who work with FHA must continue the struggle to do the best job we can with the tools available to us.

Policy is made in Washington. In the White House. In HUD.

Thank you for the courtesy of hearing us.

Senator STEVENSON. Thank you, Mr. Korshak.

We will enter your full statement into the record.

Senator Sparkman.

Chairman SPARKMAN. I don't know that I have any questions.

I have enjoyed the testimony very much and I think they have made impressive points.

I will leave the questions up to you, Senator.

Senator STEVENSON. I have always got questions.

The General Accounting Office of the Congress recently suggested that if the Federal Government went into direct lending for housing, bypassing you fellows, that the same number of subsidized units built to date could have been built at a savings to the Federal Government of some $2 billion.

How do you feel about the GAO's suggestion?

Mr. KNOBEL. Well, let me try and answer that, Senator.

Obviously we have an economic interest in this program but I would use an analogy.

FHA, for many of us in the mortgage banking business, is only a small part of our business.

There are major institutions in the country, basically the life insurance companies, the pension funds, the savings banks, the savings and loan associations who are long term lenders.

Believe me, they are profit oriented and if they felt that they could do a better job without local representation, the mortgage banking industry wouldn't exist.

But they feel very keenly the need to have qualified, experienced, dedicated people locally who represent them, who can advise them, and who can present material to them.

Using that analogy, if Prudential Insurance Co. could lend directly without mortgage bankers, it would.

If New York Life Insurance Co. could lend directly without mortgage bankers, it would.

It finds it very useful, all of those companies find it very useful to have skilled, professional people who combine within themselves the skills of apraising, underwriting, management, the whole vast supply of experience in the real estate business.

I would say that the GAO would find that it cannot replace locally familiar, dedicated, experienced people any more than the insurance industry can.

Senator STEVENSON. I don't expect any of you to disagree with that proposition.

Let me add that I am being a little facetious, that I used to work with many mortgage bankers.

I once represented a large bank here and as State treasurer I attempted, with the banks, to make credit available for construction financing of low and middle income housing and I know what you say is 100 percent true, at least in this community's financial institutions.

I know that this community's financial institutions do rely on the mortgage bankers especially in the case of FHA because of the red tape and the special expertise that was required.

Now, that suggestion has been made and it has been made very seriously and on the face of it, at least, it has had some attractiveness.

Do you have any comments on the GAO suggestion?

Mr. KORSHAK. Senator, the GAO could find that they will operate more efficiently if they bypass the U.S. Congress.

Senator STEVENSON. The GAO is part of the Congress.

Mr. KORSHAK. I think any agency which can avoid referral or meeting its obligations with private industry lack that identity.

The question is whether the FHA, whether it is in the national interest to have such a thing take place.

We find in Chicago that as mortgage bankers, the FHA in Chicago, at least, and I can't speak for the whole country, but they expect us to earn our fee. We work pretty hard for it.

We think we produce results.

Senator STEVENSON. Now, we hear the complaint that financial institutions are involved in financing of federally supported programs, but that they don't take any risk, and therefore they don't do any kind of careful job they might otherwise do if their money were on the line.

They should, in terms of the unit, conduct careful inspections and credit checking and so forth.

But why should they when they bear no risk because they are 100 percent insured?

How do you respond to that complaint?

The suggestion is that there should be some risk placed on the financial institutions in order to provide them with an incentive to police their loans and to avoid some of the difficulties we have gotten into with some of the programs.

Mr. KNOBEL. Well, let me again use an analogy.

In the conventional program one thing that a mortgage banker has and cherishes kind of zealously, is a correspondence relationship,

that is a right to represent financial institutions which may be remote from the Chicago area.

If you don't represent those institutions correctly, if you present to them deals that go bad, if you don't carry out your servicing responsibilities in seeing to it that their investments are safeguarded, you won't stay in business very long.

You will cease to be a correspondent and I don't see any reason why the HUD office and the FHA office cannot take that same position.

If there are approved mortgagees who do not carry out their responsibility, who are responsible in one way or another for the production of poor output, I see no reason why they should be continued as FHA approved mortgagees.

Mr. TATUM. I would like to add something to that also, Senator.

I can't agree with the fact that even though we have 100 percent insured loans, that there is no risk.

The mortgage banker has his professional reputation on the line.

He has the investor's welfare at stake.

All of these loans are not sold to families. Some are sold to private investors.

The loan goes—if the loan goes into foreclosure, there are additional expenses.

There are a lot of things involved which do not omit the risk factor and I couldn't agree with that concept.

Mr. NELSON. I also would like to add to that, Senator:

In a single-family situation it does not become an insured loan until delivered for insurance.

A house has to be first financed, built, and that is our position, to watch over that and supply those funds on almost all single-family houses.

Mr. KORSHAK. Senator, the statement that the mortgage banker takes no risk, could only be made by someone who is not familiar with the facts of FHA processing.

No. 1, we are FHA approved mortgagees which means that we are in a position of almost like being licensed and therefore a failure on our part to comply with the regulations could result in our disqualification by the FHA.

Now as an FHA mortgagee we can be wiped out of the picture and that is the end of our business.

No. 2, should I want to turn a loan back to the FHA, the payoff is 99 percent of the amount which I have advanced, not 100 percent.

In addition to which I lose a minimum of 30-days interest depending on the point at which I turned the loan back in.

I can tell you as others have said, it is not just the financial loss.

The heart of the mortgage banker's operation is his credibility, his reputation for integrity and competence and the institutions which I operate from, my company, while in 9 years and currently have over 33 major projects under construction, we have never had a project to into default yet.

Should I ever encounter a situation where I do, I will be called upon to justify to top management any recommendation I make as to why I cannot extricate the case from the problem in which it may

find itself and avoid the return of that to the Federal Government. That is an order given to me.

Senator STEVENSON. Mr. Korshak, could you just amplify your first suggestion on HUD's failure to make effective use of mortgagees—I didn't fully understand that point.

Mr. KORSHAK. Well, anyone at all who wants to enter HUD, to inquire about a multifamily project, need not resort to a multifamily mortgagee, to an FHA approved mortgagee.

The situations I state would be comparable to the knowledge that both Senator Sparkman and you have but any citizen who wishes may represent himself in court.

And I have often said that if a citizen elected to follow that procedure, the judicial system in this country would totally disintegrate.

People come to the FHA offices and they may take up the time of specialists in the office, six or seven of them, countless hours of time spent on a project which hasn't the slightest chance of going any place.

Now if they had to go to one of us without the charge, we wouldn't have examined the facts, if it merited it and then we would develop a case and if it doesn't merit it we would say:

You don't have the zoning.
The cost of land is so high that it won't operate under the program you want to use it for. The program you are proposing to us is not the best program for the purpose.
The best program would be this and then we would name something else.

Now we would spend all of those hours of time in developing a good case throughout the FHA and all of the recommendations of the FHA literature and you will find very little with reference or very little reference to the mortgagee.

We come into the picture when somebody wants to apply for a commitment and from the time that a commitment issues, from that moment on the FHA places all of the strictures and requirements upon us, not on the sponsor, not on the architect, not on the contractor but on us saying to us:

You know the rules of the game. See that they are followed.
We held you responsible for observing them.

That is why I say HUD fails to make use of the mortgagees and as a result in the current situation which I regard as being a very serious one for the Senate to consider very seriously, if there is a continuation of the elimination of technically competent people from HUD, it will not matter if the Congress devotes all the money in the world to these programs; we will have money but nobody within the FHA operation to whom we could talk.

We have to talk to architects.

We can't build ahouse by just talking to a philosopher.

We have to talk to cost analysts.

We have to talk to people who really understand the nuts and bolts of construction and these are the people that we find increasingly in short supply and the predictio nof tomorrow there will be even less of them.

Senator STEVENSON. That is not the fault of Congress?

Mr. KNOBEL. No, sir.

Senator STEVENSON. The Congress is appropriating funds for the professional personnel?

Mr. KNOBEL. I acknowledge that.

Senator STEVENSON. But the Administration won't spend the funds.

It is a pennywise pound foolish policy of this administration in my judgment.

Chairman SPARKMAN. Mr. Chairman, your reference to the general accounting office——

Senator STEVENSON. Yes.

Chairman SPARKMAN. In which they said that money could be saved by making these loans directly.

I construed that to mean if the Government itself would lend the money it would save $2 billion.

Senator STEVENSON. That was my understanding also.

Chairman SPARKMAN. Of course the reasoning behind the subsidy plan rather than direct borrowing, when it was originally put into effect, and I think the same philosophy governs it now, is that it has much less current impact on the budget.

Senator STEVENSON. Right.

Chairman SPARKMAN. Of course in the long run it costs more money, but it is a little more painless.

Senator STEVENSON. Well that's one of the reasons.

These gentlemen have given us additional reasons.

Chairman SPARKMAN. Yes, I am not speaking about that.

I am not considering the angle of eliminating them from the process.

Senator STEVENSON. Well the initial impact on the budget as a result of the direct lending would be——

Chairman SPARKMAN. Tremendous.

Senator STEVENSON. Very great.

Chairman SPARKMAN. Tremendous.

I hate to leave you but I have a 5 o'clock plane reservation.

I need to take my departure.

I will state to the remaining witness that I hate very badly not to be here.

I have enjoyed these 2 days very much and I think that they have been very helpful.

Senator STEVENSON. I am sorry to see you leave Senator Sparkman. And I am very grateful to you for coming and suffering under these lights with me.

Chairman SPARKMAN. I am not suffering, it is very comfortable.

Senator STEVENSON. I still apologize for you suffering under these lights for the many hours that you have.

Thank you very much.

Chairman SPARKMAN. Thank you.

Senator STEVENSON. I will see you back in Washington.

[At which point in the hearing Senator Sparkman left.]

Senator STEVENSON. Thank you gentlemen, and we must push ahead.

I will enter into the record the statement by Dempsey Travis of the United Mortgage Bankers of America, Inc.

[The information follows:]

STATEMENT OF DEMPSEY J. TRAVIS, UNITED MORTGAGE BANKERS OF AMERICA

A Defense for Federal Involvement in Housing

Foreward

Mr. Chairman, Senator Stevenson, and members of the Sub-Committee, please let me thank you for the opportunity to appear before this august body today. I think it is significant that on this date you have chosen to discuss housing legislation that was ignited by two assassinated leaders—one black and one white.

In just four days, all of black America and some of white America will be commemorating the fifth annversary of the death of Dr. Martin Luther King, Jr. It is equally significant that the housing bill we are discussing here today was passed by Congress and signed by the President within a matter of days after Dr. King was murdered.

Many of us in the black community call it "The King Housing Bill", because it took that great leader's death, combined with the legislative skills of the late President Johnson, to bring off what was considered by many of us as "The Camelot Legislation."

It should also not be forgotten that the late President Kennedy laid the foundation for "The King Housing Bill" when he signed an Executive Order that made the Federal Housing Administration relevant to black folk only one year and a few days before he was assassinated in November, 1963.

Before these grave events, there was no Federal program to house the poor other than public housing which, in my opinion, has always been tantamount to a Scarlet Letter for the poor. And, prior to November, 1962, there was no effective housing program for blacks with low and moderate incomes.

The recent freeze of the 235 and 236 programs has shelved the best people-programs ever conceived in the history of this country. True, both programs were riddles with faults, much the same as people are riddled with faults. But the solution to the people problem is not liquidation, and neither is program liquidation the solution to the housing problem.

I think we should all be about finding answers to the problem. This means putting the best minds to work from all sectors of this country—private, public, black and white—for the purpose of coming up with regulations or legislation that will take the administrative and professional fat out of the pockets of the middleman and convert it into shelter for the poor.

No program will work without a great deal of cooperation between the municipal and Federal government. The cities cannot continue to tax properties into default and expect the Federal fathers to bail them out with additional subsidies. Any consideration of special revenue sharing should start from this premise.

The real estate tax on subsidized projects in Chicago and in most major cities across the country is confiscatory in that it runs as high as 50 percent of the gross rents. No project can survive and have good maintenance with a tax base higher than 18 percent of gross rents. There must be an integrated marriage for the common good between the cities and the Federal government.

Let's look at some of the desirable features of the subsidized program:

1. It increased employment and business opportunities for minorities in construction, financing and professionally-related fields in which they had never been represented before.

2. When properly monitored, it resulted in a uniform standard of better constructed housing for people with both low and moderate incomes.

3. Many communities that had begun to show decline were turned around and stabilized as a result of the rehab and code enforcement programs.

4. Home ownership and a new life were made possible for many low income families who could have never aspired to this portion of the American dream.

Subsidies have made it possible for many Americans to escape from below marginal life styles which they were hooked on because of the economic status into which they were born, or because of the pigment of their skin—or both. Many black and white professionals today would never have reached their present status if it had not been for the veterans' subsidies made possible after World War II and Korea. It was these subsidies that converted many a family from the status of a tax eater to a tax greeter.

The wear and tear on an urban area puts a premium on city space that falls heavily on affluent and poor alike. It deprives both of the choice of amenities which are reasonable to expect. The exhibits I am placing into evidence illustrate both in words and graphs that the question in the 1970s and beyond is not who shall be subsidized, for all must be, as all already are:

The question is how to do it efficiently and fairly.

Historically, land has been under the control of the majority. But, if public funds are to be used in the way they should be, minority participation should be offered in proportion to the minority population. In the long run, urban development in this nation will have to depend on fair housing opportunity and fair employment and business opportunities as well. The exclusion of minorities in the redevelopment of cities will only serve to make the red ink side of budget-keeping that much redder.

Total reliance on 50 state housing authorities and 2,500 or more local housing authorities however, would unravel most if not all of the important standardization which has helped the Federal Housing Administration to make its most outstanding contribution to the history of housing in this country.

The concern of the Federal government for one of the basic rights of all citizens—adequate shelter—is a unique achievement in the history of great nations for which we in this country have struggled—and earned.

It should not be cast aside lightly.

SUBSIDIZED HOUSING OVERVIEW, UNITED MORTGAGE BANKERS OF AMERICA, DEMPSEY J. TRAVIS, PRESIDENT, BENJAMIN F. SCOTT, EXECUTIVE DIRECTOR

INTRODUCTION

Ownership of real estate has been the primary basis for raising taxes for various levels of the governments from the beginning of this nation until the advent of the income tax in the first quarter of this century. However, it is no longer a reasonable way to raise taxes and in fact, tax revenues have to be spent or foregone to subsidized real estate ownership. The situation where real estate is taxed very heavily and subsidized substantially at the same time is a paradox of the 1960's and 1970's. We will view it from an urban development perspective.

This analysis will concentrate somewhat on two forms of Federal subsidies for housing, interest supplement subsidy and rent supplement subsidy. However, the other forms of subsidy are also of great importance to urban development.

In devising effective and efficient plans for Federal subsidies, six concepts of subsidy are available:

1. Tax-interest rebates (Tax exemptions for local real estate taxes and mortgage interest payments)
2. Depreciation rebates (Tax exemptions for amortizing of the cost of commercial real estate)
3. Grants (Capital advanced by the government for construction or purchasing and operating housing)
4. Land "write downs" (Purchase and clearing of land and subsequent resale at large discounts)
5. Interest supplement (Payment of part of the mortgage interest by the Federal government)
6. Rent supplement (Payment of part of the rent due, by the Federal government)

The purpose of the subsidies is to increase the stock of adequate housing in the nation. All of the forms of subsidy except rent supplement, strongly encourage the production of housing. Rent supplement used in tandem with interest supplement (as it usually is) also encourages production.

EVALUATION OF IMPACT OF SUBSIDY PROGRAMS IN TERMS OF URBAN VERSUS SUBURBAN

A. Tax-interest rebate is suitable subsidy for citizens of middle to upper income and has been the principal Federal incentive used in the past four decades to increase the housing stock of single family homes. It has worked

in both city and suburb, literally building suburbs and filling out unoccupied land in cities. It is still the most important in increasing housing stocks, and it is the most costly.

Tax-interest rebates have proved to be very versatile subsidies and are now the primary incentive for rebuilding old rental areas in cities and urbanizing suburbs through condominium and cooperative construction. However, tax-interest rebate subsidy does not reach the poor at all whether in town or suburb. Still its utility for urban development is potent.

B. Depreciation rebate is a suitable subsidy for those in real estate businesses. It effectively rebuilt the downtown areas of many cities in recent years. And it has been the principal Federal incentive for increasing the rental stocks of middle to upper-income housing and other commercial buildings. It has recently been a major factor in producing low income housing. It has had its greatest impact in cities, although as suburbs became more urbanized it applied very well there too. It too, is very costly, but it has been very effective and efficient.

However, it is increasingly less important for urban development plans. The rising costs of local government services is met most easily by raising real estate taxes and as a result the operation of real estate has become uncertain, as a business venture. The depreciation rebate subsidy will still be important for non-residential structures which command a high rental income relative to real estate tax assessment. But for increasing the residential housing stock it is no longer a factor, particularly in great cities.

C. Grant subsidy has served the very poor and has been unsatisfactory to all concerned for four decades. They have not applied to suburban housing stock because of local objections to economic mixing and the high proportion of black among the nation's very poor. In cities, public housing has come to be a necessary evil because it stigmatizes the citizens who live there as economic failures and wards of the government. This is especially true in times of prosperity. In design and maintenance and amenities the housing itself is frequently inadequate, but the main problem is the psychological one, which results when citizens of a free country are clearly set apart from their fellows by the nature of government subsidy. Proper use of grant subsidies is a major problem for cities seeking a sound urban development plan.

D. Land write-down subsidies are suitable subsidy for large investors and have been a further incentive to increase rental housing for middle to upper incomes. The plan has not been used much in suburbs because it was not necessary. It has been used in small cities needing renewal and in great cities, and it will be needed in suburbs as they become more urbanized. It has made urban renewal *possible* but it was too indirect to stimulate housing stock production, to the extent necessary for active renewal, so it had an adverse effect on the housing stock. More houses were demolished to clear the land than were rebuilt.

E. Interest supplement and rent supplement subsidies taken together are suitable subsidies for the low to moderate income citizen. In the last three years it has been the chief Federal incentive to increase the housing stock in this income range. It has been very effective in this regard, it reaches relatively poor people and avoids the stigma. It has not been as acceptable in suburbs as in cities but in the Chicago area for example, at the beginning of 1973 there were more multifamily units of this type outside the city than in it. The plan encourages a narrow mix of low income families who are of some economic importance to suburban industry, as they are to urban industry. As suburbs become more urban the plan should keep pace.

Interest-rent supplement subsidy plans have created optimism that cities can be reconstructed. Tax-interest rebate subsidy *can* stimulate the rebuilding of parts of cities, but by its nature it is restricted to relatively effluent citizens. A large percentage of urban citizens are poor however, and this percentage is decreasing slowly, if at all. Interest-rent supplement subsidies permit the rebuilding of cities to include the poor. It is its major impact.

SUBSIDY PROGRAMS AND THE MINORITY ECONOMY

A. Tax-interest subsidy is the only subsidy plan except the interest-rent supplement subsidy plan that has been of any benefit in improving the minority

sector of the economy. Its effect has been very limited for several reasons. The first reason is that racial custom restricted minority housing producers to ghetto areas of cities. Secondly, undeveloped land is scarce in such areas. Thirdly, excess capital is scarce in minority communities, family assets are about one tenth those of the majority community. And finally, racial custom does not restrict majority housing producers from ghetto areas. The result has been that the stimulus of the tax-interest rebate subsidy has been limited to the resale of *existing* housing stock by minority entrepreneurs in competition with majority entrepreneurs. The improvement of the strength of the minority economy was small in absolute terms and probably negative relative to the majority economy.

B. The depreciation rebate subsidy had no effect on improving the minority economy, because of the lack of venture capital and the generally low incomes. Creation of rental housing stock by the minority economy was essentially non-existant. In Chicago no large multifamily units were built by minorities in four decades until the advent of the interest-rent subsidy plan.

C. Grants and land writedowns did little to help the minority economy because of the low capital surplus and lack of experience in housing production.

D. The Interest-rent supplement subsidy was, however, a great stimulus for the minority economy. The lower risks made the limited risk capital of minority communities more available, the low initial capital requirements, made it possible for the financially struggling community institutions to become sponsors and the security of community initative made the prospects for architects and builders and financiers more promising. This produced in a short time increased numbers of businesses related to housing and the concomitant enterprises followed. In Chicago for example, four minority mortgage companies were in business in 1971 when new site selection regulations all but prohibited the use of the interest-rent supplement plan in the city. Two of the four have failed since, and a third has had its operation reduced 10 fold.

IMPROVEMENT OF THE SUBSIDY PLANS

A. The tax-interest rebate subsidy needs no improvement.

B. The depreciation rebate subsidy can only be salvaged as an incentive to the housing stock by tying the taxes imposed by the cost of municipal government to the ability to pay as determined by the income from residential rental property. This excellent incentive to the private sector to invest in housing will be stifled if Federal legislation is not forthcoming to guide and restrain municipalities in assessing taxes on residential housing.

At present real estate taxes are uniform therefore regressive. As usually applied the assessment is based on an estimate of replacement cost adjusted for age. The major cost of replacement is that of the basic construction, the cost of enclosing the space with the essential services in place. Tax assessors then make adjustments for amenities. For two buildings of the same size, these amenities may cause one to command three or four times the rental income of the other. Their tax bills will not differ by that much however, and the luxurious building will be taxed at a much lower percentage of its income.

C. The grant subsidy for public housing is difficult to improve unless the stigma can be removed. To do this it is necessary to disperse the indigent into standard housing. Premium payments or tax rebates on new construction proportioned to the percent of indigent residents is necessary, with a low limit on the percent permitted.

For example, if a developer plans for occupancy by tenants eligible for public housing, a premium payment equal to the per room cost of constructing public housing could be paid in cash or as mortgage reduction. Alternatively a tax deduction allowance similar to the depreciation allowance could be provided.

D. The interest-rent supplement plan can be improved substantially both by departmental regulations and by legislation. Increased flexibility in setting

upper income levels for example, would improve the economic mix and reduce collection problems, vacancy problems and encourage longevity of tenancy. Flexibility, in management termination in default cases where the primary cause is increased taxes would prevent discouragement and lax management after the inevitability of default has been recognized. Temporary operating subsidies in such cases would serve the same purposes and HUD advocacy in reassessment attempts should be strengthened. Consideration should be given to tying rental increases to cost of living indexes on an annual basis to cut red tape.

Also the problem of high initial costs of interest-rent supplement projects needs to be controlled by regulation and legislation if necessary. The cost of interim financing which adds to the mortgage amount substantially is a case in point. Consideration should be given to the government supply the funds with a fee to the financier for overseeing the construction payout. The fees and profit allowances and the time allowed for completion should be tied to conventional projects averages for the area.

Interest-rent supplement subsidies must be made to provide cash flow incentives. The prime purpose is to increase the stock of standard housing for low income families. In Chicago, in black neighborhoods such stock has decreased in recent years. Low income housing becomes less economically feasible the higher the land costs and the lower the density. A "low density city" is a contradiction in terms. Density criteria should be tied to the density of conventionally financed housing in the area and would vary within a large city.

The criteria for the minority dispersion should not be applicable if the need for additional housing stock is established. On the other hand it could be a plus factor in a suburban area where there is a reasonable plan for recruiting low income minorities. The site selection criteria should be revised to this extent.

Finally for sound Urban Development legislation requiring the participation of minority financiers and developers in redevelopment of urban downtown areas is necessary. Generally participation in such projects is determined by those who control the land. Historically, the land will be under the control of the majority, but if public funds are to be used in the way they should, minority participation should be offered in proportion to the minority population. In the long run urban development programs depend on fair employment opportunity and fair business opportunity as well. The exclusion of minorities in the redevelopment of the cities is costly. We can ill afford to lose the productivity of one fourth to one half of a city population by the circumstance of history. Productivity is a balance of investment of capital, as well as investment of time and labor. Fair employment practice is not enough, we must have Fair Business Opportunities as well.

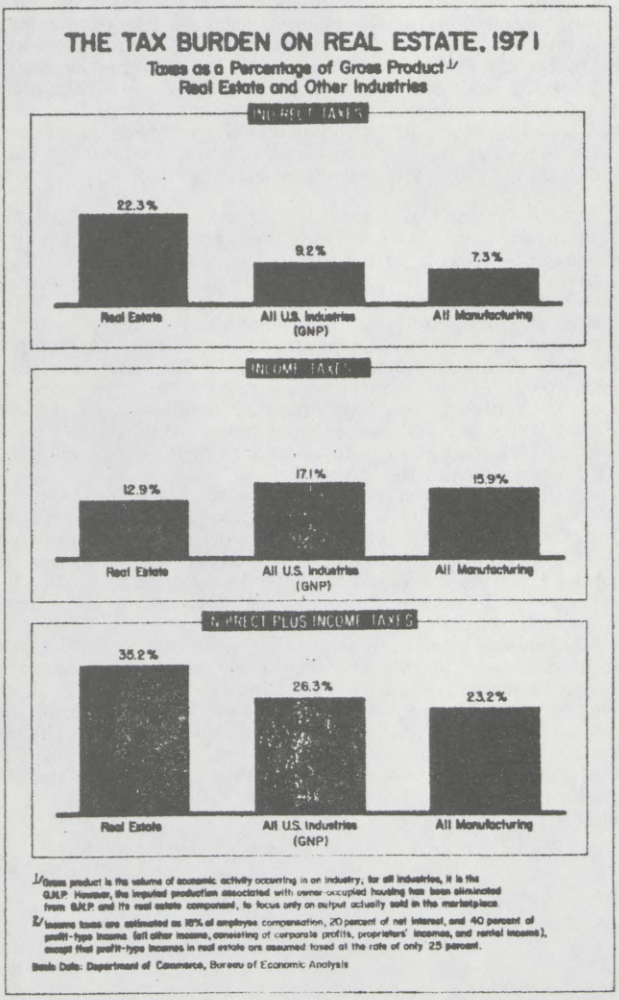
Housing in cities will increasingly have to be subsidized. The hard usage which forms the basis for the utility of cities produces a premium on city space which falls heavily on affluent and poor alike and deprives both of elective amenities which are reasonable to expect. The question is not who shall be subsidized, all must be, and the question is how to do it efficiently and fairly. The greatest subsidies now go to the affluent and it is hard to argue that this is entirely unreasonable, but adequate subsidy even for the very poor is also reasonable. A basic housing allowance will be utilized to compete for whatever housing is available and would be unfair and destructive without incentives to continue to produce good housing.

Reliance on 50 state housing authorities and 2500 or more local housing authorities would undo a great deal of the standardizing which has occurred in the brilliant history of the Federal Housing Administration. The Federal stewardship of one of the basic rights of all citizens, adequate shelter, is a unique laurel in the history of great nations which we in this country have earned. It should not be cast aside lightly.

EXHIBIT I -- Dempsey J. Travis

Equally as irrational as the overall distribution of Federal subsidies is the excessive tax burden borne by real estate, which includes housing. In 1971 (later comprehensive material not available), the ratio of the total tax burden to the total economic activity of the country was: 35 percent for real estate; 26 percent for all industries; and 23 percent in manufacturing.

Even this type of comparison does not accurately show the true disparity, however, because it is the indirect taxes, such as property taxes, that discriminate even more against real estate and housing. In 1971, the ratios of indirect taxes compared to the volume of total U.S. economic activity were: 22 percent for real estate; 9 percent for all U. S. industries; and 7 percent for all manufacturing. (All statistics are rounded off.)



1/ Gross product is the volume of economic activity occurring in an industry, for all industries, it is the G.N.P. However, the imputed production associated with owner occupied housing has been eliminated from G.N.P. and its real estate component, to focus only on output actually sold in the marketplace.

2/ Income taxes are estimated as 15% of employee compensation, 20 percent of net interest, and 40 percent of profit-type income (all other income, consisting of corporate profits, proprietors' incomes, and rental income), except that profit-type incomes in real estate are assumed taxed at the rate of only 25 percent.

Basic Data: Department of Commerce, Bureau of Economic Analysis

EXHIBIT II -- Dempsey J. Travis

In 1968 manufacturing received 48 percent of the total depreciation and depletion allowances granted by the Federal government. Another 23 percent was received by transportation, communication, and electric, gas and sanitary services. Wholesale and retail trade received 8 percent and the service enterprises 6 percent.

Coming in for a national low was the real estate industry, with a 4.8 percent total subsidy ratio. The only industry receiving less of the government subsidy pie was the contract construction field, with a meager 2.8 percent.

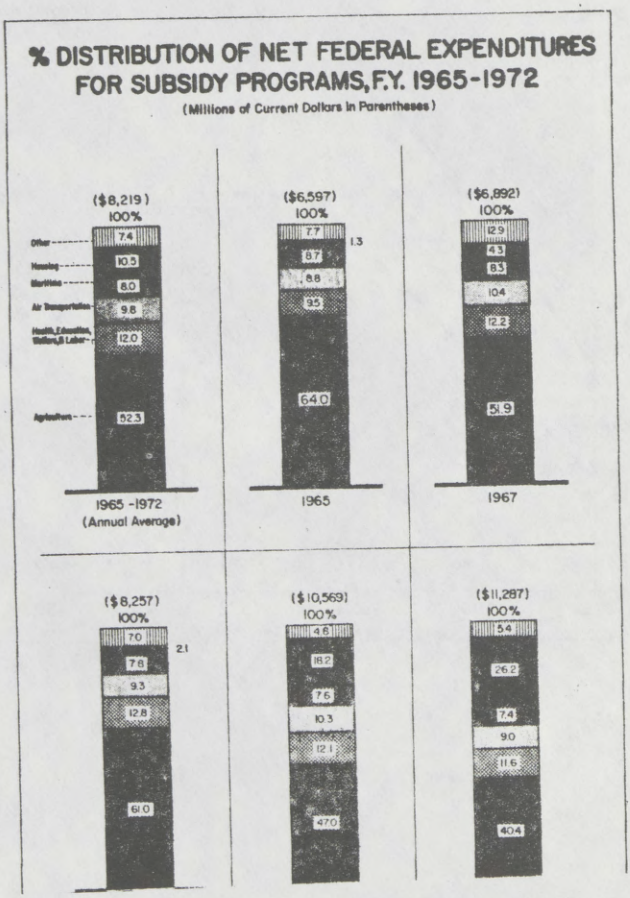
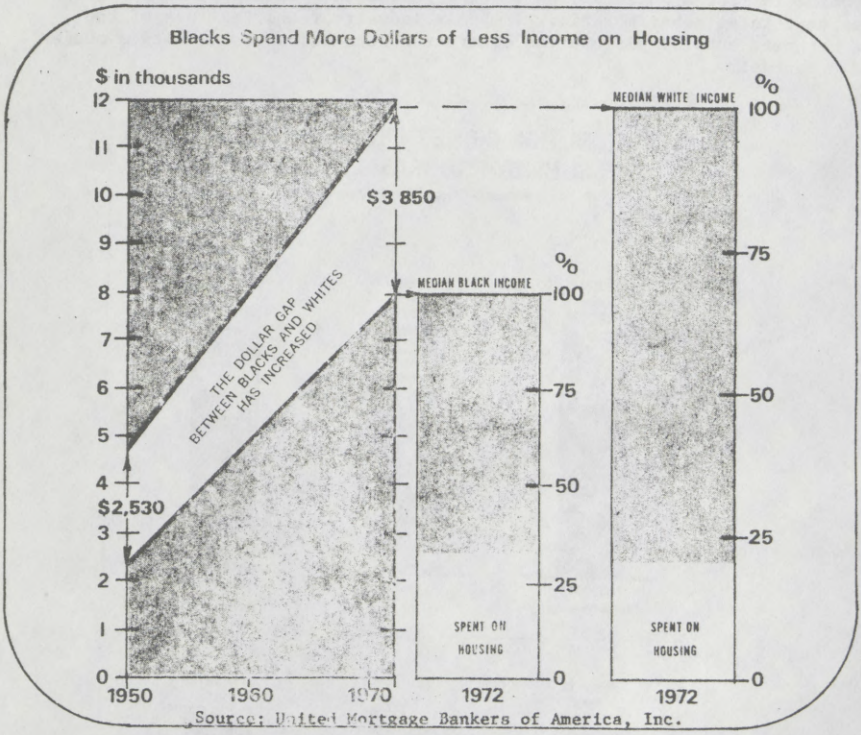


EXHIBIT III -- Dempsey J. Travis

DOING MORE WITH LESS...



Source: United Mortgage Bankers of America, Inc.

EXHIBIT IV -- Dempsey J. Travis

The SUBSIDIZED Programs...



WHERE THE GRAFT and FRAUD WERE...

The Federal UNSUBSIDIZED Housing Programs...

Source: United Mortgage Bankers of America, Inc.

EXHIBIT V -- Dempsey J. Travis

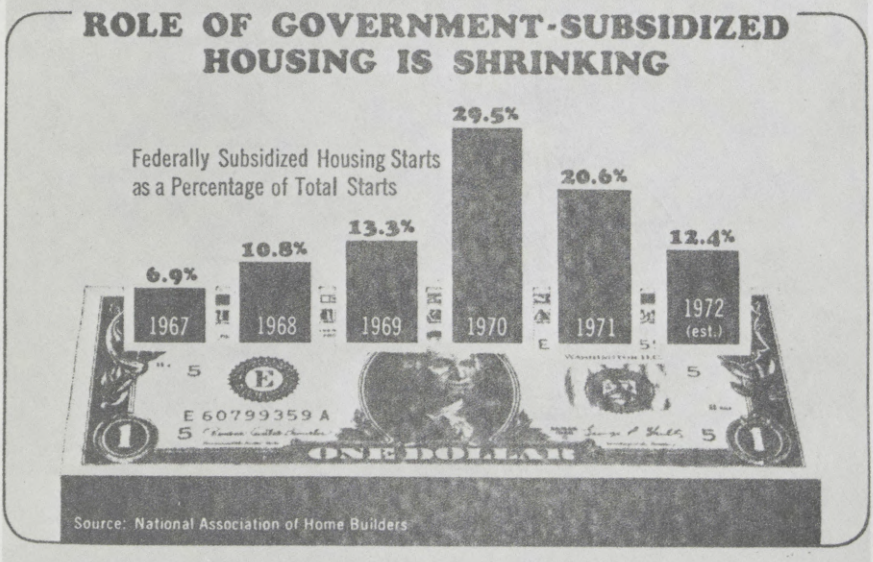


EXHIBIT VI -- Dempsey J. Travis

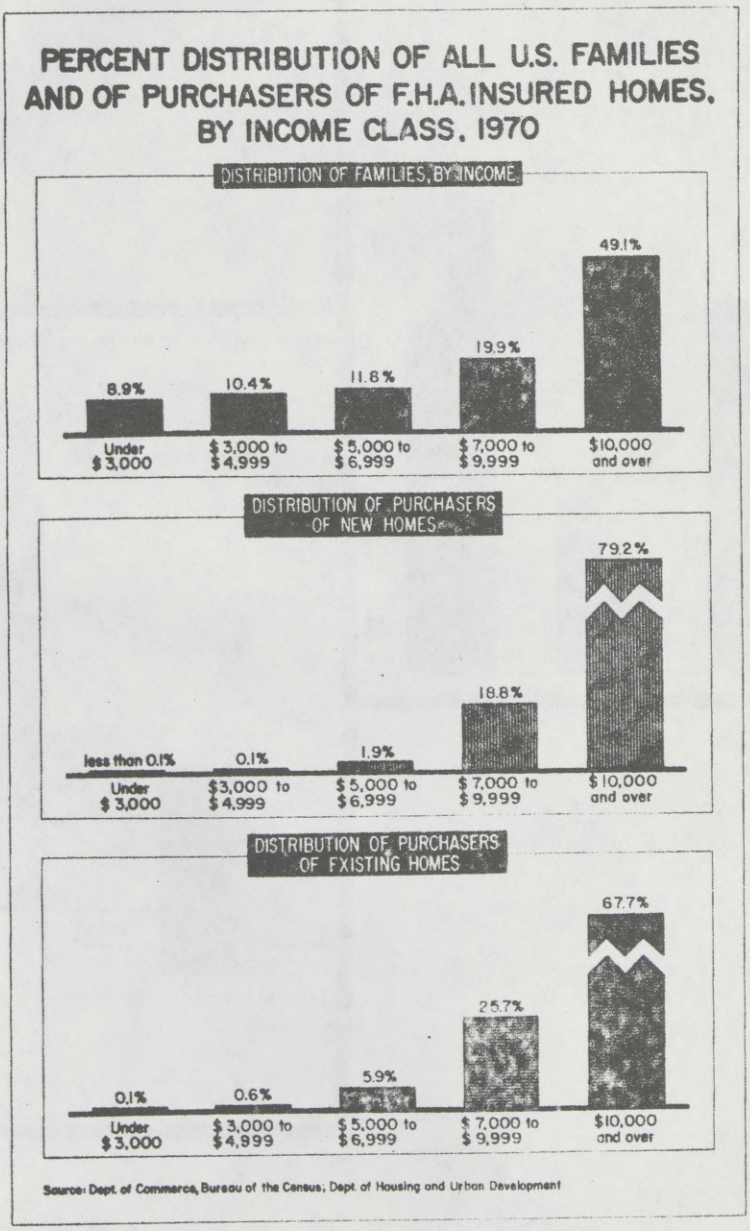
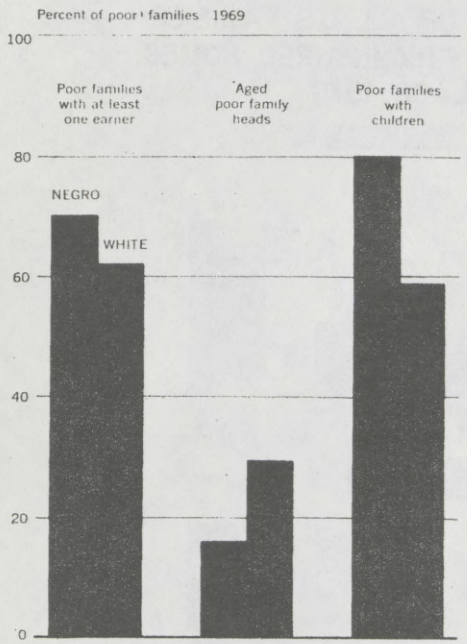
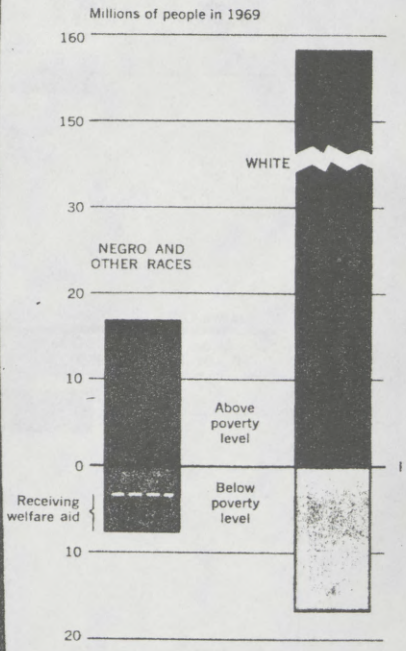


EXHIBIT VII -- Dempsey J. Travis

BLACK FAMILIES IN POVERTY ARE MORE LIKELY THAN WHITE TO BE EARNERS, AND WITH CHILDREN TO SUPPORT



MOST OF THE POOR DO *NOT* RECEIVE WELFARE ASSI



Senator STEVENSON. The next panel is on the role of realtors in HUD programs.

The panelists are Mr. Ernest Knecht, president, Chicago Real Estate Board; Roy Fair, realtor, Aurora; Jared Schales, vice-president, Arthur Rubloff & Co.; Frank J. Williams, president, Dearborn Real Estate Board.

Mr. Knecht we will start with you.

Mr. KNECHT. Thank you.

STATEMENT BY PRESIDENT ERNEST C. KNECHT ON BEHALF OF THE CHICAGO REAL ESTATE BOARD

As President of the Chicago Real Estate Board, I wish to express the appreciation of Chicago's Realtors for your interest in improving the housing situation in general, and especially in improving the Federal Government's involvement in housing programs. Probably no one would argue against the premise that the current system of government-backed home loans is imperfect.

We have heard many condemnations of the FHA and HUD programs, and the complaints come from almost everyone concerned with these projects. It appears as if the myriad approaches to these programs cannot be fully interpreted and made to function at the local level nation-wide with any degree of uniformity.

The FHA mortgage system was a solid entity some 30 years ago. At that time its was purely a financial institution. But with the legislative changes of 1968, it became a social instrument, with the apparent purpose of housing low- and moderate-income families. Its direction changes continually as some regulations are dropped and new ones initiated.

One cannot criticize the spirit of the programs. Unfortunately, the ideal is far from what is presently being practiced. Perhaps many of the problems are caused by the inability to devise equitable and uniform administrative procedures that could apply to the diverse circumstances throughout the nation. Market conditions and social considerations vary widely, not just from state to state, but also within individual municipalities. A possible solution may be to conceive different programs for different communities, so the needs of the public may be served better.

Many brokers are uncertain of the delegation of responsibilities among the parties in a transaction that involves government-financed housing. The regulations seem to fluctuate frequently. Working in cooperation with the Department of Housing and Urban Development, the Chicago Real Estate Board created a "Statement of Responsibility" that described in detail the responsibilities of the seller, the buyer and the broker in such transactions. When this Statement was completed and put into use, it received praise from many sources. A few months after the document was devised, it was suddenly rejected by the government. We believe such a statement of responsibility is necessary to delineate the duties of the seller, buyer and broker. Our cooperative efforts have been dismissed. We wonder when and if the FHA will provide such a statement.

Generally, we believe many changes are needed in the present system to make these programs workable. What form these changes will take must be decided only after extensive hearings such as this. The Chicago Real Estate Board is pleased to assist this distinguished panel, and we hope you will consult other groups as well, including other local Boards of Realtors and the National Association of Real Estate Boards.

Senator STEVENSON. Thank you, Mr. Knecht.

Mr. Fair.

STATEMENT BY ROY FAIR, FAIR REALTY CO., AURORA, ILL.

Mr. FAIR. Thank you, Senator Stevenson.

I am here on behalf of the Legislative Committee of the National Association of Realtors and we appreciate very much having an opportunity to speak with you on this important matter of housing.

Just a couple of things I would like to call to your attention because I have watched some of the testimony and you have gone through practically everything you possibly could think of.

I don't want to belabor the point.

The only thing I would like to say is that several times I have heard the expression, realtors, but it is not us realtors who are up front.

It is the real estate brokers who are not members of real estate organizations.

However, we seem to be referred to as always realtors.

I would like to set the record straight on that and I think if you check you will find that very few realtors have been involved in the scandals on the problems that we have had.

The other thing that concerns us quite a bit is that with the problems, with the subsidized housing, and I hope they don't lose sight of the 203 program.

We feel that section 203 covers more of the areas our members deal in than any other single area, and we are somewhat concerned about overreaction on the part of maybe appraisers or administrators in the HUD office because a lot of pressure has been put on them and we have seen those things happen in cases where they have been rejected, the properties have been rejected simply on the basis of possible defects, not necessarily proven defects.

Now, we hope that section 203 does not get shoved to one side or have limitations imposed upon it that would stop its effectiveness as it has been in the past.

I think probably under this program more people are in housing today than under any other program existing at all.

We would just hope to call your attention to maybe the fact that we can keep this program from getting kind of shuffled in with the others, to keep it the good program that it has been.

Thank you.

Senator STEVENSON. The 203 program, you know, was not included.

Mr. FAIR. But they have things like repairs that in our opinion are unnecessary because someone is afraid to go ahead with the thing the way it was a couple of years ago before we had these battles with the others on problems with other subsidized programs.

Senator STEVENSON. This was a situation where we have seen some serious problems with the 203 program and perhaps you saw a photograph of one of them in the paper this morning.

Mr. FAIR. Yes. I am aware of them.

Senator STEVENSON. All right.

STATEMENT OF JARED SCHALES VICE PRESIDENT, ARTHUR RUBLOFF & CO.

Mr. SCHALES. Senator Stevenson, you have been amply exposed to the problems of sections 235 and 236 in our area.

I would like to address my remarks to matters that, perhaps, are more fundamental with respect to concern in our field, the moderate and middle income housing in the city of Chicago.

We exist at the mercy of a faucet that turns on and off.

This faucet is not only the funding available through FHA and HUD, it is the moderate income housing programs which have to do with the IRS faucet which by effect, has to do with the tax shelters developed by the programs for residential developers and it does have the effect in the production of moderate income housing and the interest rate faucet which by opening and closing in response to the needs of our national economy and Federal Reserve System has the dramatic effect on the whole apparatus with respect to housing production in the United States and in Chicago. In addition to that, we have problems generated by the on-off condition under which we live and we function under the heel of a real estate tax system which has, under current conditions, the practical effect of eliminating the production of rental housing in the city of Chicago without subsidy and making it extremely difficult, even with subsidies available under section 236.

It is almost impossible today to develop rental housing in the city.

You have heard testimony that the city of Chicago manufactured some 5,000 units last year, of which some 3,000 were produced under federally aided programs; 5,000 under the auspices of a city of 3½ million is totally inadequate for replacement purposes even.

Now, that is to be compared with 50,000 housing units in the Chicago metropolitan area.

Now, the disparity is a large part of our real estate tax situation or as a result of that and the underlying problems with which you are so well acquainted, the problems with respect to schools, and the other amenities available to the city residents.

I would like to add that the realtors role in these programs is very largely that of an interested citizen and as realtors we deeply have invested in our cities physiologically and economically.

To the extent that they decline, we decline.

Our concern is not motivated by commission considerations, but by a need for a healthful community in which to function.

Thank you.

Senator STEVENSON. Thank you. Mr. Schales.

Mr. Williams.

Mr. WILLIAMS. I would like to first thank you for having me speak before your committee representing the Dearborn Real Estate Board, and I would like to just say that another term aside from realtor might be "realist".

Now, I would like to read this testimony here on behalf of the Dearboarn Real Estate Board:

STATEMENT OF FRANK J. WILLIAMS, PRESIDENT, DEARBORN REAL ESTATE BOARD

The Dearborn Real Estate Board is predominantly a Black professional real estate broker-salesman organization serving a predominantly Black housing market. When FHA was first established, it concentrated primarily on the federal government in aiding minority groups and recognizing the injustices white housing market. In the last decade, because of the changing role of the of discrimination, thousands of minority and low income families were able to become home owners through the FHA federally insured housing programs.

Prior to 1962, the Southside of Chicago from 1800 to 7500 south, changed to all black except for a few sections, with very few of the sales financed through FHA—many were sold on contract or through conventional mortgages, requiring 40 to 50% down and often with second mortgages.

Thousands of minority families are today realizing the American dream because of FHA. So, we state, unequivocally, that we strongly endorse the continuation of the FHA insured loan programs.

There are some who are nibbling at FHA, seemingly hoping to nibble it to death, all the time protesting that they are trying to protect the interests of the buyers.

Yes, there are weaknesses, but were there not instances of weaknesses and mismanagement, say, in the billions of dollars of over-runs in the defense plants, the mismanagement that required millions of government money to bail out certain industries.

In a recent survey, the Dearborn Real Estate Board found that the minority brokers depend on FHA for 75 to 95% of their mortgages. The elimination of FHA, would in effect, eliminate a majority of the Black real estate businesses and severely curtail home ownership by Blacks and other minorities.

Possibly, the constant, and what we believe, at times, unwarranted criticism of FHA, is designed to accomplish this very purpose. We, as brokers, are at a loss to understand what is meant by the words block busting and panic peddling. It is our understanding that all citizens of this country are supposed to be able to move any place they are financially able and desire to move to regardless of race, color, creed, or national origin.

We ask those who are most critical of FHA and the subsidized housing programs, why not join us and direct your energies towards opening up all communities on an open housing basis to all people. We believe this is the American way.

Very little is being said about the tremendous hardships being placed on the owner trying to sell his property under FHA. The recent requirements of FHA for inspections, repairs and modernizing existing structures, finds the average owner without the ready money to make the required improvements. The seller's life savings are usually tied up in his property. This has resulted in closings being delayed for months, with the temptation to sell to speculators at a lower price but for cash. A more realistic approach, that would accomplish the improvement of the property and speed up the closings would be to allow estimates to be taken on needed repairs and to place the required money into escrow at the closing, at the time the seller has the money that is needed.

We seek to correct the inequities but not to stop these programs so needed for the minority, low and middle income families. The defaults and foreclosures which are a very small percentage can be curbed through tighter administration. The effects of stopping the housing programs, the moratorium on the 235 and 236 federal subsidized programs, the throwing of thousands out of work, will result in the bankrupting of many builders, lenders ,architects, home furnishers, real estate people, heavily affecting the minority business people. The upward spiral of unemployment will have dire effects on the economy and bring about especially chaotic conditions in our cities.

We strongly oppose the moratorium on 235 and 236 programs. We recommend that in regard to the 235 homes that:

1. Homes be appraised on a fair market value as opposed to a value predicated on the number of bedrooms.
2. Establish a system whereby working families will be given an equitable share of committed housing.

We recommend appropriation of funds to provide consumer counselling in relation to all Federal housing programs to low and moderate income families, in the areas of budget, debt-management, property maintenance and other related counseling where it is deemed essential for family stability and property upkeep.

We feel that basc shifts in public attitudes on race and housing, coupled with an increasing ability of minorities to afford better housing, have opened up opportunities for progress in reaching the goal of fair housing in the next few years. With all segments of our society working cooperatively together to correct deficiencies and weaknesses in the housing programs, we can build a better and happier America.

Let us build on what has already been established.

Senator STEVENSON. Thank you, Mr. Williams.

We have heard a great deal of testimony about panic dealing and blockbusting through the use of FHA insured mortgages.

Starting with you, Mr. Knecht, how prevalent is this and what is your Board doing to stop it?

Mr. KNECHT. Senator Stevenson, I concur with my friend Frank Williams, that this idea of blockbusting and panic peddling is blown all out of proportion to its true existence in the field of real estate sales.

The real estate broker in Chicago has been maligned by the neighborhood organizations for many years.

The motives are sometimes very obvious but we like—we realtors, like Frank Williams' group, feel that this an open market and we should be able to sell to anyone who comes to us wherever they please to buy. Some of these things have been taken before the Chicago Human Relations Commission and I think statistically, if you were to check them, would indicate to you that most of these accusations are without foundation and fact.

Also, they have been brought to the attention of the legislature.

Senator STEVENSON. I went to a 203 house and I saw carpeting laid all across the basement which would have struck me—and I am not an engineer or an appraiser—as suspicious.

It did not strike an innocent homeowner as suspicious.

It was an FHA approved house.

She bought that house and I went afterwards to see what was under that carpet.

I found a crevice along the whole front of the building in the cement foundation of that house. It had cracked and the whole facade of the house that she had just bought was sinking into the ground.

Now, that was a concealed major defect, concealed from her view.

She was innocent. She was relying perhaps on the broker.

She was certainly relying on the good faith of her government.

This is a statement prepared by the industry but adopted, in this case, by the Government, by Mr. Waner.

That representation, if it has any force, left her or would have left her without any redress at all.

This is saying that, "I am not responsible for the concealment of the broker or of the homeowner."

Mr. WILLIAMS. Well Senator, I don't think we countenance this type of activity at all, concealment of an obvious fault.

I think any good realtor would notify the seller, if he saw obvious faults at the time he first saw the building and would not sell that building if it were not corrected.

Senator STEVENSON. You say regulations change a lot and this one was withdrawn and withdrawn in a hurry when I found out about it and when others found out about it in Washington including HUD. We were shocked. Actually they were shocked as I was.

There has got to be a better delineation of duties between the buyer and seller and the broker than there is now.

I have about concluded that maybe we had better do it by law in the Congress with some criminal sanction for violations of minimum standards in all contracts of sale and all leases of housing that are supported by the Federal Government.

I assume that you are engaged in managing real estate as well as buying and selling.

Mr. WILLIAMS. Certain of us are, yes.

Senator STEVENSON. Now, we have heard a good deal of testimony about the difficulty of managing Federal housing or federally supported housing projects.

Take a 236 or a 221 D3 with basic rents staying basically the same and the cost including taxes going up, there is just not enough money to go around.

If the rents go up then the tenants are hurt, and if they don't go up then the sponsors are hurt.

Has this been a serious problem for the managers of such projects in your experience?

Mr. WILLIAMS. I think it has been, particularly in the city of Chicago, because of our fixed rent situations in the area of where we have, as we have had in the past 6 or 10 years, tax increases of 6 percent 10 percent each year and these have created real hardships for the developers of these properties.

The managers of these properties; the first thing that goes is the maintenance and with the maintenance goes the appearance and general use of the property and in the long run it is a deteriorating or has a deteriorating effect.

Senator STEVENSON. Does anybody else care to add anything to that subject?

Mr. SCHALES. Yes; I do.

Some of these other things such as the rents or income do not rise as fast as the operating expenses do so that the building manager or owner is locked into a shrinking zone of freedom in which he can function and he finds himself unable to maintain the building to normal standards and finds that the tenant composition of the building will tend to fall down the economic scale over a period of time with a great deal of disruption.

Senator STEVENSON. What do we do when the subsidy is tied to the capital cost of the building?

At the last session of Congress, the Senate attempted to build in a new subsidy, so that if the operating costs go up in the future the subsidy would go up.

Is that a sensible way of dealing with this problem of fixed subsidies with respect to rising cost?

Mr. SCHALES. It certainly is a beginning and perhaps simply a gesture would be simply to increase the income limits somewhat so that a somewhat higher economic stratum could be fitted into the buildings which could pay the higher rents and thus make funds available for maintenance and repairs.

Senator STEVENSON. That, of course, tends to solve the problem from the standpoint of the sponsor but doesn't help the poorer tenants.

Mr. WILLIAMS. It does help those of moderate income for whom the programs were often designed.

Senator STEVENSON. They were also designed for low-income families?

Mr. WILLIAMS. Yes.

Senator STEVENSON. Well, we'd better keep pushing ahead.

Thank you very much.

The next panel is entitled, "Housing and Jobs in the Chicago Area."

The panelists are Leonard Rubinowitz, representing the Center for Urban Affairs, Northwestern University.

Robert Tucker, former HUD administrator, practicing attorney and general counsel for operation PUSH.

Mr. Martin Willis of the Hartman Mortgage Insurance Co.

Well, let's see, Mr. Rubinowitz, why don't we begin with you?

Mr. RUBINOWITZ. Thank you.

Senator STEVENSON. I will have to say what I have said to everybody else that if you have a long statement, please condense it and I will enter the full statement in the record.

This will enable us to have more time for questions and answers.

Mr. RUBINOWITZ. I will be glad to.

I am Leonard Rubinowitz of the Center for Urban Affairs, Northwestern University.

Statement of Leonard Rubinowitz

Before the Senate Subcommittee on Housing and Urban Affairs

Chicago, Illinois - March 31, 1973

The major metropolitan areas of this country are experiencing an increasing mismatch between the location of jobs and the residences of people to fill those jobs. Employment opportunities for blue-collar employees, for service workers and for low and moderate-income people generally are moving from the central cities to the suburbs. This phenomenon of decentralization of jobs is related to a number of factors, from the need for large amounts of vacant, cheap land, to fear of crime, to proximity to the executives' residences. In addition, federal subsidies, such as those for highways, facilitated this exodus of industry from the central city.

All too often central city employees, particularly minorities, are unable to follow the job opportunities, because of the lack of available housing within their means in suburbia. The federal role has been significant here also. Public policies and subsidies have provided a choice for the white and the relatively affluent in the past several decades, the choice of where to live within our metropolitan areas. FHA mortgage insurance helped to finance the house in the suburbs, for middle-income people. As effectively as the employers have been invited into the suburbs, the low and moderate-income past and potential employees have been excluded from these areas. Of course, much of the exclusionary impetus has come from local land use laws and practices. In addition, however, the structure and administration of federal housing programs have, historically, contributed to this pattern, by subsidizing construction of housing largely in central city ghettoes, with the limited amount of suburban housing for low and moderate-income people being built and occupied on a racially exclusive basis.

The Chicago Metropolitan area is consistent with the national pattern, in terms of both the decentralization of jobs and the impact of the subsidized housing programs. Recent changes in federal policy have altered the housing side of this coin, but it does not appear that the impact of these new policies has been significant as yet.

Decentralization of Jobs in the Chicago Metropolitan Area

The Chicago metropolitan area pattern is consistent with national trends in the location of new jobs and the costs involved for employers and employees in the decentralization process, in the absence of sufficient, appropriately-priced suburban housing.

In the decade 1954-1963, the City of Chicago lost more than 150,000 jobs, while other parts of the metropolitan area gained more than 200,000.

From 1955 through 1969, Chicago's share of the jobs located within the six-county metropolitan area decreased by 17%, while the suburban portions of Cook, Du Page, Lake, Will, McHenry and Kane counties registered percentage increases (Graph 1, Pie Distribution). The City of Chicago experienced the smallest net increase in overall jobs (14,443) of these jurisdictions (Bar Graph 2, Net Increase in Jobs Among Chicago and Six Counties). Chicago's miniscule overall job gain is underscored by contrasting its net job gain (14,443) with the net gain in McHenry County (14,444), whose 1970 population was thirty times smaller than that of Chicago. Finally, the lowest rate of job increases over the fifteen year period was reported in Chicago (Bar Graph 3, Growth Rates for Chicago and Six Counties).

The Chicago metropolitan area also reflects the national pattern in the categories of jobs leaving the central city. Between 1947 and 1963, for example, the City of Chicago lost 150,000 manufacturing jobs generally; it also lost 172,000 jobs in manufacturing production work. In the same period, the Chicago suburbs gained 79,000 manufacturing jobs, of which 19,000 were in manufacturing production. Also, in this period, the number of wholesale and retail jobs in the City of Chicago declined by 67,900, compared an increase of 96,800 in the Chicago suburbs. The trend is clear: new blue-collar employment in the Chicago area is locating in suburban areas. ("The Supply and Availability of Land for Low and Moderate-Income Families," prepared for the President's Committee on Urban Housing, by Neil Gold and Paul Davidoff, p. 338.)

Finally, the location information which shows dramatic suburban job increases is corroborated by information on the location of industrial and commercial construction projects between 1961 and 1971. Almost three times as many projects were scheduled in the suburbs as in Chicago. Also, more than three times as much money was spent on suburban industrial and commercial construction as in Chicago.

The commuting costs for Chicagoans which result from this shift are extremely high. The following table is an estimate of the round-trip commuting costs, measured in time and money, from the City's largest public housing project, to two of the major suburban job centers, Elk Grove Village in Northwest Cook County and Downers Grove in Du Page County. Between 1955 and 1969, Elk Grove Village experienced a net job increase of 17,850 jobs, and Downers Grove recorded a net increase of 6,877 jobs.

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TABLE 1

Round Trip Commuting Costs From 55th Street and the Dan Ryan to Elk Grove Village and Downers Grove

	AUTO		RAPID TRANSIT AND SUBURBAN BUS	
	Money per Week	Time per Day	Money per Week	Time per Day
Elk Grove Village (fifty miles round trip)	$33.50	2 Hours 15 Minutes	$12.50	3 Hours (3 transfers)
	AUTO		RAPID TRANSIT AND COMMUTER RAILROAD	
Downers Grove (fifty miles round trip)	$33.50	2 Hours 15 Minutes	$12.50	2 Hours 40 Minutes (3 transfers)

Source: Linking Block Residence to Suburban Employment Mass Transportation, Joseph Zucker, Chicago Urban League Publication, 1970.

If a Robert Taylor Homes resident drove his car to either of these suburbs to work, and he earned $125 per week (in 1970, $125 per week was the average weekly wage for Chicago Blacks working in the suburbs), this public housing resident would be spending 26% of his weekly wages on commuting costs. (Source: Linking Black Residence to Suburban Employment Through Mass Transportation, Joseph Zucker, Chicago Urban League Publication, 1970.) However, if a public housing resident in Robert Taylor Homes commuted to suburban employment centers such as Elk Grove Village or Downers Grove, by rapid transit and suburban bus or commuter railroad, he would spend about three hours a day in travel time. According to the standards of the National Alliance of Businessmen, this commuting time is clearly excessive.

The movement of jobs, the absence of suburban housing opportunities and the hardships of commuting is reflected heavily in Chicago's Black neighborhoods. The impact of the city's lack of growth of jobs has been greatest in the areas of low-income Blacks. For example, between 1955 and 1969, a net loss of 61,577 jobs was suffered by the three geographical areas of Chicago which contain almost 90% of all CHA units occupied by black families (Graph 4, Comparison of Net Job Changes). As a result of this and other factors, the unemployment rate among Chicago's Blacks was substantially higher than the unemployment rate for the City as a whole or the suburbs. For example, in the first quarter of 1968, the unemployment rates were:

Chicago	4.4%
Suburbs	2.2%
Chicago Blacks	8.6%

(Source: "Poverty--The Broad Outline," Urban Employment Survey Report #2, U.S. Department of Labor, Bureau of Labor Statistics, North Central Region, July 1968 - June 1969.)

In 1970, only 16% of all Chicago blacks living in low-income neighborhoods worked in the suburbs, although these black suburban employees earned, on the average, nine dollars a week more than their Black neighbors who worked in Chicago's low-income neighborhoods. (Source: "Census Employment Survey," Department of Commerce, 1970.)

At the same time, job vacancy rates are significantly higher in the suburbs than in the City of Chicago. Job openings were almost two and one-half times as plentiful in the suburbs as in the City of Chicago during the period of a 1968 survey.

Job Openings Per Hundred Employees

Chicago	Suburbs
3.65	8.73

Federal Housing Programs

Without housing opportunities in the suburbs, then, central city Blacks and others with limited income have serious disadvantages in light of this suburbanization of jobs. Federal housing programs have been structured so as to permit local communities to continue to exclude low and moderate-income housing while they "recruit" intensively the corporations which are potential employers of the occupants of this housing.

Congress has seen fit to provide a direct local veto over the use of some of these programs, and in other instances, the programs carry statutory cost ceilings, which facilitates the use of cost-escalating practices by communities who wish to exclude subsidized housing. Of the current array of four major subsidy programs, the local governing body has a direct veto power

in two and indirect "assistance" in this endeavor from the Congress in the other two.

The oldest of the federal housing programs involving a direct subsidy is low-rent public housing. This program serves low-income families and elderly people, including those with no income whatsoever, in both new and existing housing. Public housing continues to be the deepest of the subsidy programs, providing decent housing for those who could not afford standard housing in the private, unsubsidized market. However, in the metropolitan areas, public housing has provided housing for the poor, and increasingly, for the Black, almost entirely in the central cities of metropolitan areas. Sites have generally been located in the most segregated and deteriorated neighborhoods, and occupancy has also been on a racially segregated basis.

As indicated on the attached chart, "Housing Authorities and Projects in the Chicago Urbanized Area", only 1,113 units of family public housing have been built in the Chicago metropolitan area outside of the City of Chicago. (Even that limited amount of housing has been built and occupied on a segregated basis). At the same time, over 30,000 units of public housing have been constructed within the City of Chicago. (Again, these units have been built and occupied on a segregated basis. The federal court so held, in Gautreaux v. CHA. HUD was found to have acted illegally in approving of, and providing financial support for, the Chicago Housing Authority's discriminatory practices.) The reason is simple: the United States Housing Act, which established the public housing program in 1937, provided that affirmative steps must be taken by the local community before the program could be utilized within the jurisdiction. As a result, inaction

by the municipality serves to keep out public housing. "Doing nothing" may take the form of not creating a "local housing authority," the agency which administers the public housing program at the local level. Even if a housing authority exists which has jurisdiction over a suburb, the housing authority cannot operate within the boundaries of any municipality without the consent of the local governing body. Generally, that approval takes the form of a Cooperation Agreement between the local government and the independent housing authority. The locality agrees to provide municipal services and to accept ten percent of shelter rents as a payment in lieu of taxes.

A similar local veto exists in the Rent Supplement program. This program, which was enacted by Congress in 1965, has deep subsidies and serves low-income families (much like public housing) in accomodations which are privately developed and owned.

When the Rent Supplement program was enacted, the Department of Housing and Urban Development (HUD) considered using this program as a means of providing integrated housing opportunities in the suburbs. When Congress was informed of these plans of the agency which was to administer the program, it approved only a small appropriation and placed a condition on the use of these funds, prohibiting their use in any community without the express approval of the local governing body. Inaction by the community is thus sufficient to keep out rent supplement units.

Thus, Congress has clearly made the low-income housing programs a matter of local option. In the Chicago metropolitan area, only a handful of commu have taken the necessary steps to permit the development of low-income housing within their borders. A similar result is achieved in the moderate-income subsidy programs through the cost ceilings written into the law. The omnibus Housing

Act of 1968 created the Section 235 program, which provides for home ownership for moderate-income families, and the Section 236 program which subsidizes rental housing for the same income group. Under each of these programs, an eligible sponsor applies to HUD for the subsidies which reduce the cost to the occupant, thus bringing the housing within the range of low and moderate-income families. Section 235 and 236 units may not exceed approximately $24,000, in their total development cost. Through the use of any number of exclusionary zoning devices, a suburb can merely price this housing out of town.

In addition to the impediments built into the programs, HUD has administered these subidized housing programs in ways that reinforce the central city-suburban jobs-housing mismatch. The programs have done little to provide housing choice and access to suburban jobs for low and moderate-income families, particularly minorities. For example, a 1971 Report of the U.S. Commission on Civil Rights, Home Ownership for Lower Income Families, A Report on the Racial and Ethnic Impact of the Section 235 Program, indicates that the past patterns of metropolitan racial segregation perpetuated by HUD and its predecessors have continued in the administration of the Section 235 home ownership program. New homes in the suburbs provide some access to the suburbs for moderate-income families, but virtually on a whites-only basis. The central-city homes under this program are almost exclusively in the ghettoes and Black-occupied. Although this study did not include Chicago in its sample of metropolitan areas examined, fragmentary data indicates a similar pattern in the Chicago area. Section 235 housing in the central city is often existing housing, usually in the ghetto and Black-occupied. Outer-ring suburbs have received a substantial amount of Section 235 housing, which seems to be occupied almost entirely by whites.

Project Selection Criteria for Subsidized Housing Programs and Affirmative Marketing Requirements

At the time of the President's Statement on Equal Housing Opportunity, on June 11, 1971, HUD had had drafts of so-called "Project Selection Criteria" for subsidized housing ready for months, awaiting a green light from the White House to make them public. Prior to that time, the subsidized housing programs were administered essentially on a first come, first serve basis. Applications for federal assistance have usually far exceeded Congressional appropriations, with a resultant "pipeline." Of the projects which met statutory and administrative requirements, those which were received and entered the "pipeline" first were funded first. Projects were not compared. National objectives were not considered. The project selection criteria were developed to enable HUD to select from among "eligible" applications those which will go the farthest towards meeting equal opportunity and other goals. These criteria were to be applied to all of the subsidized housing programs.

In January, 1972, HUD formally published these regulations, to become effective the following month. These criteria place great weight on the location of the proposed project, but consider other factors in selecting among applications for assistance. Of the eight criteria which are applied to applications by housing sponsors, three are directly related to increasing locational choice, although none are specifically related to the suburbs. Applications are rated under each of the criteria as superior, adequate or poor.

On the whole, the thrust of the criteria appears to be toward the suburbs. The criteria do not deal directly with the local exclusionary practices or the impediments built into the federal programs. However, the criteria may provide incentives for housing sponsors, by giving them first shot at the limited subsidy funds if they can get into the suburbs.

These criteria are, however, subject to widely varying interpretation by the several dozen HUD Area Offices which administer them. The criteria were designed to be general and flexible, but the cost of pursuing that course may be that all of the projects in some metropolitan areas will be in Black areas of the central city and, in other metropolitan areas, all projects may be in suburbs and none in the Black community. With general criteria and no overall plan of direction necessarily available, the outcome is unpredictable. The data, to date, is fragmentary. In the Chicago area, HUD seems to be following a polciy of conscious balancing, to insure a mix of subsidized housing locations, in the central city and the suburbs.

Working in tandem with the project selection criteria are the "Affirmative Fair Housing Marketing Regulations," which apply to both unsubsidized and subsidized housing assisted by FHA. Procedurally, applicants must submit an affirmative fair housing marketing plan for approval by HUD. The plan is to outline the means by which the applicant intends to attract buyers or tenants of all minority (as well as majority) groups to the housing for initial sale or rental. For multi-family projects, the plan is to remain in effect throughout the life of the project.

Applicants who do not comply with these regulations are subject to sanctions, including denial of further participation in HUD programs and referral of the matter to the Justice Department. Literal compliance with these marketing requirements may not, however, provide real opportunities for Blacks. The test is not "effect." All-white suburban projects may be the result of the Project Selection Criteria and the Affirmative Marketing Requirements, operating together. A sponsor who has met the minimum requirements is not penalized for such a result, and in fact, he may receive funding for additional projects with

segregated occupancy. To make the marketing requirements meaningful, an "effect" test would be necessary, analogous to a "Philadelphia Plan" approach in the area of equal employment. Such an effort would require clear requirements for housing sponsors and significantly increased staff resources devoted to monitoring and enforcement. Without these kinds of changes, "affirmative marketing"is likely to be a phrase lacking substance. An opportunity to tie housing for the poor and the Black to job sites will have been lost. Public programs will continue to subsidize metropolitan racial segregation. Indeed, Blacks will be at an even greater disadvantage in the metropolitan job market, as these programs provide metropolitan housing choice for whites in the same income group.

HOUSING AUTHORITIES AND PROJECTS IN THE CHICAGO URBANIZED AREA *

Housing Authority	Date of Incorp-oration	Project Designation	Project Location	Year Com-pleted	Number of Family Dwelling Units	Racial Composition of Tenants as of 11/15/72 White	Black	Other	Racial Composition o Census Tract in Whic Project is Located (Percent Non-White) 1960	1970**
COOK COUNTY Housing Authority County of Cook	1946	Ill. 25-1	16th and Arnold (Chicago Heights)	1953	15	--	15	--	70.8	87.6
		Ill. 25-2	11th and Fifth (Chicago Heights)	1953	37	--	37	--	70.8	87.6
		Ill. 25-3	75th and 63rd Pl. (Summit)	1953	35	--	35	--	30.0	33.1
		Ill. 25-4	139th and Grace (Robbins)	1956	100	--	96	--	93.9	94.4
		Ill. 25-5	11th and Wentworth (Chicago Heights)	1962	120	1	117	--	70.8	87.6
		Ill. 25-6	16th and Ellis (East Chicago Hgt's)	1960	100	--	99	1	61.7	79.5
		Ill. 25-7	11th and Berkeley (East Chicago Hgt's)	1963	116	--	110	5	61.7	79.5
		Ill. 25-10	16th and Greenwood (East Chicago Hgt's)	1971	100	--	99	--	--	79.5
		Ill. 25-12	135th and Woodlawn (Robbins)	1972	100	--	100	--	--	94.4
		Ill. 25-16	Various (Leased Housing) (Evanston)	1972	95	16	79	--	--	--

* Projects are all assisted by HUD under the provisions of the United States Housing Act.
** 1960 and 1970 Census Data.

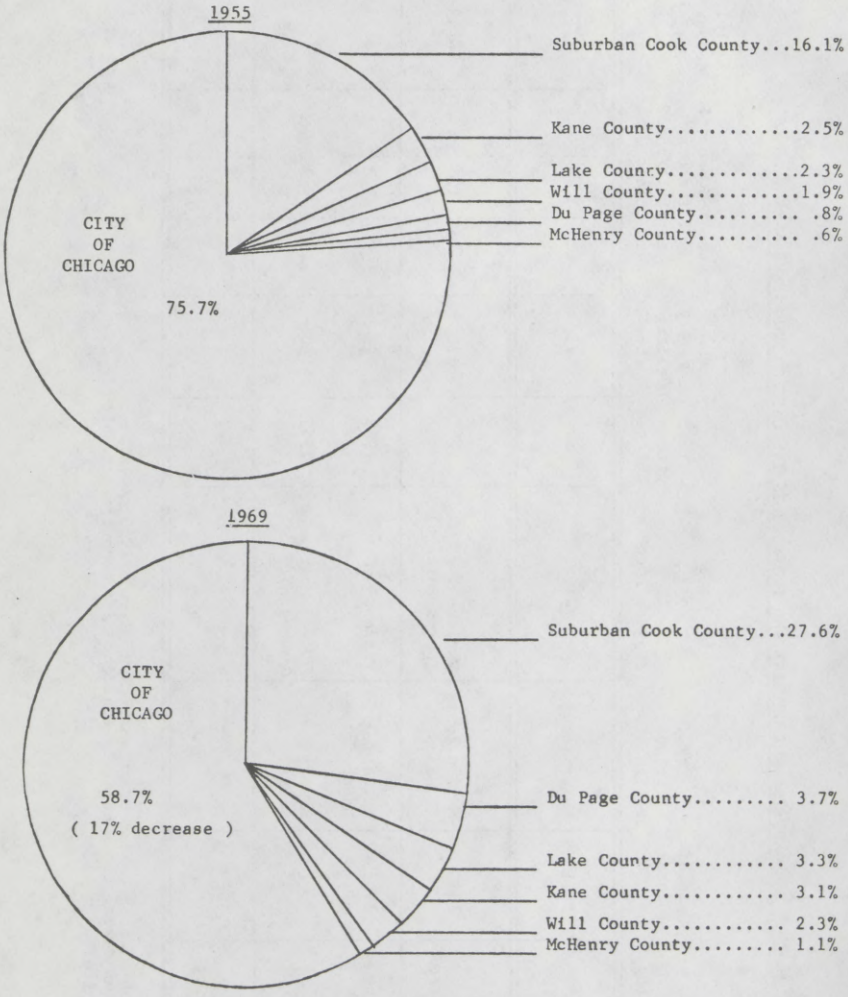
HOUSING AUTHORITIES AND PROJECTS IN THE CHICAGO URBANIZED AREA (cont'd.)

Housing Authority	Date of Incorp-oration	Project Designation	Project Location	Year Com-pleted	Number of Family Dwelling Units	Racial Composition of Tenants as of 11/15/72 White	Black	Other	Racial Composition of Census Tract in Which Project is Located (percent non-white) 1960	1970
DUPAGE COUNTY										
DuPage County Housing Authority	1941	No Projects	--	--	--	--	--	--	--	--
LAKE COUNTY										
Lake County Housing Authority	1946	Marion Jones Homes	Various (North Chicago)	1962	125	2	123	--	22.4	83.6
Waukegan Housing Authority	1951	Barwell Manor	Various	1965	120	1	118	1	55.1	26.9*
		Armory Terrace	2701-19 McAree Rd. (Waukegan)	1965	50	32	9	9	2.9	3.7
North Chicago Housing Authority	1969	No Projects	--	--	--	--	--	--	--	--

* The boundaries of this census tract were changed from 1960 to 1970. The 1970 census tract is immediately adjacent to a census tract which is 75% non-white.

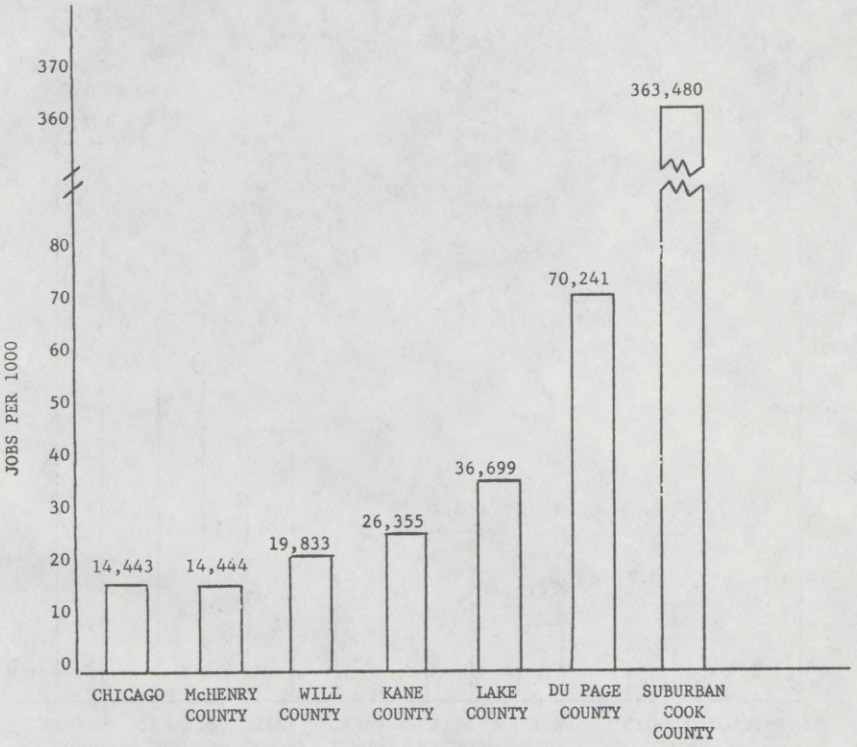
GRAPH 1

A Comparison of Percentage Shares of Job Distribution
Among the City of Chicago and the Six Metropolitan Counties.



GRAPH 2

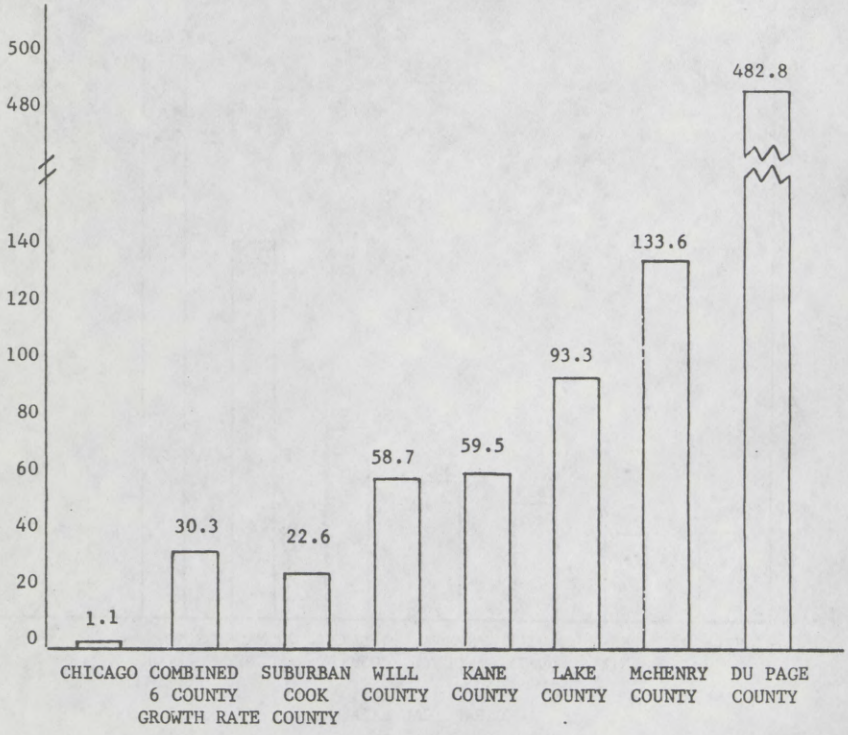
A Comparison of the Net Increase of Jobs Among
Chicago and Six Counties (SMSA) over a 15 Year Period (1955-1969)



(Note break in the vertical scale ⫽)

GRAPH 3

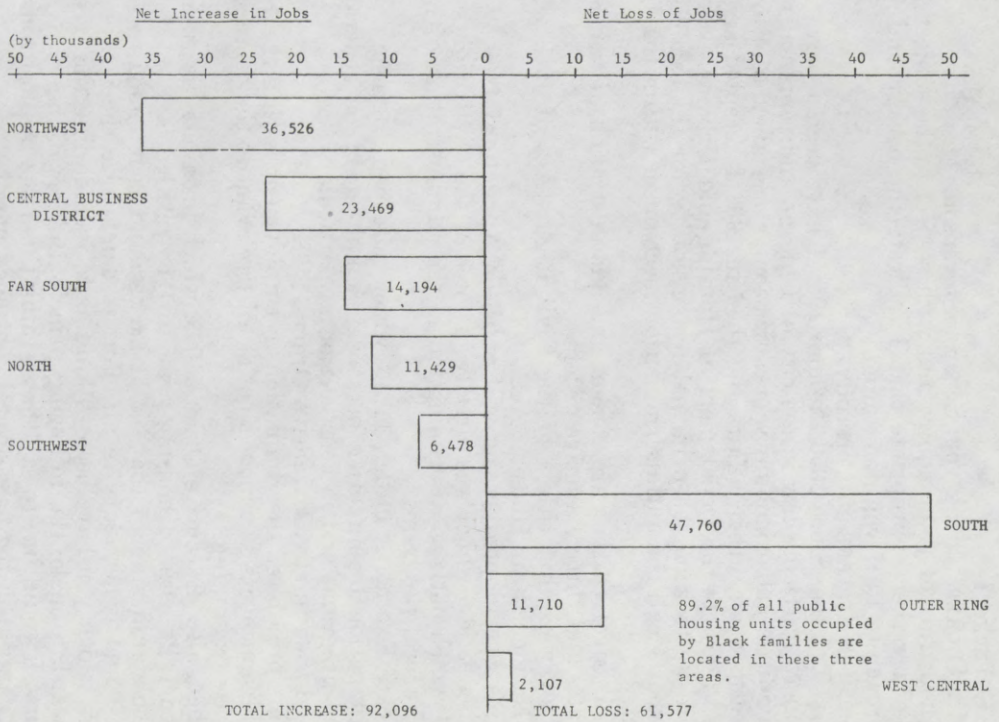
A Comparison of the Growth Rates of New Jobs from 1955-1969 Among the City of Chicago, Each of the Six Metropolitan Counties and the Entire Metropolitan Area



Note break (⫻) in the vertical scale.

GRAPH 4

A Comparison of Net Job Change in Eight Geographic Sub-Areas of Chicago (1955 - 1969)*



* Another category of jobs that were not permanently located in a single geographic area was included in the ISES report. This category lost 16,076 jobs between 1955 and 1969.

Senator STEVENSON. Thank you, Mr. Rubinowitz.

Mr. Tucker?

Mr. TUCKER. Thank you, Senator Stevenson.

The nature of your inquiry and with respect to the subject I think make it rather appropriate that I indicate the background for my approach to it, if you don't mind.

Senator STEVENSON. Certainly.

Mr. TUCKER. Since 1956 through 1958 I have been a private practitioner, practicing law in the city of Chicago and representing both individuals and community organization in the alleviation of their concerns about urban affairs and then in 1968 I accepted an invitation to go into the Department of Housing and Urban Development where we took on the principal responsibility for the establishment of what I call the antidiscrimination mechanism within the Department.

This involved the enforcement and administration of two Federal statutes and three executive orders.

They were first title 8 of the Civil Rights Act of 1968 which is the National Fair Housing Act.

This was adopted as you will recall on April 10 of 1968.

Then title 6 which was already in force of the Civil Rights Act of 1964 which outlaws discrimination in the administration of most of the Federal programs.

Next, Executive Order 11246 which intended to insure greater participation by minority persons in employment on federally assisted programs and in construction in particular.

And then finally, Executive Order 11478.

This prohibited discrimination in employment within the Federal establishment itself which is not at all irrelevant to the concerns that you are examining.

Then, also, Executive Order 11063, which prohibits discrimination in federally assisted housing prior to 1968 entitled 8.

The significance of that bit of background is intended to suggest that I find it necessary in an effort to summarize the written testimony which you have been so kind as to include into the record, to be heard, to make the following principal observations.

Now, I would like to say that I think this issue has lost something of its appeal in the past several continued months.

The point I make is that the success or the failure of Federal program administration in the area of housing, particularly, will depend on whether and when the government, the principal components of government at Federal, State and local levels are prepared to get seriously back into the antiracism business.

Today, of course, the burnings has stopped.

The fires of the 1960's are out.

The cries of the anguished have been somewhat muted.

A beleaguered people come in from the streets and we are given to understand that the urban crisis is over.

That is an illusion!

I must hurry to deny that I am not an alarmist. I simply have been fortunate enough to have lived both long enough and in a manner to realistically know that there is no true definition of the American urban scene as there is no true definition of the city of Chicago,

that would dismiss the fact that the two largest racial or ethnic groupings populating the urban scene have always lived and do now live in two separate worlds.

This would mean that black people are, per force, economically would be compelled somehow to exist in the interest of their own survival in both.

For the most part by day most black people function in a white work-a-day world and then by night we return to the blackness of our home site and here most of us really live.

Now, this circumstance in itself is not at all objectional today on the part of most black people and it is with some sense of real gratification that I report that; nor is that a basis for legitimate objection on the part of any white person and I make that observation because the question of separation is going to enter into your area of inquiry.

The thing that is bad about it is the fact that historically residential segregation based on race, along with the beauty and strength that is observable in black people as well as the ugliness and crime that occasionally attend their existence, have simply not been wholly the result of the exercise by black citizens of their own residential choices.

Rather, it has been essentially both because and in spite of the fact that black citizens have virtually no choice in the determination of where they either live or where they work.

Speaking to the point I make therefore is that we must see this phenomenon of racism as no mere social evil but we have got to recognize that as being a structural constraint on the successful implementation of Federal programs.

Structural I so describe it because I think it has to be admitted that what I have just described grows out of both the origin and the cultural development of our nation.

Racism is built into our nationhood and therefore, it cannot be passively dealt with.

Now to make the second point, I speak to the question of approach to that.

My experience has taught me that whenever we move to this subject that I say now has fallen into some disuse or at least into some category of disrespectability, whenever we approach that now, and to the extent that what I have described or characterized as institutional racism, and it is, we meet immediately on the part of established institutions as well as their administrators with the denial of any conscious responsibilities for things being as they are and further the denial of any specific intent to perpetuate or extend racism.

Now this asserted lack of responsibility which generally is asserted in utmost good faith, too often becomes, on the part of program administrators, and even the most committed civil servant, a blind spot before his eyes and interefers with their capacity to be a creative team.

In effect, I have to say that we must work for the eradication of racial discrimination in their programs.

Now, it is appropriate that we try to infuse. if we may, and if I may so say, the notion which is well established any way and the

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principles of law that govern the administration of the program, a new concept with respect to that:

We must have an approach to institutional racism and that is one that was asserted by Judge J. Skelly Wright in a case when he was looking into the question of discrimination in the educational systems.

He pointed out that the complaint and that the idea particularly that no violation of equal protection vests unless the inequity stems from a deliberately discriminatory plan is simply false.

Whatever the law was once, pointed out Judge Wright, it is a testament to our maturing concept of equality and with the help of the Supreme Court decisions in the last decade we now firmly recognize that the arbitrary quality of thoughtlessness can be as disturbing and unfair to the private rights and public interests as the perversity of a willful scheme.

So we have to deal with this matter as program administrators and we have to bring our program administrators to know that the effect of the condition that I have described as being structural in our nationhood, is essentially what we must deal with and seek for its cause and not retreat from mainly native approaches to the elimination simply because we might not have intended that they occur.

Finally, I would point out that we speak to the absence of a national land use policy which brings us immediately to a consideration of what is now popularized as the HUD site selection criteria.

To put it simply, Senator, that criteria is going to have to be revisited. It has to be revisited by Congress and modified so that we arrive at an approach that will not only permit, but indeed require the building of housing in both black and white communities simultaneously.

I think that it is going to have to become a requirement as distinguished from an option that is afforded certain communities and precluding development in black communities depending wholly upon the acceptability by white communities of housing for poor people.

On the question of the moratorium, you have heard much.

I would doubt that you have heard enough but I won't burden the record further by making what I think is an inescapable observation and that is that given the conditions of housing as they had been reported, undisputely in this country for more than 30 years, it being that everyone has agreed at least that in order to meet the mandate of the 1949 Housing Act and provide a decent house for every family within a decent neighborhood, we have got to develop a capacity for producing housing at a ratio of approximately 2.5 million units a year.

That has not happened ever in the history of this country nor even having observed any occasion when that much housing had been started and then I think that it is both reckless and irresponsible to approach the problems that you might observe and the deficiencies in the program by simply cutting them off.

Therefore, I think that the committee's first order of business has to be a gearing up to activate all of the elements of Congress to produce a restoration of all of the programs and an increase in funding levels and to proceed with the program of housing, at least that will

prevent the forced disbursal or the forced concentration of citizens based upon race or poverty.

Thank you.

Senator STEVENSON. Thank you, Mr. Tucker.

STATEMENT OF ROBERT L. TUCKER,* ATTORNEY AT LAW, CHICAGO, ILL.

INTRODUCTION

Mr. Chairman, members of the committee, I appreciate and welcome this opportunity to speak to the very vital subject of the impact of Federal programs upon housing and employment. In so doing, while using the Chicago metropolitan community as today's microcosm, we speak to what may indeed be, at this moment, America's number one problem.

I approach the matter first from the experience of a practicing lawyer in the city of Chicago, Illinois, who from 1956 through 1968, along with many others, devoted a substantial amount of personal and professional time to the representation of both individuals and organizations who sought our help in the alleviation of housing and other urban problems in Chicago.

Secondly, I speak to you from the background of one who, from November, 1968, through April, 1971, functioned as an administrator and member of the management team responsible for the implementation of Federal programs and the delivery of money and services by the United State Department of Housing and Urban Development to the Midwest region of the United States; and more specifically, to the States of Indiana, Illinois, Wisconsin, Minnesota, Michigan, Ohio, Nebraska, North and South Dakota. This regional office endeavored to join with other Federal agencies in the development and implementation of a coordinated response to urban ills affecting approximately one quarter of our Nation's people.

My primary responsibility as an assistant regional administrator for equal opportunity in the Department of Housing and Urban Development, was to build the anti-discrimination mechanism of the Chicago regional office, recruit and train the staff for the enforcement and implementation of two Federal statutes and three executive orders: Title VIII of the Civil Rights Act of 1968 (the National Fair Housing Act) adopted by Congress on April 10, 1968; Title VI of the Civil Rights Act of 1964, which outlaws discrimination in the administration of most Federal programs; Executive Order 11246 which is intended to assure greater participation by minority persons in employment on Federally assisted projects; Executive Order 11478, which prohibits discrimination in employment within the Federal establishment itself; and Executive Order 11063, which prohibited discrimination in federally assisted housing prior to 1968.

Finally, looking back on my experience as a Federal administrator, I approach our subject from the vantage point of a member of the faculty of Northwestern University School of Law conducting a course that concerns itself with the law and urban housing problems; while at the same time serving as general counsel for People United to Save Humanity (Operation PUSH), an Illinois not for profit, religious corporation, whose principle program emphasis is upon research, education and nonviolent direct social action activities for the cultural, educational, political, and socioeconomic development of black, brown and poor persons generally.

I. RACISM—A STRUCTURAL CONSTRAINT UPON THE IMPLEMENTATION OF FEDERAL HOUSING PROGRAMS

Racism must be seen not only as a social evil, but also as a structural constrain upon the effective implementation of Federal programs. I have been heard to say in both courtroom and classroom, as well as in open public forums that institutional racism may appropriately be defined as the organized, systematic application of power to decision making, to the known injury to,

*Member of the Bar of the State of Illinois and the Supreme Court of the United States; former Assistant Regional Administrator for Equal Opportunity, U.S. Department of Housing and Urban Development (Chicago Regional Office); member of the faculty, Northwestern University School of Law; General Counsel, People United to Save Humanity (Operation PUSH).

or in conscious or unconscious disregard of the legitimate rights of racial minorities; particularly Afro-Americans. I have yet to see or hear the foregoing suggestion authoritatively refuted. This notion grows out of the origin and cultural development of our Nation, and is indelibly imprinted upon our national fabric as a multiracial people. Discrimination based on race is, with most white Americans, both a conscious and unconscious way of life. Racism was built into our "nationhood." See, *Dred Scott* v. *Sandford*, 19 How. 393, 15 L.ed. 691 (1857). It is therefore structural and pervasive; requiring little or no help for its activation into Federal program admnistration.

Focusing specifically upon the areas of housing and employment, it is indisputable that from the beginning of the Republic and long prior thereto, white people and black people in the United States of America have lived in two separate worlds; with black people, perforce economic necessity, existing simultaneously in both. By day, most black people "function" in a white work-a-day world. By night, they return to the blackness of their home sites, and here is where most of them "live." The exceptions to this rule, and there are some, only prove the accuracy of the foregoing proposition. The art of escape from the rugged confines of forced racial concentration has been perfected by the black banker, the black publisher, the black business executive, the black athletic superstar and the exceptional black performing artist. These however, remain few in number, and they too wear out in front of them the badge of blackness that marks them for persecution by prejudice and racism.

For the most part, the black minister, the black lawyer, the black politician, the black beautician, the black barber and the black funeral director, remain too economically dependent upon their black constituents, and too professionally insecure to remove themselves too far from their ghetto bases. As regards the black man generally, be he machinist, mimic, jobber or job master, dark will usually catch up with him either in, or headed for his "ghetto." For the black woman, be she the working professional, the maid, employed maiden, mother or mistress, her job is but a temporary escape. Home is where she left her black family; her black man, her black child, in her and their black world. This is not all bad. On the contrary, black people, like other ethnic groups, do share a common heritage, a common ancestry, a common history, and therefore enjoy and frequently prefer sharing a common culture together. What is bad is the fact that historically residential segregation based on race, along with the beauty and the strength that is observable in black people; as well as the ugliness and the crime that occasionally attend their existence have not been wholly the result of the exercise by black citizens of their own residential choices. Rather, it has all been both because and in spite of the fact that black citizens have had virtually no choice in the determination of where most of their ranks either live or work.

Though it be true that since the adoption of the National Housing Act in 1949, the stated housing goal and the official housing policy of the United States has been to achieve ". . . a decent home and a suitable living environment for every American family"; and despite the clear mandates of the National Fair Housing Act of 1968 and the doctrine of *Jones* v. *Mayer, Co.*, 392 U.S. 409 (1968), which decreed that black persons have the constitutional right to ". . . buy whatever a white man can buy, to live wherever a white man can live," little has been done through the implementation of Federal housing programs, primarily because of the structural constraint of institutional racism, to change the segregated housing patterns that characterize residential communities, educational systems and employment opportunities in almost every urban community in our Nation; and the Chicago metropolitan area in particular.

II. FEDERAL PROGRAM IMPLEMENTATION AND THE ISSUE OF DISCRIMINATORY INTENT

Experience has taught that whenever the problem of systematic racism in Federal program implementation is spotlighted and brought into sharp focus, the usual response of established institutions and their administrators is to deny any conscious responsibility for things being as they are; and to further deny any specific intent to perpetuate or extend racism. This asserted lack of responsibility for existing conditions or specific intent to do harm, which is usually registered in utmost good faith, too often becomes a "blind spot" before the eyes of hard working program administrators and interferes with their capacity to be creative and effective in the formulation of affirmative approaches to the eradication of racial discrimination in their programs.

It would be most fitting for all Federal program administrators, particularly those who function in the areas of housing and employment, to learn well the lesson taught by the Honorable J. Skelly Wright, Judge of the United States District Court for the District of Columbia in *Hobson* v. *Hansen*, 269 F.Supp. 40 (1967) (affirmed in *Smucks* v. *Hobson*, 406 F.2d 175 (1969). Judge Wright observed:

"The complaint that analytically no violation of equal protection vests unless the inequalities stem from a deliberately discriminatory plan is simply false. Whatever the law was once, it is a testament to our maturing concept of equality that, with the help of Supreme Court decisions in the last decade, we now firmly recognize that the arbitrary quality of thoughtlessness can be as disastrous and unfair to private rights and the public interest as the perversity of a wilful scheme." (At page 497.)

Until the foregoing concept is fully understood and adopted by Congress, all Federal courts, and all executive decisionmakers from the President of the United States to the lowest echelon civil servant, we will not have come to grips with the major obstruction to the effective implementation of Federal urban programs.

III. FEDERAL LAND USE POLICY AND THE CURRENT HOUSING MORITORIUM

When speaking to the Nation on June 11, 1971, on equal housing opportunity, the President of the United States looked at the activities of the U.S. Department of Housing and Urban Development and properly observed that:

"In none of HUD's grant program does the department act directly. The department builds no housing, develops no land use plans, clears no slums and constructs no sewers. Instead, HUD provides, within its statutory and regulatory framework, financial assistance to local developers and agencies, both public and private, who build and manage housing, and engage in planning and community development activities. . . . Planning performed with HUD assistance is done by state and governmental bodies. . .

"In short, HUD's role in the location of assisted housing is one not of site selection, but of ultimate site approval. It does not initiate local housing projects."

In other words, HUD simply provides the money and pays the bill. Despite the apparent aloofness of the foregoing policy stance, it is neither accurate nor practical to separate or exonerate the Federal Government from any discriminatory and injurious land use policy in this area of housing. To its credit, the United States Court of Appeals for the Seventh Circuit had no difficulty penetrating the reality of the HUD-Chicago Housing Authority relationship when it was shown by competent evidence that 99% of all public housing units that had been built in the city of Chicago had been deliberately and wilfully concentrated in black neighborhoods.

In *Gautreaux* v. *Romney*, 448 F.2d 731 (7th Cir., 1971), the Court of Appeals found and held that between 1950 and 1966 alone, HUD spent nearly 350 million dollars on Chicago Housing Authority projects, while exercising its powers "in a manner which perpetuated a racially discriminatory housing system in Chicago"; and while HUD and its officials were at all times aware of that fact. In that case, the Court of Appeals held that the past actions of the Secretary of HUD and his administrators ". . . constituted racially discriminatory conduct in their own right."

Because of its findings of unlawful racial discrimination, and the entry of a decree which directs that a lawful program be instituted that will also remedy past discriminatory effects, the United States District Court for the Northern District of Illinois, is now charged with having brought housing for poor people in Chicago to a halt. The fact happens to be that the power of local governmental units has been applied, in direct response to white community expressions of bigotry, resulting in the political decision by the local authorities to suspend, if not terminate the further development of housing for black and other poor people in the city of Chicago. This is conscious institutional racism in its ugliest classical form.

It is as tragic as it is true that our Nation has no national land use policy. As a consequence, Federal program agencies cannot *act* effectively to remedy most urban ills; they can only *react* to them. Total blame for the failure of Federal programs is *not* properly laid at doorstep of regional and area officials. They neither make policy nor do they establish funding levels. In our national powerhouse there is simply nobody at the controls. Principally due

to the lack of enlightened leadership at the national level Federal program implementation at the local level often seems to proceed helplessly at random, resulting in the making of furtive gestures on the overall urban scene, bringing little order and frequently contributing to existing chaos. Such has been the case in the development and application by the Department of Housing and Urban Development of its current criteria for the evaluation of requests for funding assistance in the implementation of its subsidized housing programs: Sec. 235, 236, rent supplement, and low rent public housing. This is by common reference, the HUD "project (or site) selection criteria." In substance, the HUD site selection criteria contemplates that HUD will give preference, in its evaluation of requests for funding assistance to those subsidized housing development projects which foster dispersal of the poor and integration of the races. Though conceived in nobility, rooted in justice, with intent to remedy the effects of past discrimination, implementation of these criteria, while being applied only to low and moderate income persons and subsidized housing, has not and will not work.

The full ramifications of the HUD site selection criteria can neither be detailed nor fully examined in this statement. Suffice it to say however, that the continued application of the criteria will provide neither greater mobility for the inner city poor, nor increased housing options for black citizens. The site selection criteria constitute a dosage of medicine that is too weak to be effective against the structural character of organized racism; yet too strong in its structure, and too arrogant in its application to assure the survival and continued community growth of black citizens. In the area of employment and economic development, for black citizens, continued application of the criteria in its present form is productive of economic side effects that are actually and potentially devastating.

A major weakness in the HUD response by way of its site selection criteria is the fact that it does not address itself to the matter of racism in the total real estate market industry; nor even in all of HUD programs. It applies only to the subsidy housing programs. The arrogance contained in its application and impact can be best seen in the building and occupancy pattern in the Chicago community since publication of the criteria in January, 1972. Practically all of the newly developed subsidized housing since the publication of the criteria have been occupied by white persons. Upon total analysis, under the site selection criteria, the option that is available rests with white persons who can decide, because of the existence of even greater options where else they shall live. On the other hand the site selection criteria effectively directs and compels black people to live where the project developer and HUD determine.

Economically, the story is really told by the paucity of participation by black and other minority project sponsors, black mortgage bankers, black architects, black developers, black contractors and subcontractors has droned to a trickle since housing construction in the community served by these professionals and technicians cannot go forward to any appreciable degree under current structure and application of the published criteria.

Finally, one should think that the foregoing description of the Chicago urban scene would be itself a sufficient argument against the President's recently announced 18 month housing moratorium. However, the impact of the moratorium can be best measured by the housing conditions as they existed on June 11, 1971, when the President made his national statement on equal opportunity in housing.

It had been long established that the unsubsidized private housing market cannot be relied upon to provide housing for the poor. Standard housing for the poor, adequately maintained, is simply not a sufficiently profitable business to attract investors. So the new investment dollar is not finding its way into the field of providing houses for the poor.* According to the 1970 census figures four fifths of the total national population growth in the decade of the 1960's tok place within the metropolitan areas. More black citizens proportionately, than whites are living in the metropolitan communities, and over eighty percent of all black persons live in central cities. Meanwhile, the economic disparity between the central city dweller and the suburban resident is increasing as industry withdraws its investment dollar from the city, and as new housing and industrial development continues to mushroom in the exclusionary

*Sax and Hiestrand, "Slumlordism as a Tort," 65 Mich. L. Rev., 869 (1967).

suburbs and on the urban fringe. Studies conducted by the center for community change, as well as a well-documented seven city survey, which included the city of Chicago, conducted by the National Urban League, established that during the past decade six million units of housing were removed from the housing supply. It is reliably projected that this figure will rise to 8.5 million in the 1970's.

Long prior to the President's speech on equal housing opportunity, the United States government and the board of directors of the National Housing Conference, Inc., a clearinghouse for public interest organizations on housing and community development matters, had come to agree that meeting the stated national housing goal of "a decent home and a suitable living environment for every American family," required the development by government and industry of a capacity to produce, at a minimum, of approximately 2.5 million units of housing per year. Not only has there never been that much housing produced in a single year in the history of our country, but in no year have we ever seen construction commenced on any such number of houses.

Despite the foregoing, not only are we told that we must lower our voices about the nature of the problem, but indeed the President has declared that the crisis of the cities is over.

It is respectfully submitted that not only is the housing moratorium a reckless and irresponsible response to the housing needs of the poor, but when measured in terms of its total employment and economic impact, the moratorium represents a conscious indifference to the plight and true life conditions of minority persons; black ctizens in particular. The moratorium has already sealed the fate and decreed the death of several black mortgage bankers. It threatens the existence and dashes the hopes of rising young black architects and renders futile any and all prior efforts for the greater inclusion of black developers, black contractors and laborers in the housing construction industry.

CONCLUSION

It is imperative, in the interest of order and national good health, that Congress, the Federal judiciary, and the national executive come to grips with the realities of history and the structural character of racism in our society. This is not a matter about which we should lower our voices, and certainly it is not a matter about which the Nation can afford to pursue a course of either conscious or unconscious indifference. In the foregoing connection, as a first order of business, the Senate Banking, Housing and Urban Affairs Committee should resolve to mobilize all responsible elements of Congress in opposition to the housing moratorium and demand the immediate resoration of all housing program funds; with appropriate increases in housing funding levels.

It is further recommended that the current HUD project or site selection criteria be immediately revised and modified so as to provide for and *require* the construction and rehabilitation of housing in both black and white communities simultaneously, combined with a diligently enforced program to prevent the forced dispersal or forced concentration of citizens based upon race and poverty.

STATEMENT OF MARTIN E. WILLIS, HEITMAN MORTGAGE INSURANCE CO.

Mr. WILLIS. Thank you, Senator.

For the record, I am Martin Willis.

I am a member of the Board of the Coalition for the United Community Action and by profession I am a mortgage banker.

In line with being a mortgage banker, the Federal Government, effective February 5, 1972, enacted probably one of the most startling things I have ever seen before in my life and that animal is called: site section criteria.

Now, it was enacted as a mechanism to supervise the impact and long-range effects of subsidized housing in various areas throughout the Nation.

The theory behind the site selection was to provide greater housing opportunities for minorities outside areas of minority concentration, urban decay and to disburse the lower economic classes.

Regardless that there were no cries from blacks to move to the suburbs, the Department of Housing and Urban Development consistently channeled subsidized funds as well as thousands of jobs from black contractors to the suburbs.

The Communities that were the recipients of this new housing marketed their projects locally for fear of overcrowding their schools and most of all, afraid of a large influx of blacks.

But what if blacks had gone?

Who is going to insure them the goods and services; namely, jobs, public transportation, social services, police and fire protection that they would desperately need?

The same facilities are presently available to them in the inner city.

Nevertheless, site selection criteria wouldn't be half the monster that it is if it were not for criteria No. 2.

Criteria No. 2 contends that a subsidized project cannot be approved where there is an existing percentage of minorities in a community which is greater than the entire minority population for that metropolitan area, and for example, the city of Chicago and the standard metropolitan statistical area has a total minority population of 34 percent. However, it does have communities which contain ethnic or minority populations greater than 34 percent.

Under the guise or under criteria No. 2, a project could not be funded by HUD.

Criteria No. 2 also provides for an exception in the area of high minority concentration under the premise of overriding need.

However, that community must prove that the reason the overriding need exists was not the direct result of discrimination.

In effect that simply means that the community exists where it exists because it was not racially discriminated against and that has never happened and that has not been the history of the ethnic pockets in the urban area of the city of Chicago.

In view of all of the problems that site selection criteria has created, I must commend the Chicago area office for understanding these problems and trying to administer them as effectively as possible.

I urge this committee to do whatever possible to abolish site selection criteria, if not in whole then in part with particular emphasis on criteria No. 2.

And Senator Stevenson, I am astonished that the same Federal Government that wrote the 1968 Housing Act could also write site selection criteria.

Senator STEVENSON. Congress, of course, did not write it. It came from HUD.

Mr. WILLIS. That is right.

Senator STEVENSON. And partly in response to court decisions interpreting the 14th Amendment with respect to equality.

Why is it that the site selection criteria, especially No. 2, caused more difficulty here than in any other community in the United States.

I am told that one quarter of all of FHA applications in the United States turned down for failure to comply with that criteria are for the financing of housing in the Chicago area—one quarter.

Elsewhere, it is apparently not a serious problem.

Mr. WILLIS. Well, Senator, whether, I don't know—well, I don't believe it is interpretation.

I believe that there is a lot of ambiguity written into the site selection criteria and I believe that the, you know, the 8-point site selection criteria is virtually impossible to comply with because it is so contradictory.

Now this Administration, the present Administration or the Chicago area office has, in effect, attempted to fund some projects on a one-for-one basis, on the basis of comparable housing facilities existing in suburban communities.

However, those projects were caught up in the moratorium and I believe you know what has happened since then.

Senator STEVENSON. This morning we had mixed testimony on whether the trickle down system, also known as the filter system works as a means of providing decent housing for the poor.

I will ask all of you:

Do you have any comments to make on the trickle down theory and particularly whether it works the same way in the city and in the suburbs and the same way for whites and for blacks.

Mr. Rubinowitz?

Mr. RUBINOWITZ. There was a major study done a couple of years ago at the University of Michigan which indicated that the trickle down system worked fairly effectively for whites and very poorly for blacks, particularly at the lower income ranges.

Mr. TUCKER. In the central city, more particularly, Senator, in the city of Chicago, the problem with trickling is a failure to examine what is trickling and where?

For the most part, what we are talking about is a process by which the worst housing in the community is left available for occupancy by black and poor people with white people having determined two things:

No. 1: That there has appeared in a particular community more black or other minority persons than they are prepared to live with and accept.

No. 2: That really what they are leaving in terms of housing in most of the communities is housing that has been substantially utilized to its fullest extent and they are, or it is being left, in many instances, to people whose capacity in terms of income cannot cause its rehabilitation and there is an absence of practically now, since we don't have any housing programs for poor people at all, to aid in their rehabilitation and maintenance.

So it is more than a problem of fear, particularly when you apply it to a city with the population of Chicago and its heavy concentration of black and poor people, which is the condition that the trickle down theory is being applied to.

Senator STEVENSON. Mr. Tucker, you mentioned a number of civil rights and housing provisions and you are experienced with them.

There is one you didn't mention that has some relevance to this discussion.

I am thinking of section 3 of the 1968 Housing Act which is intended to promote greater employment opportunities in connection with HUD assisted programs or projects.

Are you familiar with this?

Mr. TUCKER. Yes, Senator, I am familiar with it.

Senator STEVENSON. My question is that this section hasn't been used or pushed very much.

Do you have any observations to make about the effect of that section of the law?

Mr. TUCKER. It has received essentially the same treatment as has section 808E5 of title 8 of the Civil Rights Act of 1968.

That latter provision directs the secretary of the Department of Housing and Urban Development to affirmatively administer all of his programs so as to further the purposes of the act.

Section 3 which actually directed the administration of programs so as to provide increased employment opportunities, was buttressed against the administration of Executive Order 11246 but again program administration is so much a matter of relationship, Senator, between the various components of government.

In other words, it is not appropriate in a very real way to lay failure of administration at the doorstep of either some people in the central office in Washington, and certainly not in the area of regional office levels because what we are dealing with is that these people don't make policy for the most part and they certainly don't have anything to do with funding levels.

However, this is done in the halls of Congress.

So we have it approach the situation anew and it is only when the national leadership determines that the provisions of all of the sections of the act will be administered affirmatively that they will be and until that is done, I suggest that they won't.

Senator STEVENSON. You talk about a policy but the laws are on the books and it is a question of administration.

It is a question, to a great extent, beyond the reach of Congress.

Mr. TUCKER. Well, let us go back and take for example, title 8 of the Civil Rights Act of 1968 which I am even more familiar with and the provision there that actually it does not have to simply do with a black person will live in a white neighborhood or other minority people will have a chance to move, to have mobility.

That speaks to everything in the department.

The problem is, where do you make the determination as to what constitutes affirmative action.

That determination is not made at the area or regional office level.

That is not made frequently even in the department.

That determination is made on political considerations, often at 1600 Pennsylvania Avenue, and there the policy that evolves reflects, as it does the policy today. what the national leadership believes to be its mandate from those persons who must keep it in office.

So implementation is a matter of national leadership, not wholly a question of program administration within the executive agency.

Now, I don't intend to say that you don't have an ongoing problem .You don't, let me say, that I don't say that you don't have an

ongoing problem at the ranks of middle management and in the areas of program administration.

On the contrary, a whole world of resistance to affirmative action exists there.

Now, this is a part of what is being talked about and what I was talking about earlier, about the structural character of racism.

Therefore, it has to be approached within the executive agency, without actually being dealt with at every primary component part of government from Congress all the way across right down to the lowest echelon of civil service.

Senator STEVENSON. Mr. Rubinowitz, you were also employed in the HUD regional office.

Do you have any observations about how the administration of that office and the HUD programs can be improved?

Mr. RUBINOWITZ. I think at the bottom of the problem is the incentive system of the officials in those offices.

I think that the incentive system is basically to spend the dollars that Congress appropriates for those programs and to spend those as efficiently and as quickly as possible and anything that gets in the way of that becomes an obstacle to them performing their task.

The things that get in the way of that are section 3, section 808 and other kinds of civil rights consideration.

As long as there is an incentive system to spend the money, spend it quickly so that Congress will believe that you are doing your job, it seems to me that as long as that whole system exists, then those people will find civil rights kinds of questions, racism questions, issues that they don't want to bother with.

Mr. TUCKER. There is a mandate that comes down and says:

Spend the money. Spend it fast but also spend it in a way so as not to disturb the voting blocks necessary to preserve us in office.

Senator STEVENSON. Well, I am afraid we are going to have to push on.

Thank you very much for joining us.

STATEMENT OF FATHER FRANCIS X. LAWLOR, ALDERMAN OF THE FIFTEENTH WARD IN THE CITY OF CHICAGO

Father LAWLOR. Good afternoon, Senator.

I am grateful for the opportunity to appear before you.

I have some additional material that I would like the Senator to be able to see.

Senator STEVENSON. We will be glad to have it and we will enter it into the record.

Father LAWLOR. I realize that there is strong opposition to the moratorium and it strikes me that it is mainly from vested interests, from builders and bureaucrats who are interested in keeping the Federal funds flowing from which they can make their money and draw their salaries.

The poor people have problems. They want adequate housing and I basically represent poor people and lower income people; 65 percent of them are renters. The rest are homeowners who find themselves caught in between the totally minority community and the suburban white or the outer fringes of the city white.

We are in what we call a peripheral area.

Many of our people suffer from a very peculiar disease we call "peripheral psychoneurosis."

Somehow it affects them to the point that in a matter of 1, 2, or 3 years, an entire community has changed over.

People who have lived there for 75 or 80 years, with no foreclosures, one generation coming after another, these people suddenly find themselves in a situation where the easy availability of FHA money gives them the opportunity to move out of a situation which they do not care to face, and that is the approaching minority group.

It is a problem that they could not resolve in that particular manner if it weren't for the maladministration of FHA which I think basically is a good program which was intended to help people who need housing but the way it is handled, it allows the blockbuster, the panic peddler who are very real individuals; it allows them to move in upon a community.

You find opening up, dozens, even hundreds of real estate offices in a particular area, preying upon the fears ,preying upon the weaknesses, the prejudices, if you will, the misunderstandings that do exist between the races among the minorities.

So these people have created extremely serious problems for my community and it has resulted in a problem that is more than housing.

I would address myself to that because I don't think that the weaknesses of FHA are really in the type of housing that it is providing or attempting to provide.

I think that Mr. Waner has come into his office and he has instituted reforms largely pushed by the west side coalition; reforms which prevented the sale of any kind of existing housing that is inferior.

He has demanded that the condition of that house be such that it will last the 30 years that they are asked to cover it with a mortgage.

Up until the present time we have had a lot of inferior buildings being palmed off on unsophisticated buyers, people who were desperate for a home but didn't know much about quality housing and those who, for one reason or another, determined that they were getting out of the community, they could not get conventional money.

They couldn't get any other type of money except the FHA and FHA made it possible for a man to come in with $200, $300, $500 and acquire a home without the experience that was necessary to maintain that home, to take care of it.

Frequently, he was told that the house was in good condition and found out within a matter of months that the furnace did not work in the winter, that it was not adequate to heat the house; the roof might have been leaking, the plumbing out to the street had to be drained and cleared, there were many things—the electrical system was not adequate and there was a tremendous amount of expenses suddenly put on his shoulders that he never realized was there at all.

He thought all he had to pay was that regular monthly sum which covers taxes and insurance.

Well we find our communities have been totally resegregated.

Now, that is not in line with the Federal program.

It was never meant to be used that way.

You have the Federal Government factually or actually subsidizing the resegregation of communities from white to minorities.

I think when the laws were written, when rewritten every effort should be made to try to straighten this matter out.

It was not intended that it would create this kind of a situation.

Again, it has brought a crime situation into the area.

Whereas we were among the lower crime areas, suddenly in the last few years, the seventh district, the Englewood police district in which my ward exists, has become number one in indexed crime for the entire city of Chicago.

We are averaging eight murders a month. This is a very serious situation and it was not a condition that existed previously and it is because of the impacting that has taken place where the blacks tried to move away from deteriorated situations, they came to acquire homes for themselves and their children and the FHA kept handing the money out to everybody and anybody who wanted to sell with the result that the same thing that they were trying to get away from has caught up with them.

The entire community is right back where they started and the crime is there and now those people are trapped and they are burdened with a mortgage and so forth that they have to look to 30 years to pay off.

In the meantime, the children are growing up in the same conditions that they want to get away from.

The schools have been impacted to the extent that we have had to put additions on every school in the area and put up new schools as well.

Some 90 classrooms in the last 3 years have been added to one small—it would be about a square mile community.

We have had something like 90 foreclosures in the last 3 years because these people came in and didn't have the money to maintain the continuing payments.

There have been a lot of problems that have developed simply because FHA was not careful in the way that it has made these funds available for mortgages.

I do think that they are very wise to limit themselves.

I know Mr. Dempsey Travis and others have disagreed with me on it but I do believe that they could spread out the availability of FHA mortgages so that in any given community, any given census tract there would never be more than 5 percent of the available housing per year sold, exchanged through FHA.

This would give you a 95 percent of the stability of the existing community.

It would mean that the businessmen would have 95 percent stability, that the homeowners would have 95 percent stability and they wouldn't be filled with this fear that everybody is going to sell and run.

You would know that the most that could sell in a given year would be 5 percent with this particular type of financing and then it would be up to the conventional mortgages and others to make available their funding if they wished to do so.

Insurance companies have redlined these areas and have made it very difficult again to get insurance or to hold insurance.

They are very quick to cancel insurance on the people.

All of this amounts to major problems of crime, impacting of the schools, the white people panicking and running, the block-busters coming in and capitalizing on their fears, capitalizing on their weaknesses, taking advantage of this peripheral psychoneurosis.

People just become basket cases. have nervous breakdowns, mental conditions and their doctors tell them: "Get out."

They are worried about their children, the discipline within the schools breaks down, there are poor learning environments that develop and you have this total impact, and when you get a total impact on a community, it is just the same for the black who moves into it, even he is robbed of what he thought finally his big achievement in life was, that he had gotten into a peaceful law-abiding community where he could live responsibly with his fellow citizens.

Now, this is being denied to him because of the wrongful handling of the FHA.

We have maps showing you the schools of the city.

One area is entirely all black.

Another area is entirely all white.

Another area is entirely or totally Spanish speaking.

Now this again is not in line with the Federal Government's plans but this was engineered by our Chicago Board of Education which, through its policies, has developed these patterns and continues the resegregation contrary to the law.

So I say that we welcome your investigation particularly in the peripheral area where Judge Austin attempted, he tried to create a buffer zone and to promote scattered site housing on the part of the CHA but he has had no cooperaiton whatsoever.

The area caught in-between is the one that is day-in-and-day-out being changed over and this is on a 65-mile periphery in the city of Chicago.

This stretches all the way from South Shore, through Roseland and Pullman areas, over to the Beverly area, up to the Highburn, up north Wood and on the west side all the way out to Austin and back again.

There are hundreds of thousands of people being subjected to these pressures on the periphery.

The suburban areas, there is nobody out there.

They don't have the problem and when they do get the problem, it is generally somebody who is financially well set and able to relate well to that community.

I really don't believe it is a black-white problem.

I think it is a cultural, social, and economic problem and I think it is one that the black who has attained a good position in life, he has a good income, he has a good education, he wants to take his place with people who have similar status and he is more minded perhaps to move where he will find people of that level. He wants to get away from the crime situation.

The poor generally are thrown together no matter what country they are in or what race they may be of or what nationality.

So it is a total thing and I don't want to take all of your time.

I know we are overscheduled, we are over your scheduled time but I do appreciate the opportunity to appear before you.

I hope that something will be done to limit the availability of FHA and not only FHA but I think that the NGIC and other lending institutions, the United States Steel and others that have made their monies available, they play a large part in the same thing and I would hope, with some restraint, they would help that existing community so that it could be allowed to exist.

Where people do move in, I hope that they can relate well with those communities and take their place and respect the rights of others as they want theirs respected.

Thank you.

1970 U.S. CENSUS ANALYSIS BY WARDS FROM CHICAGO DEPARTMENT OF DEVELOPMENT AND PLANNING

Percent	14th ward	15th ward	16th ward	Citywide
Total population	66,638	67,502	65,890	
Total number of households	22,133	22,985	16,997	
Persons per household	3	2.9	3.8	2.9
Households (male head)—percent	84.3	85.1	71.5	82.2
Housing units	23,545	23,814	18,267	
Occupied units	22,126	22,978	16,993	
Percent occupied—percent	94	96.5	93	94.1
Owner occupied	9,730	12,219	4,868	
Percent owner occupied—percent	44	53.2	28.6	34.8
Renter occupied	12,396	10,763	12,125	
Percent renter occupied—percent	56	46.8	71.4	64.2
Median value of units owner occupied	$15,900	$17,000	$14,900	$21,000
Median rent charged	$77	$108	$110	$108
Units lacking one or more plumbing facilities—monthly	1,007	451	580	
Vacant units (total)	1,419	836	1,274	
Vacant for rent	927	531	1,062	
Percent vacant for rent—percent	65.3	63.5	83.4	75.2
Vacant—for sale	123	93	52	
Vacant—percent for sale—percent	8.7	11.1	4.1	3.5
Vacant—rented or sold but not yet occupied—or off market at time	369	212	160	
Percent vacant (as above)—percent	26	25	12.5	21.3
Single family units—do	24	40.4	17.4	24.5
2–4 units—do	68.2	50.6	65.5	41.4
5–9 family units—do	6.1	4.5	9.6	13.1
10 or more family units—do	1.7	4.5	7.5	21

Note the number of vacant units for rent in these wards . . . there are 50 wards. Note the number of vacant units for sale in these three . . . there are 50 wards. Note the number lacking certain plumbing facilities in these three . . . there are 50. Note that 65.2 percent of all Chicago households are renting while 34.8 percent own their own homes. Note these three wards have noticeably lower home values than the city median of $21,000. Since 1970, a tremendous change has been taking place in each of these wards; overcrowded schools; increased crime rates; foreclosures; racial resegregation.

Senator STEVENSON. Thank you, Father Lawlor.

I don't think many of our witnesses would disagree with much of what you have said except the suggestion that FHA financing should be limited to 5 percent or some arbitrary percentage of the housing in a given area.

The effect of that would mean that 95 percent of your constitutents couldn't with governmental help, improve their housing condition?

Father LAWLOR. No, I wouldn't——

Senator STEVENSON. That is what you are saying?

Father LAWLOR. No I am not saying improve their housing condition because the people already there have very nice housing.

Senator STEVENSON. I understand your suggestion.

You said that all of your constitutents were satisfied with their housing?

Father LAWLOR. Basically yes, that is why they are still there.

Senator STEVENSON. Well, then, why are they selling?

Father LAWLOR. They are under pressure, this peripheral psychoneurosis.

They are afraid of the rising crime rate, of the impacted schools, of the deterioriated learning environment in the schools and the crime on the streets.

They are afraid to walk on the streets and that is why they are running.

Senator STEVENSON. They are not going to be able to escape crime anywhere.

I think that what certain politicians are saying about controlling the crime rates, the violent crime rates is untrue.

The FBI reports that rape, murder, and aggrevated assault and all of your violent crimes the rates are rising at as fast a rate as they have been previously and they are rising everywhere.

As a matter of fact, they are rising more rapidly in the suburbs.

Father LAWLOR. You see, we are not against improving homes. We are not against even building 235's in the inner city.

The reason they are building 235's in my area is because the people there are afraid so that they are willing to sell their properties at say $2,500 a lot or less.

Now the builder can't make any money in a community where he has to pay $6,000, $7,000, or $12,000 for a lot.

So the builders are flocking into my community.

Every vacant lot they take away means that there is less space for the children to play.

All right, now. There is the overimpaction of the area even more and there have to be so many occupants per house under these programs so you get a house with two, three or four children and then what happens to the schools?

You get four or five houses on a block so here comes classrooms additionally, more spending on the part of the board of education, more teachers and everything keeps rising but we are the impacted community, the stable white and the stable black.

Senator STEVENSON. We have heard that complaint too from many other communities and communities from many races.

Father LAWLOR. But the crime situation, we know the black can't get away from it because he is trapped in it.

Those on the edge can't get away from it.

Senator STEVENSON. I am afraid nobody can get away from it.

Father LAWLOR. Only with some kind of Federal intervention.

I think maybe we should train our troops for urban life.

When they go into foreign cities in Europe and Asia and so forth, they have to live with the people there and they learn to do it, to get along.

Maybe we should have patrols to assist the police so that we can walk safely in our communities and so that we don't have the fear that somebody is going to hit us over the head, take our wallet, grab our purse, enter our house.

Homes are being broken into left and right.

Now this isn't alone in the communities just since the changeover and the black people tell me that every single home gets robbed.

Senator STEVENSON. So well, maybe that is exaggerated a little.

Father LAWLOR. No; it is not.

Senator STEVENSON. I am afraid that the problems in your community are shared by most communities in the country.

Father LAWLOR. We can move away.

Senator STEVENSON. There may a different degree but the feeling that you can escape the real threat or the violent crime in this country, you can't because it is here.

Father LAWLOR. We can escape.

I have all kinds of people who come to put their house up for sale and then walk away and they get another house or an apartment someplace else.

One big problem they have is that they are so poor that they can't afford it so they are stuck there and while others who have better incomes are the first ones to run.

The blacks coming in are buying brick houses, not the wooden frame houses that the older folks had but rather they are buying better quality housing and they have not caused any trouble but the fears are there and the blockbusters are preying on these fears what with their telephone calls, with the cars running up and down the streets and walking up to houses and having people tell them "It is not for sale" but every time somebody sees a black walking up to the door they figure it is up for sale.

If you paint the outside of your house they say "They are getting ready for the FHA appraisal."

No matter what you do to improve your home the fear is so great and this is over a vast area, that these people are scared and they all have to consider what is involved.

Now, I wish that you could somehow make it one of those situations where they don't have to fear and I think at least in the peripheral area, why for a mile or so, like Judge Austin has said, you could say that the FHA is limited in those areas year by year.

They could change over in 20 years but they wouldn't all change over in 1 year and have everybody running helter-skelter, grabbing anything they can just because they are looking desperately for new housing.

Senator STEVENSON. You attach much of the blame for the panic to the panic peddlers and the blockbusters?

Father LAWLOR. Yes.

Senator STEVENSON. Well, the president of the Chicago Real Estate Board testified just a few minutes ago that that problem is greatly exaggerated, that it wouldn't really be anything to be very concerned about.

But leave aside his opinion.

What do we do about these blockbusters?

Father LAWLOR. I don't think you can do much of anything about them, I really don't, any more than with the antisolicitation laws. They don't work.

They don't work because you can get people to sign this and you can get thousands and thousands of people to sign it but when you get the individual——

Senator STEVENSON. Sign what?

Father LAWLOR. The antisolicitation laws.

Senator STEVENSON. You mean enact the laws, that there are laws?

Father LAWLOR. But they don't prosecute and it is so easy to get out of it if you did prosecute it.

If you did, it doesn't mean anything anyway because you can report these things to the human relations commission and nothing is done about them.

About 90 percent of the people, as I understand it, they didn't want anybody soliciting them and once you get the other 10 percent or 1 percent, when he gets solicited, when he is willing to sell, when you get your first move-ins, then the people next door and down the street, all over the community, the panic starts to hit them and then the blockbuster, he has got his money right there on the table and it is very obvious to him.

He knows the psychology.

Senator STEVENSON. It is your impression that HUD is doing business with blockbusting realtors?

Father LAWLOR. No.

Senator STEVENSON. Well, to put it slightly different—

Father LAWLOR. Nowhere.

Senator STEVENSON. Are they doing a better job of disassociating themselves from them?

Father LAWLOR. No, I don't think that you can think of any sort of conspiracy or anything of that sort, I don't think so.

What I feel you have here is the white knows FHA money is available and, therefore, he is able to give into his fears and so forth and to run.

If that money were not available they couldn't do that.

They would stay there and they might face the situation.

They might insist that they get police protection.

They might insist that the school give quality education and provide the kind of environment that they should have for their children to learn, you see.

But instead, it is too easy to run and so they run and everybody gets panicky and when you get your leaders in the community, the doctors, the lawyers, the businessmen, when they start to fall apart, they relocate another store 3, 4 or 5 miles away so that this one phases out, then they still have got another business going and they are hoping that their customers will be the same customers in the new location.

It is a whole pattern which has been going on for years and years.

Everybody in the city knows it.

The board of education knows it and everybody knows about it yet, the people still suffer from the same thing.

Nobody has been able in any way to affect it. It goes on and on and on, and I think we have got to get into the inner city.

We have got to improve the quality of life, make the schools good learning centers with proper discipline and give the people hope so

that they can live in their communities, walk the streets safely, improve their homes and have all of the things that anybody else in any other community and then they don't have to look over the fence and say:

I have got to go over there because he has got a better deal.

They should have just as good a deal right where they live. Every community in America should be a good community of good schools and every citizen should be properly protected in his own lifestyle.

Senator STEVENSON. That is a proposition upon which all Americans agree?

Father LAWLOR. Right.

Senator STEVENSON. The question is how to attain it.

Thank you very much, Father Lawlor.

Father LAWLOR. Thank you for the opportunity of appearing before your committee.

Senator STEVENSON. Now, we will return to two witnesses who were scheduled to testify earlier but they were detained and I will ask them both to come forward.

They will be our final witnesses; Dempsey Travis, president, Sivert Mortgage Corp. and William T. Wallace, president, Environment 7 Limited.

Mr. Travis, I have already entered your statement in the record and we are a little short on time. (see p. 263).

You may summarize your statement if you would like to.

Mr. TRAVIS. I will summarize it and it will probably take me less than the 4 minutes allotted.

I want to congratulate you, Senator, and your staff for coming to Chicago and listening intently to the witnesses for the last 2 days. The quality of the testimony has been excellent.

I didn't know that Father Lawlor and I agreed on anything but appears we do.

Senator STEVENSON. That is one of the beauties of communication.

If people would communicate a little bit more they would find that there is much less disagreement in the country than we sometimes think.

Mr. TRAVIS. Well, just let me say——

Senator STEVENSON. However, I will agree that there are still some disagreements.

Mr. TRAVIS. Well, there are but we both agree that John Waner is a good man.

I met John, I just want to say that I had the opportunity to listen to him earlier today but I met him in 1960 because we were the first black mortgage banking company to come into the city of Chicago and deal with FHA.

Dealing with FHA at that time was to deal with a real racist institution.

Now, I say that John Waner showed a lot of sensitivity to the problems of my community and that hasn't changed.

The housing regulations which have been discussed for the past 2 days were united by two assassinated leaders, one black and one white.

In just 4 days, all of the black and some of white America will be commencing the fifth anniversary of the death of Martin Luther King.

It is equally significant that the housing bill we are discussing here today was passed by Congress, signed by the President within a matter of days after the death of Dr. King.

Many of us in the black community call the housing bill of 1968 the King housing bill because it took the death of the great leader, combined with the legislative skills of the late President Johnson to bring off what was considered by many of us, the Camelot of legislation.

It should not be forgotten that the late President Kennedy laid the foundation for the King housing bill when he signed the Executive order that made the Federal administration relevant to black folks, only 1 year and a few days before he was assassinated in November 1963.

Before these grave events there was no Federal programs to house the poor other than public housing which, in my opinion, was tantamount to a scarlet letter for both the black and the poor.

Prior to November 1962 there was no effective housing programs for blacks in the moderate- and low-income bracket.

The recent freeze of 235 and 236 programs has shelved the best people-programs ever conceived in the history of this country.

True, both programs were riddled with faults, much the same as people are riddled with faults but the solution of the people problem is not liquidation and neither is the program liquidation the solution to the housing problem.

I think we should all be about finding answers to the problem which means putting the best minds from all sectors, public and private, black and white, busy to come up with some regulations that will take the fat out of the pocket of the middleman and convert it into shelter for the poor.

No program will work without a great deal of cooperation between the citizens and the Federal bodies.

The cities cannot continue to tax properties into default and expect the Federal fathers to bail them out with additional subsidies.

Any consideration of special revenue sharing should start with this premise.

The real estate on subsidized projects in Chicago and in most major cities across the country is confiscatory in that it runs as high as 50 percent of the gross trends.

No projects can survive and and have good maintenance with a tax base higher than 18 percent of gross rents.

There must be an elevated merit for the common good for the cities and the Federal Government.

Now, let's look at some of the desirable features of the subsidized programs.

One, it increased employment and business opportunities for minorities in construction, financing, and professional related fields which they had never been represented in before. Two, when properly monitored it resulted in a uniform standard of better constructed housing for people of both low- and moderate-income.

Three, many communities had begun to show a turnaround and showed stabilization as a result of rehabilitation and code enforcement programs.

Homeownership and new life styles were made possible for many middle-income families who could never have aspired to this portion of the American dream before.

Subsidies have made it possible for many Americans to escape from the below-marginal lifestyles which they were hooked to because of either their ethnic status in which they were born or the color of their skin or both.

Many black professionals and white professionals today would never have reached their present status if it had not been for the veterans' subsidies made possible after World War II and Korea.

It was these subsidies that converted many a family from a status of taxeater to a status of taxpayers.

Just to personalize it, prior to benefitting from the G.I. bill, my average salary was something like $800 a year.

I am happy to say that I paid many, many times that much in taxes for many, many years since 1949.

The wear and tear on urban areas puts a premium on city space that falls heavily on the affluent and poor alike.

It deprives both of them of the amenities to which they are entitled.

The exhibits which I have already passed up to you, as evidence, will substantiate the things I have said.

Historically, land has been under the control of the majority, but if public funds are to be used in the way that they should be, minorities should participate in proportion to the minority population in any given city.

In the long run, urban development in this Nation will have to depend on their housing opportunities, that is, fair housing opportunities, fair employment opportunities, and fair business opportunities as well.

The exclusion of minorities in the redevelopment process of the cities would serve only to make the red inside of budget keeping that much redder.

Total reliance on the 50-States housing authority of some 2,500 or more local housing authorities, would unravel most, if not all of the important stsandardizations which has helped the Federal Housing Administration move the total mortgage market into viability and acceptability.

Therefore, I would say that judging from some experiences that I have had in working in various States around the country, I found each State is almost like a separate country.

Some States have documents dealing with subsidized housing an inch thick. Others have documents 2 feet thick all depending upon the mood and the complexity or the intelligence of those who write the orders.

Mr. Chairman, it has been a pleasure to have had the opportunity to address this body and I want to bring to your attention that a great deal of effort was put in on the part of Mr. Benjamin Scott, executive director of the United Mortgage Bankers of America in preparing what is known as "An overview".

Here we purport to give some answers and some solutions to the problems, not simply raise questions.

Thank you.

Senator STEVENSON. Thank you, Mr. Travis.

We must conclude. We are running way behind our schedule.

Mr. Wallace, I will have to ask you to be brief.

STATEMENT OF WILLIAM T. WALLACE, PRESIDENT, ENVIRONMENT 7 LIMITED

Mr. WALLACE. Mr. Chairman, I think the problem is a brief problem. It is a massive problem, but it is brief.

I think that firstly you should be commended for coming here to deal with this problem, and I think in fact that the results of this in some way should be filtered down to the people who are truly in need of knowing that you are concerned about their best benefits, their best interests.

I say it is brief, Mr. Chairman, simply because it is a product of denial.

This is a problem of denial, and I think that this is a problem of politics and I think in fact that I have to come to you and I am only as powerful as my access to government.

Therefore, I want to say that I am Bill Wallace.

I am from the west side of Chicago.

I am a person who has managed to rise above what is defined as the west side and I represent probably a two-world existence here.

I know what they don't want and somehow we have got to find a way to convey to Washington what isn't wanted.

I think I represent, in my technical capability, a capability that has been developed from the west side of Chicago all the way to the streets of Paris, to bring technology to black people and I think with Dempsey sitting here, there is a precedent, you know, unrecognized; namely, the use of systems construction to respond to the need of black people for housing, the utilization of systems construction to, in fact, allow the involvement of minority contractors in the building process.

When Dr. King as Dempsey talked about, when Dr. King decided that he should support integration, the hue and cry rose up from Americans saying that integration was negative and when black folks got with it and decided it wasn't so bad to live next to black folks, why all the nooks and crannies of society, all the nooks and crannies of the land between every suburban community and Chicagoland and the suburban area then opened up.

I think maybe when we talk about the attitudes of Dr. Lawler, they should deal more with the business he is more familiar with, that of developing confidence in the communities rather than in fact pointing out the extenuating circumstances, the negatives.

Black folks aren't so bad to be next door to.

I think when you look at the fact that somewhere in 1970 or 1971 some 6 million plus dollars of construction, just for housing, was spent in this country and that just in the course of the last year we noted that maybe $200 million of construction went to minority contractors, then I think you have got to look at the real impact of the elimination of housing development in this country.

As a minority professional, I can't get a project in Wilmette.

I can't get a project in Winnetka and neither can Dempsey, neither can the contractors in Chicago get a project in Will County without risking their lives.

Now, we must develop these businesses, we must redevelop the central areas of Chicago and that concerns much more than housing.

It allows the minority professionals and contractors to get into the moneymaking end of things and in turn to filter down this money to their people, and this has resulted from the old team concept, you know, to develop in fact an Afro-American community as well as an Irish American or Italian American community which is the objective.

I will terminate this by saying that we would like to see this moratorium lifted.

With the efforts of people like John Waner here, I have developed an access that was unprecedented.

I have watched Charlie Schweible over there on the west side arranging for land to be available to the Chicago west side development.

I have watched Lew Hill and the mayor make land available to us to build projects that outdid "breakthrough" a Government act.

Our projects came through from Paris and some of them are still unfinished.

These are models that their black folks are building and we should look up to them.

We are not in the imitating business but we are in the model-making business and we can, or we are being, put out of business because of this moratorium.

I want to thank you for coming, Mr. Chairman, and thank you for the opportunity to speak to you.

Senator STEVENSON. I thank you, Mr. Wallace, and I really apologize for the shortness of time.

We are going to have to wind this up now and I want to thank every one of you because you have been very helpful.

Let me enter into the record a statement by Marcelleno Diaz of the West Side Real Estate Board. Let me conclude by saying that in the last 2 days of hearings we have heard provocative, highly articulate testimony about housing, and about the condition of our large metropolitan areas.

[The statement follows:]

STATEMENT OF THE WEST SIDE REAL ESTATE BOARD, CHICAGO, ILL.

It is essential for the Latin American people, as well as for other minority groups, that financing be available in order that they could provide housing for their families. If the sources of financing are taken away from them, the right to buy a home is taken away. Furthermore, the right to buy in a free market, as provided by the Federal and Local laws, is taken away. The Latins shall remain living in rented slums.

Previous to F.H.A. financing in the Chicago area, there was no financing for at least 95% of the Latin American people. The only financing available was conventional mortgages. But this type of loan did not help the Latins because of the large down payment required. Therefore, the only alternative left for poor people was F.H.A. financing.

The problems of F.H.A started as soon as this Federal Agency began giving loans to Negros, Puerto Ricans, Mexicans, and other minority groups in a non-discriminatory basis. For the first time in their lives, these poor people had

the opportunity to fulfill the dream of their life, to own a home purchased in a free market. In as much as the great power of the United States Government was behind them, they thought they could buy freely in any part of the City. It worked fine for the first few months. Then, all of a sudden, Hell broke loose against F.H.A. and everyone connected with F.H.A. sales.

Let us now examine objectively the real causes of these violent attacks against FH.A. WHO are the enemies of F.H.A.? WHY is this agency under continuous attack?

F.H.A. is attacked because of its policy of financing Real Estate without discrimination. For the first time the Federal Government has broken the pattern of discriminatory Real Estate practices through F.H.A. The status quo was broken. Those who didn't want to see F.H.A. succeed rallied their forces in a hurry and began crying "F.H.A. MUST GO"; meaning Negros, Latins and other minority groups must go. "F.H.A. is a creator of slums"; meaning Negroes, Latins and other minority groups. "Panic peddlers", "block busters", meaning Real Estate Brokers willing to obey the Federal Law by selling Real Estate in a non-discriminatory basis.

Those opposed to seeing F.H.A. succeed, organized themselves into pressure community groups to terrorize, intimidate and blackmail F.H.A., the Human Relation Commission, other Government Agencies, the Real Estate Brokers and the Real Estate sellers. These pressure community groups created borderlines whereby Negros could not move North of certain streets. Any violation of this rule would mean total war by these groups against the violator.

In conclusion, it must be said that F.H.A. has been a blessing for the Latin American people and to other minority groups. The Agency is not perfect and improvement should be made, but its activities should not be curtailed.

Mr. Marcelino Diaz, President of the West Side Real Estate Board, First Vice-President of the Puerto Rican Parade Committee and First Vice-President of the Spanish Action Committee, on behalf of these organization.

Senator STEVENSON. We have heard really about the logic of an American politics which terminates successful programs and continues troublesome programs: a Government which continues subsidies for housing for the well-to-do—and no one has mentioned in these hearings the most costly subsidy of all and that is the $6 to $8 billion annual subsidy in the form of interest deductions on home mortgages, a subsidy which I believe should be continued.

But we did discontinue subsidies for the people, for the low-income and middle-income people.

We have heard about the logic of a politics which mismanages the acquisition of C–5A's and F–111's at a tremendous cost to the taxpayers and still plunge on and buys more hardware for the Pentagon; yet a Government which may mismanage a housing program for the people and then give it up.

Well, I don't pretend to have all the answers. I doubt if any of our witnesses claim to have all of the answers but I do know that there are answers and that a Government which can afford, so it says, to rebuild North Vietnam, maintain a military existence at a very high level, continue space exploration now with a $30 billion manned space shuttle, can also afford decent housing and stable communities for all of its people.

These peoples have been helpful in moving us closer to the answers and I appreciate all the help that you have given us.

I want to thank also Station WTTW for the time they have allowed us to use, time that I wouldn't like to have had to pay for because even now we have gone 1 hour beyond our time.

That concludes the hearing and I thank you all very much. We have some additional statements which we will insert in the record at this point.

[At which point the hearings adjourned.]

APPENDIX

Additional Statements and Data

UNITED STATES SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Washington, D.C., February 28, 1973.

Mr. CHARLES J. ORLEBEKE,
Deputy Under Secretary,
Department of Housing and Urban Development, Washington, D.C.

DEAR CHARLIE: The Subcommittee on Housing and Urban Affairs, as you may know, is planning oversight hearings on Federal housing programs to be held in Chicago on March 30 and 31, 1973. An official announcement will be issued shortly.

Pursuant to Secretary Lynn's letter designating you as the HUD Coordinator for our requests, I am writing to ask your assistance in gathering background data for these hearings.

I would appreciate your arranging, *at the earliest date possible*, a meeting at which we can explore ways to obtain the data outlined below.

(1) The total number of completed subsidized and FHA unsubsidized housing units completed by year and by program (235, 236, rent supplement, 221(d)(3), 221(h), 202, conventional public housing, turnkey public housing, 203, 221(d)(2), etc.) for (a) the City of Chicago and (b) the surrounding Chicago suburbs.

(2) The estimated total number of housing units in each program to be completed in the Chicago area in FY 1973, FY 1974 and FY 1975.

(3) The number of housing units for which applications for commitments were made to the Chicago Area Office under each program during FY 1973 and estimates for FY 1973, together with the number of such commitments granted.

(4) The existing backlog of applications by program and the average processing time required in the Chicago Area Office.

(5) The social and economic characteristics of residents by housing program, comparing the Chicago Area Office with national characteristics (i.e., income level, race, sex of head of family, size of family, welfare recipient, etc.)

(6) Comparative FHA personnel and workload data for FY 1972, 1973 and projected FY 1974 for the Chicago Area Office and the U.S. (i.e. workload, production ratio, and average employment for various FHA functions, permanent and part-time employees.

(7) The number of (a) applications for reimbursement, (b) applications approved, (c) dollar claims settled, (d) applications rejected under section 518(a) and section 518(b) in the Chicago Area Office during FY 1972, FY 1973 and projected FY 1974. Please indicate the average processing time required for approval and settlement, together with the present backlog of pending applications.

(8) The number of applications under the Section 801 warrant, by year and by program, together with the number of applications approved and the amount paid by year.

(9) The number of FHA insured housing defaults by program by year since 1969, together with the number of acquisitions and the net cost by year in the Chicago area.

(10) A description of counseling services available to low and moderate income homebuyers and tenants in the Chicago area.

(11) An evaluation of the impact of the site selection criteria on the geographical placement of housing in the Chicago area.

(12) A description of HUD's legal authority to influence the quality of performance by builders, realtors, and mortgage bankers, and an analysis of HUD's use of this authority in the Chicago area.

(13) A description of duties of the Area Office and Central Office responsibilities and office relationships.

Your assistance is greatly appreciated and I look forward to your telephone call in response to this request for a meeting to discuss these needs.

Sincerely,

CARL A. S. COAN.

NUMBER OF HOME MORTGAGES INSURED UNDER SELECTED SECTIONS OF THE NATIONAL HOUSING ACT IN THE CHICAGO SMSA: FISCAL YEARS 1969–72

Section of the act	Fiscal year 1972	1971	1970	1969
Sec. 203:				
Chicago SMSA	15,089	17,253	15,523	13,930
Cook County	12,252	13,724	12,224	10,572
Balance of SMSA	2,837	3,529	3,299	3,358
Sec. 220:				
Chicago SMSA	12	13	19	17
Cook County	12	13	13	5
Balance of SMSA			6	12
Sec. 221(d)(2):				
Chicago SMSA	3,046	2,130	175	222
Cook County	2,463	1,689	151	170
Balance of SMSA	583	441	24	52
Sec. 222:				
Chicago SMSA	26	37	48	36
Cook County	8	19	22	11
Balance of SMSA	18	18	26	25
Sec. 234:				
Chicago SMSA	481	60		
Cook County	169			
Balance of SMSA	312	60		
Sec. 235:				
Chicago SMSA	3,057	3,273	746	
Cook County	1,641	1,736	582	32
Balance of SMSA	1,416	1,537	164	1
Chicago SMSA, total	21,711	22,766	16,511	14,238
Cook County	16,545	17,181	12,992	10,790
Balance of SMSA	5,166	5,585	3,519	3,448

NUMBER OF UNITS IN MULTIFAMILY PROJECTS INSURED UNDER SELECTED SECTIONS OF THE NATIONAL HOUSING ACT IN THE CHICAGO SMSA: FISCAL YEARS 1969–72

Section of the act	Fiscal year 1972	1971	1970	1969
Sec. 207:				
Chicago SMSA	3,849	1,325	244	
Cook County	3,716	1,325	74	
Balance of SMSA	133		170	
Sec. 213m:				
Chicago SMSA	52	52	77	
Cook County	52	52	77	
Balance of SMSA				

NUMBER OF UNITS IN MULTIFAMILY PROJECTS INSURED UNDER SELECTED SECTIONS OF THE NATIONAL HOUSING ACT IN THE CHICAGO SMSA: FISCAL YEARS 1969–72—Continued

Section of the act	Fiscal year 1972	1971	1970	1969
Sec. 220:				
Chicago SMSA	1,205	2,069	342	1,271
Cook County	1,205	2,069	342	1,271
Balance of SMSA				
Sec. 221 MR:				
Chicago SMSA	6,279	5,474	699	712
Cook County	4,480	1,968	519	180
Balance of SMSA	1,799	3,506	180	532
Sec. 221 BMR:				
Chicago SMSA	207	1,058	949	3,792
Cook County	207	260	824	3,792
Balance of SMSA		798	125	
Sec. 232:				
Chicago SMSA	(1,548)	(1,459)	(1,276)	(297)
Cook County	(1,161)	(1,350)	(1,176)	(297)
Balance of SMSA	(387)	(109)	(100)	
Sec. 234:				
Chicago SMSA	920	174		
Cook County	304	6		
Balance of SMSA	616	168		
Sec. 236:				
Chicago SMSA	3,110	1,684	1,516	
Cook County	1,817	1,133	1,175	
Balance of SMSA	1,293	551	341	
Sec. 236/202:				
Chicago SMSA	122			
Cook County				
Balance of SMSA	122			
Sec. 242:				
Chicago SMSA	(485)			
Cook County	(485)			
Balance of SMSA				
Sec.—Title XI:				
Chicago SMSA	(23)			
Cook County	(23)			
Balance of SMSA				
Chicago SMSA, total	15,744	11,836	3,827	5,775
Cook County	11,781	6,813	3,011	5,243
Balance of SMSA	3,963	5,023	816	532

NOTES:

Figures shown in parentheses under sections 232 and 242 refer to beds, under title XI to full-time professional spaces; they are not included in the Chicago SMSA unit totals.

No projects reported under section 221 (h) in the Chicago SMSA.

Under the section 202 direct loan program, 150 units were completed in fiscal year 1971 and 65 units in fiscal year 1969 (balance of SMSA).

NUMBER OF RENT SUPPLEMENT UNITS BY SECTIONS OF THE NATIONAL HOUSING ACT, CHICAGO SMSA: FISCAL YEARS 1969–72

Section of the act	Fiscal year			
	1972	1971	1970	1969
Chicago SMSA, total	2,127	1,415	1,409	24
Cook County	1,679	912	1,270	24
Balance of SMSA	448	503	139	
Sec. 221 BMR:				
Chicago SMSA	206		95	24
Cook County			95	24
Balance of SMSA	206			
Sec. 236:				
Chicago SMSA	1,799	1,415	1,314	
County County	1,679	912	1,175	
Balance of SMSA	120	503	139	
Section 236/202:				
Chicago SMSA	122			
Cook County				
Balance of SMSA	122			

NOTE: Units shown are total number of units in projects with some or all tenants assisted under rent supplement program are also included in Table 1b.

LOW-RENT PUBLIC HOUSING, NUMBER OF UNITS COMPLETED, CHICAGO SMSA: FISCAL YEARS 1969–72

Type and area	Fiscal years			
	1972	1971	1970	1969
Conventional:				
SMSA total	557	339	2,434	242
Cook County	557	339	2,434	242
Chicago City	(224)	(339)	(2,334)	(242)
Balance of SMSA				
Turnkey:				
SMSA total	202	1,274		76
Cook County		450		6
Chicago City		(450)		(6)
Balance of SMSA	202	824		70
Acquisition:				
SMSA total	57	40	31	
Cook County	57	40	31	
Chicago City	(53)	(40)	(31)	
Balance SMSA				
Leased:				
SMSA total	318	532	1,300	472
Cook County	317	532	1,254	471
Chicago City	(311)	(441)	(1,252)	(471)
Balance SMSA	1		46	1
Total all types:				
SMSA total	1,134	2,185	3,765	790
Cook County	931	1,361	3,719	719
Chicago City	(588)	(1,270)	(3,617)	(719)
Balance SMSA	203	824	46	71

QUESTION 2

As you know, the Department is currently evaluating present HUD housing programs and examining possible alternative approaches to providing housing. Until this review is completed and the recommendations implemented it is not

feasible to develop meaningful estimates of activity through Fiscal Year 1975, particularly on a locality basis. On a national basis, our expectations for Fiscal Year 1974 are, of course, included in the President's budget presentation to the Congress. Within the above limitations, expectations and estimates for the Chicago Area have been developed to the maximum possible extent and are presented below.

Under the subsidized programs, assuming continuation of the current moratorium, relatively few new units are expected to be approved over this and the next two fiscal years. There are (some 4,000 will be completed FY 1973) current in the pipeline that yet to be completed or be provided with mortgage insurance and for FY 1974 some 3,500 units are estimated to be completed and for FY 1975 there should be some 3,000 in FY 1975 units in the pipeline.

In the insuring jurisdiction of the Chicago Area Office, 975 Section 235 mortgages completed during this fiscal year through the first week in January 1973. Based on outstanding commitments and reservations of funds, including allowances for over-the-counter and VA activity, it is estimated that as many as 1,000 additional units could be completed under section 235, most of them during the remainder of this fiscal year 1973.

Several thousand units will also be provided by non-insured State-aided housing in the Chicago Office. These units will receive interest reduction subsidies similar to those provided under Section 236.

Mortgage insurance activity under the unsubsidized programs should tend to decrease, partly reflecting a modest decline in overall residential construction activity. Under Section 203, however, the decline in activity could be substantial unless the program is modified. For example, the current maximum mortgage amount under this program ($33,000) is less than the average sale price of a conventionally-financed new home ($34,000) sold in 1971. Sales prices have no doubt increased substantially since then. In addition, for loans in excess of approximately $20,000, conventional loans can be obtained for a smaller initial investment than loans insured under Section 203(b). According to preliminary data from a HUD survey of subdivision activity in the Chicago SMSA, 96 percent of all homes completed in 1972 were priced above $20,000.

In the Chicago SMSA, there were 350 low-rent public housing units completed or made available for occupancy from July 1972 through January 1973. There are approximately 3,000 units that will be or have been funded but not started as of January 31, 1973. Another 900 units are under construction.

ESTIMATED COMPLETIONS NUMBER UNITS

	1973	1974	1975
236	4,000	3,500	3,000
235	1,975	500	n.a.

APPLICATIONS RECEIVED AND COMMITMENTS ISSUED, PROJECT MORTGAGE INSURANCE PROGRAMS, CHICAGO SMSA: FISCAL YEAR 1973

[Number of units]

Section of the act	July 1972 through February 1973				Estimate for fiscal year 1973			
	Applications received		Commitments issued		Applications received		Commitments issued	
	City of Chicago	Remainder of SMSA	City of Chicago	Remainder of SMSA	City of Chicago	Remainder of SMSA	City of Chicago	Remainder of SMSA
Sec.:								
207		999		589		1,500		900
220	183		183		275		275	
221-MR	498	2,319	450	2,428	750	3,475	675	3,650
232 (Beds)	(212)	(836)		(290)	(300)	(1,250)		(450)
234	36	322	38	162	50	500	50	250
236	2,341	1,114	2,320	818	2,700	1,114	3,500	1,225

APPLICATIONS RECEIVED AND COMMITMENTS ISSUED, HOME MORTGAGE INSURANCE PROGRAMS, FOR THE INSURING JURISDICTION OF THE CHICAGO AREA OFFICE: FISCAL YEAR 1973

[Number of units]

Section of the act	July 1972 through February 1973		Estimate for fiscal year 1973	
	Applications received	Commitments issued	Applications received	Commitments issued
Section:				
203	10,358	10,997	17,750	18,850
220	3	4	5	5
221	128	193	225	325
234	130	258	225	450
235	----	99	----	175

NUMBER OF APPLICATIONS AND UNITS IN PROCESS UNDER PROJECT MORTGAGE INSURANCE PROGRAMS, AS OF MAR. 19, 1973

	Number		Number	
	Applications for feasibility letters	Units	Applications for firm commitment	Units
Sec.:				
207	5	1,098	----	----
213	----	----	----	----
220	----	----	1	1,384
231	1	378	----	----
232	6	(1,300)	2	(574)
234	17	823	4	32
221(d)(3)	2	112	3	338
221(d)(4)	26	4,062	7	844
236	----	----	10	1,070
241	----	----	----	----
Title XI	----	----	----	----

NOTE: All new applications for public housing which have not been funded are in the process of being returned to the local housing authorities.

Processing time:

Multifamily programs—The office reports that normally the issuance of a feasibility letter occurs between 60 to 90 days after receipt of the application. Firm commitments are usually issued between 30 to 60 days subsequent to the receipt of the application for firm commitment.

Home mortgage programs—As of Mar. 8, 1972, we were processing 73 percent of our conditional applications within 5 days and 97 percent of our firm applications within 3 days. The backlog consisted of 267 cases for conditional commitment, only 6 of that number being for proposed construction; the amount for firm applications was 115. all of the conditional applications are under sec. 203. It is estimated that of the firm applications, 25 percent are for sec. 235, with the rest being sec. 203.

LOW-RENT HOUSING

[Characteristics of tenants admitted to low-rent housing, Chicago area office, compared to the national data as of Mar. 31 1972]

	Nationwide		Chicago area office	
	Number	Percent	Number	Percent
Income:				
Number moving in	60,880	100	4,736	100
Under $1,000	1,895	3	54	1
$1,000 to $1,499	7,437	12	499	11
$1,500 to $1,999	9,689	16	1,153	24
$2,000 to $2,499	8,878	15	1 896	19
$2,500 to $2,999	6,843	11	551	12
$3,000 to $3,499	6,650	11	373	8
$3,500 to $3,999	5,657	9	247	5
$4,000 to $4,999	7,684	13	463	10
$5,000 to $5,999	3,613	6	293	6
$6,000 to $6,999	1,495	2	117	2
$7,000 to $7,999	607	1	61	1
$8,000 to $8,999	215	(1)	17	(1)
$9,000 and over	217	(1)	12	(1)
Median income	$2,686	----	$2,369	----
Family composition:				
Family head:				
Male	16,976	28	NA	----
Female	34,670	57	656	14
Husband and wife present	20,632	34	644	14
Median number of persons	----	3.06	----	3.23
Welfare recipients	22,227	37	27	1

[1] Less than 0.5 percent.

Due to rounding, percents may not always total 100 percent.

NA=Not available.

LOW-RENT HOUSING

[Characteristics of tenants reexamined for continued occupancy in low-rent housing, Chicago area office, compared to the national data as of Mar. 31, 1972]

	Nationwide		Chicago area office	
	Number	Percent	Number	Percent
Income:				
Number reexamined	169,523	100	22,556	100
Under $1,000	4,415	3	192	1
$1,000 to $1,499	22,124	13	2,227	10
$1,500 to $1,999	26,992	16	2,785	12
$2,000 to $2,499	22,172	13	2,830	13
$2,500 to $2,999	16,558	10	2,247	10
$3,000 to $3,499	14,642	9	[1] 1,907	8
$3,500 to $3,999	12,361	7	1,533	7
$4,000 to $4,999	18,782	11	2,388	11
$5,000 to $5,999	11,629	7	1,750	8
$6,000 to $6,999	7,560	4	1,487	7
$7,000 to $7,999	4,860	3	1,138	5
$8,000 to $8,999	3,003	2	821	4
$9,000 and over	4,425	3	1,251	6
Median income	$2,774		$3,261	
Family composition:				
Family head:				
Male	40,189	24	NA	
Female	111,141	66	2,518	11
Husband and wife present	47,674	28	1,883	8
Median number of persons		3.37		3.90
Welfare recipients	59,604	35	10,113	45

[1] Due to rounding, percents may not always total 100 percent.
NA=Not available.

LOW-RENT HOUSING

[Tenant occupancy in low-rent projects by selected minority group category, Chicago area office, compared in the national data as of June 30, 1971]

	Total tenant occupied [1]	White/nonminority		Negro/Black		American Indian		Spanish-American		Oriental		Other minorities	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Nationwide	840,653	336,331	40	389,462	47	6,181	1	83,854	10	3,821	1	2,652	([2])
Chicago	59,898	20,370	34	36,474	61	10	([2])	428	1	62	([2])	7	([2])

[1] Includes units in projects for which data by minority category were not reported.
[2] Less than 0.5 percent.

RENT SUPPLEMENT HOUSING

[Social and economic characteristics of tenants certified for occupancy in rent supplement housing, Chicago area office, compared to the national data as of Sept. 30, 1972]

	Nationwide		Chicago area office	
	Number	Percent	Number	Percent
Income:				
Number certified	36,037	100	465	100
Under $1,000	1,117	3	4	1
$1,000 to $1,499	5,020	14	39	8
$1,500 to $1,999	7,256	20	68	15
$2,000 to $2,499	5,519	15	82	18
$2,500 to $2,999	4,119	11	66	14
$3,000 to $3,499	4,098	11	55	12
$3,500 to $3,999	3,297	9	43	9
$4,000 to $4,999	3,758	10	62	13
$5,000 to $5,999	1,331	4	25	5
$6,000 to $6,999	409	1	15	3
$7,000 to $7,999	79	([1])	1	([1])
$8,000 to $8,999	18	([1])	5	1
$9,000 and over	16	([1])		
Median income	$2,419		$2,799	
Family composition:				
Family head:				
Male	9,270	26	NA	
Female	26,494	74	180	39
Husband and wife present	11,883	33	152	33
Median number of persons		2.81		2.69
Welfare recipients	10,191	28	150	32

[1] Less than 0.5 percent.
Due to rounding, percents may not always total 100 percent.
NA=Not available.

RENT SUPPLEMENT HOUSING

[Social and economic characteristics of tenants recertified for occupancy in rent supplement housing, Chicago area office, compared to the national data as of Sept. 30, 1972]

	All regions		Chicago area office	
	Number	Percent	Number	Percent
Income:				
Number recertified	21,626	100	105	100
Under $1,000	515	2	----	----
$1,000 to $1,499	2,589	12	5	5
$1,500 to $1,999	3,545	16	12	11
$2,000 to $2,499	3,039	14	14	13
$2,500 to $2,999	2,316	11	22	21
$3,000 to $3,499	2,465	11	16	15
$3,500 to $3,999	2,124	10	5	5
$4,000 to $4,999	2,952	14	20	19
$5,000 to $5,999	1,356	6	9	9
$6,000 to $6,999	482	2	2	2
$7,000 to $7,999	169	1	----	----
$8,000 to $8,999	46	(1)	----	----
$9,000 and over	28	(1)	----	----
Median income	$2,743	----	$2,989	----
Family composition:				
Family head:				
Male	4,945	23	NA	----
Female	16,709	77	77	73
Husband and wife present	5,520	26	18	17
Median number of persons	----	3.87	----	3.16
Welfare recipients	9,076	42	56	53

[1] Less than 0.5 percent.
Due to rounding, percents may not always total 100 percent.
NA=Not available.

SECTION 236 HOUSING

[Social and economic characteristics of tenants certified for occupancy in sec. 236 housing, Chicago area office, compared to the national data as of Sept. 30, 1972]

	Nationwide		Chicago area office	
	Number	Percent	Number	Percent
Income:				
Number certified	74,631	100	2,981	100
Under $1,000	114	(1)	1	(1)
$1,000 to $1,499	514	1	10	(1)
$1,500 to $1,999	1,180	2	31	1
$2,000 to $2,499	2,941	4	76	3
$2,500 to $2,999	3,193	4	110	4
$3,000 to $3,499	3,917	5	119	4
$3,500 to $3,999	5,073	7	129	4
$4,000 to $4,999	15,018	20	470	16
$5,000 to $5,999	17,842	24	615	21
$6,000 to $6,999	13,916	19	633	21
$7,000 to $7,999	7,192	10	491	16
$8,000 to $8,999	2,582	3	169	6
$9,000 and over	1,149	1	127	4
Median income	$5,301	----	$5,885	----
Family composition:				
Family head:				
Male	41,052	55	NA	----
Female	35,308	47	744	25
Husband and wife present	45,200	61	1,893	64
Median number of persons	----	2.72	----	2.66
Welfare recipients	4,181	6	181	6

[1] Less than 0.5 percent.
Due to rounding, percents may not always total 100 percent.
NA=Not available.

RACIAL CHARACTERISTICS OF HUD-INSURED MULTIFAMILY HOUSING BY SECTION OF THE ACT, CHICAGO INSURING OFFICE JURISDICTION COMPARED TO THE NATIONAL DATA

Program	White		Negro/Black		American Indian		Spanish American		Oriental		Other	
	National	Chicago	National	Chicago	National	Chicago	National	Chicago	National	Chicago	National	Chicago
All	72.0	60.0	22.7	33.9	0.2	0.2	3.2	1.5	1.2	2.7	0.7	1.6
202	93.5	81.0	4.2	18.8			.9	.2	.1		1.3	
207	88.3	88.8	7.0	6.7	.3		2.1	1.0	1.4	1.1	.9	2.3
213	91.7	67.3	6.0	26.3			1.1	2.0	.5	1.4	.7	2.9
220	73.6	78.5	21.6	15.3	.1		.6	.4	2.6	4.4	1.5	1.3
221–MR	49.9	86.7	43.0	10.9	.5		5.7	1.3	.7	.7	.2	.4
221–BM	50.4	25.8	40.9	64.3	.3	.8	4.9	2.9	2.3	4.1	1.2	2.1
231	96.8	93.7	1.9	3.9	.1		.9	1.8	.2	.6	.1	
236	74.1	50.3	19.7	46.8	.3		4.5	1.7	.9	.9	.5	.2
608	78.5	45.6	18.6	52.6	.2		1.4	.5	.7	1.2	.6	.1
233	7.0		77.2				15.8					
234	79.7		1.8		5.3		3.7		1.3		8.2	
223 241 242 610 803 810 903 908 1002	72.7	63.7	19.2	36.3			4.0		3.5		.6	
Total units (511,621)	336,412	23,381	105,658	13,208	1,261	97	14,758	594	5,356	1,049	3,549	622

SELECTED CHARACTERISTICS OF HOMEOWNERS WITH MORTGAGES INSURED, NEW AND EXISTING, UNDER SELECTED SECTIONS OF THE NATIONAL HOUSING ACT, CHICAGO SMSA AND UNITED STATES: 1969–71, AND 2D QUARTER, 1972

Section of the act and average or percentage	2d quarter 1972		1971		1970		1969	
	New	Existing	New	Existing	New	Existing	New	Existing
SEC. 203(b)								
Average annual family income:								
Chicago	$15,665	$13,430	$15,280	$13,175	$14,561	$13,107	$12,656	$11,888
United States	$14,566	$13,119	$14,202	$12,793	$13,610	$12,328	$12,159	$11,337
Principal mortgagor, husband (percent):								
Chicago	97.5	87.0	95.9	83.2	94.8	89.3	94.8	89.4
United States	92.3	88.9	93.5	89.7	94.6	89.9	94.7	90.7
Average age of principal mortgagor (percent):								
Chicago	29.3	33.6	30.2	34.2	30.9	33.7	31.5	34.6
United States	32.5	32.2	32.7	32.7	33.4	33.3	32.9	33.3
Average number of dependents (percent):[1]								
Chicago	1.2	2.0	NA	NA	NA	NA	NA	NA
United States	1.4	1.5	NA	NA	NA	NA	NA	NA
SEC. 221(d)(2)								
Average annual family income:								
Chicago	$12,685	$13,077	$12,774	$11,817	----------	$12,018	----------	$9,590
United States	$11,954	$11,308	$11,663	$10,871	$10,470	$10,384	$9,211	$9,452
Principal mortgagor, husband (percent):								
Chicago	97.4	89.5	91.0	80.4	----------	85.6	----------	80.8
United States	95.2	88.4	94.9	85.8	95.3	86.3	92.7	86.7
Average age of principal mortgagor (percent):								
Chicago	28.3	32.4	29.9	34.1	----------	34.5	----------	37.8
United States	30.7	31.0	31.1	32.0	30.2	32.4	30.4	32.2
Average number of dependents (percent):[1]								
Chicago	1.9	2.3	NA	NA	NA	NA	NA	NA
United States	1.6	1.7	NA	NA	NA	NA	NA	NA
SEC. 235(i)								
Average annual family income:								
Chicago	$7,860	[2] $5,760	$8,198	[3] $7,391	$7,981	$7,407	NA	NA
United States	$6,587	$6,488	$6,343	$6,314	$6,191	$5,972	$5,706	$5,771
Principal mortgagor, husband (percent):								
Chicago	74.3	[2] 20.0	82.8	[3] 40.1	90.7	56.5	NA	NA
United States	78.6	65.1	82.6	67.2	83.1	64.7	NA	NA
Average age of principal mortgagor (percent):								
Chicago	31.1	[2] 34.7	29.6	[3] 40.3	30.5	35.7	NA	NA
United States	29.9	32.7	29.8	33.3	29.9	33.0	NA	NA
Average number of dependents (percent):[1]								
Chicago	3.7	4.2	NA	NA	NA	NA	NA	NA
United States	2.4	3.0	3	4	2	3	2	3

NA—Not available.

[1] Does not include wife.
[2] Based on a sample of 15 cases.
[3] Based on a sample of 45 cases.

PERCENTAGE DISTRIBUTION OF MINORITIES: HOMEOWNERS WITH MORTGAGES INSURED UNDER SELECTED SECTIONS OF THE NATIONAL HOUSING ACT, CHICAGO INSURING OFFICE AND UNITED STATES, 1972

Section of the act and minority group	United States		Chicago insuring office	
	New	Existing	New	Existing
Sec. 203(b), total:	100.0	100.0	100.0	100.0
White (nonminority)	82.1	78.3	94 4	39.7
Negro/Black	4.8	15.4	2.3	55.6
American Indian	.1	.1	----	.1
Spanish American	9.8	5.2	2.1	3.8
Oriental	1.6	.3	1.0	.1
Other	1.6	.7	.2	.7
Sec. 221(d)(2), total:	100.0	100.0	100.0	100.0
White (nonminority)	69.3	57.1	93.8	23.9
Negro/Black	12.4	32.5	1.7	73.3
American Indian	.3	.2	----	----
Spanish American	9.9	9.2	2.8	2.3
Oriental	.5	.2	.6	.3
Other	7.6	.8	1.1	.2
Sec. 235(i), total:	100.0	100.0	100.0	100.0
White (nonminority)	69.3	58.3	70.3	38.7
Negro/Black	18.2	29.8	24.9	58.1
American Indian	.3	.3	.1	----
Spanish American	10.8	10.8	4.5	3.2
Oriental	.2	.2	----	----
Other	1.2	.6	.2	----

COMPARATIVE HPMC-FHA PERSONNEL AND WORKLOAD, CHICAGO AREA OFFICE, AND U.S. FISCAL YEARS 1972, 1973 AND 1974

	Fiscal year 1972			Fiscal year 1973			Fiscal year 1974		
	Workload	Man-years	Production ratio	Workload	Man-years	Production ratio	Workload	Man-years	Production ratio
Single family:									
Chicago:									
Processing (applications)	30,000	90.1	333	16,000	67	238.8	15,000	64.5	232.6
Inspection (number)	23,664	9.5	2,491.0	25,800	12	2,150.0	16,575	8.5	1,950.0
Overhead applied		27.4	28%		34	43%		36.0	49%
United States:									
Processing (applications)	911,871	2,494	365	759,200	2,244	338	753,000	2,374	317
Inspection (number)	1,347,542	619	2,177	860,000	426	2,023	632,000	375	1,685
Overhead applied		1,538	49.4%		1,462	54.8%		1,860	67.7%
Multifamily;									
Chicago									
Processing (units)	15,000	36.5	411.0	10,000	38	263.2	12,000	43	279.1
Inspection (average units under inspection)	13,012	13.8	942.9	12,500	14	892.9	11,000	10	1,100.0
Overhead applied		12.3	24%		25	39%		23	44%
United States:									
Processing (units)	279,794	1,043	268	320,300	1,284	249	158,600	783	203
Inspection (average units under inspection)	365,238	234	1,561	360,000	450	800	300,000	500	600
Overhead applied		761	59.6%		753	43.4%		701	54.6%
Total (including housing management)		210			236			211.1	

(1) Processing includes all direct effort to process an application through endorsement (i.e., appraisal, architectural, and mortgage credit examination).
(2) Overhead applied as a percent of processing and inspection man-years.

NUMBER AND DISPOSITION OF SEC. 518A AND B CASES

[518A]

Applications for reimbursement	Applications approved	Estimated dollar amount	Applications rejected	Applications pending	Processing time (days)
Fiscal year 1973, 33	23	$12,541	Fiscal year 1973, NA	10	90

[518B]

Applications for reimbursement	Applications approved	Dollar claims settled	Applications rejected	Applications pending	Processing time (days)
Calendar year 1973 (January), 29	8	$5,345	Calendar year 1973 (January) NA	8	
Calendar year 1972, 154[1]	47	19,345	Calendar year 1972, 10	17	90
Calendar year 1971 (October-December), 1	2		Calendar year 1971 (October–December)[1]		

[1] Of this total, 80 are in processing.

QUESTION 8

APPLICATIONS UNDER SECTION 801 WARRANT

This section of the Housing Act of 1954 provides that any seller or builder shall deliver to the purchaser or owner of property a warranty that the dwelling is constructed in substantial conformity with the plans and specifications on which the Secretary of HUD based his evaluation of the dwelling, etc. Claims are paid under Section 518a.

MORTGAGES IN DEFAULT, CHICAGO AREA OFFICE,[1] AS OF THE END OF CALENDAR YEARS

Section of the act	1972	1971	1970	1969
Multifamily housing[2]	5,399	3,290	565	
Sec.—				
207	518			
213		40		
220		25	12	
221–MR	416	240	36	
221–BMR	3,947	1,867	517	
232 (Beds)		(60)		
236	228	425		
608	290	693		
Home mortgages[3]	8,319	8,538	5,367	3,136
Sec.—				
203	6,654	8,054	5,212	3,018
220	12			
221	789			
221 (h)	5			
222	21			
234	1			
235	814	349	34	
603	7	16	12	12
809	4			
903	12	119	109	106

[1] These data are only available for the entire insuring jurisdiction of the Chicago area office.
[2] Housing units.
[3] Mortgages.

NUMBER OF HOME ACQUISITIONS BY SECTIONS OF THE NATIONAL HOUSING ACT, IN THE CHICAGO SMSA: 1969–71, AND FIRST 9 MONTHS OF 1972

Section of the act	First 9 months of 1972	1971	1970	1969
Chicago SMSA, total	657	433	284	177
203	489	396	253	152
220	2	1	1	2
221 (d)(2)	29	26	27	21
222	1	5	2	-
235	36	5	-	-
903	-	-	1	2
Cook County, total	508	340	203	124
203	461	314	184	107
220	2	-	1	1
221 (d)(2)	20	21	16	16
222	1	-	2	-
235	24	5	-	-
Balance of SMSA, total	149	93	81	53
203	128	82	69	45
220	-	1	-	1
221 (d)(2)	9	5	11	5
222	-	5	-	-
235	12	-	-	-
903	-	-	1	2

NOTE: There was only 1 multifamily project acquisition during the period covered in the Chicago SMSA. In 1971 Cook County, under Sec. 221MR with 36 units.

Net cost data not available.

QUESTION 10

The Housing Counselor in the Area Office has approached numerous organizations in the Area to determine their willingness to provide counseling for homebuyers under Section 237. Organizations and agencies such as the Urban League, Woodlawn Community Association, NAACP, and the Cooperative Extension Service of the University of Illinois all indicated they would not provide such services without renumeration by the Federal Government. However, the Area Office has recently executed a Section 235 and 237 counseling agreement with the Spanish Coalition for Housing, 1466 North Ashland Avenue, in Chicago.

Funds appropriated for the counseling program consisted of $3.25 million for FY 1972. The bulk of these funds ($2.5 million) has been used to provide delinquency and default counseling by 31 contractors in 19 cities with comparatively high default rates. The remaining funds have been used for an evaluation and a training contract currently in process.

Tenant counseling was performed by the Chicago Housing Authority in a program called Project Threshold. The program was funded by Model Cities but was terminated at its three-year expiration in January 1973.

QUESTION 11

Enclosed for your information is a copy of a Department report entitled "Implementation of HUD Project Selection Criteria for Subsidized Housing: An Evaluation." While this report contains data primarily on a Regional basis, it also reflects some data by selected Area Office. (Please see clipped pages.) I have attached further, a copy of the detailed project listing and the legend used in support of some of the data shown in the above identified report. The listing provides the rating categories and the funding status for the projects.

EXPLANATION OF DETAILED PROJECT LISTING

Each proposal rated between February 7, 1972 and June 30, 1972 should be included.

Region Code.—Self explanatory.

Area Code.—Self explanatory.

Form Number.—An internal numbering system for the computer.

Program.—The program descriptions are for 235, 221(d)(3) Rent Supplement, Low Rent Public Housing (*incorrectly* marked "221 LRPH" on the print out), and 236 (*incorrectly* marked "236 RS" on the print out). The projects are listed according to program in that order.

Project No.—Self explanatory.

Type Sponsor.—

1=Profit.
2=Non-Profit.
3=Limited Dividend.
4=Public.
5=Cooperative.

State and Place Name.—Self explanatory.

SMSA Code (Standard Metropolitan Statistical Area).

11 In SMSA and in officially designated "central city"
12 In SMSA but outside designated "central city(ies)"
21 Beyond SMSA's in town over 25,000 population
22 Beyond SMSA's in town between 10,000 and 25,000 population
23 Beyond SMSA's in town under 10,000 population

Category Code.—Five digits marked "0" or "1" to indicate the following, in order:

0=No 1=Yes In Model City Area.
0=No 1=Yes In Urban Renewal Area.
0=No 1=Yes In Concentrated Code Enforcement Area.
0=No 1=Yes In Blighted Area.
0=No 1=Yes In Minority Concentration Area.

Rating Categories.—Two levels of detail are provided by each criteria. First, "S" for Superior, "A" for Adequate, and "P" for Poor. Second, the subparagraphs for each criteria which describe the conditions that caused the rating to be Superior, Adequate or Poor. NOTE: Criterion 5 for either a Superior or Adequate rating must have *all three* subparagraphs apply and the rating will be shown as "S1" or "A1." Similarly, for Criterion 7 to have a Superior rating both subparagraphs must apply.

No. of Units.—Self explanatory.

Application Date.—Self explanatory.

Revised Date.—Date of revised application (if appropriate).

Funding Status.—

1=Funded between February 7 and June 30
2=Rejected due to one or more "poor" ratings
3=Not funded as of June 30, 1972 due to some other reason (e.g., lack of funds, processing delays, rejection for reasons other than Project Selection Criteria, low priority under Project Selection Criteria relative other proposals, etc.)

Reg.	Area code	Form No.	Program	Project No.	Type Spon.	State and place name	SMSA code	Cat. code	Rating categories 1	2	3	4	5	6	7	8	Number of units	Appl. date	Rev. date	Fund stat.
						ILLINOIS														
05	06	01749	235 (I)	235-713	1	Loves Park	12	00000	A1	A1	A1	A2	A1	A1	A1	------	40	7202	--------	1
05	06	01750	235 (I)	235-729	1	Joliet	11	--------	A1	A1	A1	A1	A1	A1	A2	------	10	7104	--------	
05	06	01767	235 (I)	235-704	1	Carpentersville	12	00000	A1	A1	A1	A1	A1	A1	A1	------	30	7202	--------	1
05	06	01768	235 (I)	235-689	1	Round Lake	12	00000	A1	A1	A2	A2	A1	A1	A1	------	14	7112	--------	1
05	06	01769	235 (I)	235-694	1	Rockford	11	00000	A1	A1	A1	A2	A1	A1	A1	------	10	7201	--------	1
05	06	01770	235 (I)	235-724	1	Dixon	23	00000	A1	A1	A1	A2	A1	A1	A1	------	5	7205	--------	1
05	06	01771	235 (I)	235-693	1	Rockford	11	00000	A1	A1	A1	A2	A1	A1	A1	------	10	7201	--------	1
05	06	01772	235 (I)	235-707	1	Loves Park	12	00000	A1	A1	A1	A1	A1	A1	A1	------	25	7202	--------	1
05	06	01773	235 (I)	235-683	1	St Charles	12	00000	A1	A1	A1	A2	A1	A1	A1	------	15	7201	--------	1
05	06	01774	235 (I)	235-685	1	Monroe Center	23	00000	A1	A1	A1	A2	A1	A1	A1	------	14	7201	--------	1
05	06	01775	235 (I)	235-699	1	Richton Park	12	00000	A1	A1	A1	A1	A1	A1	A1	------	50	7109	--------	1
05	06	01776	235 (I)	235-667	1	Sauk Village	12	00000	A1	A1	A1	A1	A1	A1	A1	------	35	7109	--------	1
05	06	01777	235 (I)	235-672	1	Carpentersville	11	00000	A1	A1	A1	A2	A1	A1	A1	------	25	7201	--------	1
05	06	01778	235 (I)	235-688	1	Milan	12	00000	A1	A1	A1	A2	A1	A1	A1	------	20	7201	--------	1
05	06	01779	235 (I)	235-715716	1	Sterling	22	00000	A1	A1	A1	A2	A1	A1	A1	------	35	7202	--------	1
05	06	01780	235 (I)	235-727	1	Waukegan	11	00000	A1	A1	A1	A1	A1	A1	A1	------	56	7203	--------	1
05	06	01781	235 (I)	235-690	1	Fox Lake McHenry	12	00000	A1	A1	A1	A1	A1	A1	A1	------	100	7201	--------	1
05	06	01782	235 (I)	235-671	1	Rockford	11	00000	A1	A1	A1	A1	A1	A1	A1	------	30	7111	--------	1
05	06	01783	235 (I)	235-675	1	Round Lake	12	00000	A1	A4	A2	A2	A1	A1	A2	------	25	7112	--------	1
05	06	01784	235 (I)	235-691695	1	Moline Rapid City Coal	11	00000	A1	A1	A1	A2	A1	A1	A1	------	25	7201	--------	1
05	06	01785	235 (I)	235-668	1	Rockford	11	00000	A1	A1	A1	A2	A1	A1	A1	------	25	7112	--------	1
05	06	01786	235 (I)	235-696698	1	do	11	00000	A1	A1	A1	A2	A1	A1	A1	------	30	7201	--------	1
05	06	01787	235 (I)	235-679	1	Joliet	12	00000	A1	A1	A1	A2	A1	A1	A1	------	25	7110	--------	1
05	06	01788	235 (I)	235-700	1	Woodstock	22	00000	A1	A1	A1	A2	A1	A1	A1	------	5	7101	--------	1
05	06	01789	235 (I)	235-709	1	Rochelle Creston Ashton	23	00000	A1	A1	A1	A1	A1	A1	A1	------	20	7201	--------	1
05	06	01790	235 (I)	235-692	1	Rockford	11	00000	A1	A1	A1	A1	A1	A1	A1	------	25	7201	--------	1
05	06	01791	235 (I)	235-684687	1	Rock Island	12	00000	A1	A1	A1	A1	A1	A1	A1	------	30	7201	--------	1
05	06	01792	235 (I)	235-686	1	Rockford	11	00000	A1	A1	A1	A1	A1	A1	A1	------	12	7201	--------	1
05	06	03166	235 (I)	235-681	1	Winfield	22	00000	A1	A1	A1	A2	A1	A1	A1	------	20	7112	--------	1
05	06	03167	235 (I)	235-669	1	Rockford	11	00000	A1	A1	A1	A1	A1	A1	A1	------	20	7111	--------	1
05	06	03168	235 (I)	235-702	1	do	11	00000	A1	A1	A1	A2	A1	A1	A1	------	20	7201	--------	1
05	06	03169	235 (I)	235-670	1	do	11	00000	A1	S1	S1	S1	A1	A1	A1	------	25	7109	--------	1
05	06	03170	235 (I)	235-678	1	Roundlake	12	00000	A1	A1	A1	A2	A1	A1	A2	------	25	7110	--------	1
05	06	03171	235 (I)	235-674	1	do	12	00000	A1	A1	A3	A1	A1	A1	A4	------	15	7108	7111	1
05	06	03172	235 (I)	235-676	1	Roundlake Beach	12	00000	A1	A1	S1	A2	A1	A1	A1	------	15	7201	--------	1
05	06	03173	235 (I)	235-705	1	Midlothian	12	00000	A1	A1	A1	A2	A	A	A1	------	17	7202	--------	1
05	06	03174	235 (I)	235-665	1	Foxlake	12	00000	A1	A1	A1	A2	A1	A1	A1	------	10	7111	--------	1
05	06	03175	235 (I)	235-682	1	Channahon	23	00000	A1	A1	A1	A2	A1	A1	A1	------	25	7202	--------	1
05	06	03176	235 (I)	235-708	1	Aurora	12	00000	A1	A1	A1	A2	A1	A1	S1	------	14	7201	--------	1
05	06	03177	235 (I)	235-726	1	do	12	00000	A1	A1	A1	A1	A1	A1	A1	------	50	7203	--------	1

05	06	03178	235 (I)	235-733	1	Chicago	11	00001	A1	A2	A1	A2	A1	A1	A1	------	75	7202	--------	1
05	06	03179	235 (I)	235-680	1	Hillcrest	23	00000	A1	A1	A1	A1	A1	A1	A1	------	15	7201	--------	1
05	06	03180	235 (I)	235-732	1	Chicago	11	00000	A1	A1	A1	A1	A1	A1	A1	------	5	7205	--------	1
05	06	03181	235 (I)	235-730	1	Blue Island	12	00000	S1	A4	A1	A2	A1	A1	A1	------	25	7205	--------	1
05	06	03182	235 (I)	235-731	1	---- do	12	00000	A1	A4	A1	A2	A1	A1	A1	------	14	7205	--------	1
05	06	03183	235 (I)	235-720	1	Chicago	11	00000	A1	A1	A1	A2	A1	A1	A1	------	6	7202	--------	1
05	06	03184	235 (I)	235-711	1	Sterling	22	00000	A1	A1	A1	A2	A1	A1	A1	------	40	7202	--------	1
05	06	03185	235 (I)	235-736	1	Amboy	23	00000	A1	A1	A1	A4	A1	A1	A4	------	18	7205	--------	1
05	06	03186	235 (I)	235-706	1	Algonquin	12	00000	A1	A1	A1	A2	A1	A1	A1	------	20	7202	--------	1
05	06	03187	235 (I)	235-673	2	Elmhurst	12	00000	A1	A1	A4	------	A1	A1	A1	------	6	7201	--------	1
05	06	03188	235 (I)	235-737	1	Chicago	11	00000	A1	A1	A1	A2	A1	A1	A1	------	13	7201	7205	1
05	06	03189	235 (I)	235-718	1	---- do	11	00011	A1	A2	A1	A1	A1	A1	A1	------	175	7203	--------	1
05	06	03190	235 (I)	235-725	1	---- do	11	00000	A1	A1	A1	A2	A1	A1	A1	------	57	7204	--------	1
05	06	03191	235 (I)	235-734	1	---- do	11	00000	A1	A1	A1	A2	A1	A1	A1	A1	53	7111	--------	1
05	06	03192	235 (I)	235-735	1	---- do	11	00000	A1	A1	A1	A2	A1	A1	A1	------	46	7201	--------	1
05	06	03193	235 (I)	235-710	1	Freeport	21	00000	A1	A1	A1	A1	A1	A1	A1	------	40	7202	--------	1
05	06	03194	235 (I)	235-666	1	Chicago	11	00000	A1	A1	A1	A1	A1	A1	A1	------	85	7205	--------	1
05	06	03195	235 (I)	235-701	1	Phoenix	12	00000	A1	A1	A1	S1	S1	A1	A1	------	100	7102	--------	1
05	06	03196	235 (I)	235-717	1	Rock Island	12	10000	A1	A1	A1	S1	S1	A1	A1	A1	6	7201	--------	1
06	06	03197	235 (I)	235-677	1	Roundlake	12	00000	A1	A1	A1	A2	A1	A1	A2	------	0	7109	--------	1
05	06	03198	235 (I)	235-712	1	Rockford	11	00000	A1	A1	A1	A1	A1	A1	A1	------	35	7110	7203	1
05	06	A3203	LRPH	ILL-962	4	Olney	23	00000	S1	A4	S1	A2	S1	S1	A2	A3	50	6805	--------	1
05	06	01751	LRPH	ILL-678	4	Anna	22	00000	S1	A4	S1	A2	S1	S1	A2	S2	110	7009	7111	1
05	06	01752	LRPH	ILL-763	4	Rushnell	23	00000	S1	A4	S1	A2	S1	S1	A2	A3	50	7011	7111	1
05	06	01753	LRPH	ILL-1021	4	Beardstown	23	00000	S1	A4	S1	A2	S1	S1	A2	A3	50	7004	7110	1
05	06	01754	LRPH	ILL-1111	4	Robinson	23	00000	S1	A4	S1	A2	S1	S1	A2	A3	50	7105	7110	1
05	06	01755	LRPH	ILL-1181	4	McLeansboro	23	00000	S1	A4	S1	A2	S1	S1	A2	A3	50	7112	--------	1
05	06	01756	LRPH	ILL-271	4	Morris	22	00000	S1	A4	S1	A2	S1	S1	A2	A3	50	7005	7110	1
05	06	01757	LRPH	ILL-252	4	Phoenix	12	00000	A1	A1	S1	A2	S1	S1	A1	A2	200	7201	--------	3
05	06	01758	LRPH	ILL-417	4	Metropolis	23	00000	S1	S1	S1	S1	S1	A1	A1	A1	41	----------		1
05	06	01760	LRPH	ILL-396	4	Kankakee	21	00001	S1	A2	S1	S1	S1	S1	A2	A2	100	----------		1
05	06	01761	LRPH	ILL-5017	4	Marion	22	00000	S1	A4	S1	S1	S1	S1	A2	S1	63	----------		1
05	06	01793	LRPH	ILL-30L309	4	Brooklyn	23	00001	------	A3	A1	A2	A1	A1	S1	A2	50	7004	7109	1
05	06	03199	LRPH	ILL-341	4	Gibson City	23	00000	S1	A4	S1	A2	S1	A1	A2	A3	60	6704	7110	1
05	06	30200	LRPH	ILL-124	4	Decatur	21	00000	S1	S1	S1	A3	A1	A1	A1	A2	0	6904	--------	1
05	06	03201	LRPH	ILL-220	4	Rockford	11	00000	S1	S1	S1	S1	A1	A1	A1	S1	175	7106	7110	1
05	06	03202	LRPH	ILL-961	4	Noble	23	00000	S1	A4	S1	A2	S1	S1	A2	A3	25	6805	--------	1
05	06	01759	236 R S	071-44101	3	Addison	12	00000	A1	A1	P1	A1	A1	A1	A1	A1	200	7103	--------	2
05	06	01762	236 R S	071-44123	3	Glen Ellyn	12	00000	A1	A1	S1	A2	A2	A1	A1	A1	90	7203	--------	3
05	06	01763	236 R S	071-44135	3	Chicago	11	10000	A1	A1	A4	A1	A1	S1	A1	A1	324	----------		3
05	06	01764	236 R S	071-44134	2	-----do	11	01000	A1	A1	A4	S2	A1	A1	A1	A1	166	7204	--------	3
05	06	01765	236 R S	071-44126	3	Palatine	12	00000	A1	S1	A1	A1	A1	A1	S1	P1	212	7110	--------	1
05	06	01766	236 R S	071-44127	3	Chicago	11	10000	S1	S1	A2	A1	A1	A1	A1	P1	220	----------		2
05	06	02361	23 R S	071-44141	----------	-----do	11	10001	A1t	P1	A1	A2	A3	A1	S2	------	315	7201	--------	2
05	06	02362	236 R S	APP-41066	3	East Chicago Heights	12	01011	A1	A3	A4	S2	A1	A1	S2	------	234	7206	--------	3
05	06	02363	236 R S	APP-903	1	Chicago	11	00001	S1	P1	A1	P1	P2	A1	----------		51	----------		2
05	06	02364	236 R S	071-44145	2	-----do	11	10001	A1	P1	A1	A2	A1	A1	----------		0	7112	--------	2
05	06	02365	236 R S	071-44108	2	-----do	11	01010	A1	P1	A4	S2	A1	A1	A2	------	260	7107	--------	2
05	06	02366	236 R S	071-44110	3	-----do	11	10001	A1	P1	A1	A2	A3	A1	S1	------	232	7109	7205	2
05	06	02367	236 R S	071-44148	2	-----do	11	01011	S1	P1	A1	S1	A2	S1	----------		90	----------		2

CHICAGO; DETAILED PROJECT LISTING—Continued

Reg.	Area code	Form No.	Program	Project No.	Type Spon.	State and place name	SMSA code	Cat. code	Rating categories 1	2	3	4	5	6	7	8	Number of units	Appl. date	Rev. date	Fund stat.
05	06	02368	236 R S	071–44150	3	do	11	10010	S1	A1	A4	S1	S3	A1	S1	------	162	----------	----------	3
05	06	02369	236 R S	TAR–FRNAC	2	do	11	10011	A1	P1	A4	P1	A1	A1	----------		136	7101	--------	2
05	06	02370	236 R S	071–44105	3	do	11	00001	A1	P1	A1	P2	P2	S1	----------		40	7108	--------	2
05	06	02371	236 R S	071–44034	3	do	11	10011	A1	P1	A1	A2	A3	A1	A1	------	40	7006	--------	2
05	06	02372	236 R S	071–44139	----------	do	11	00000	A1	P1	A2	A2	A1	S1	S1	------	300	7109	7204	2
05	06	02373	236 R S	913–	----------	do	11	01011	A1	P1	P1	P2	P1	A1	----------		66	7110	--------	2
05	06	02374	236 R S	WEN–TWORTH	3	do	11	01011	A1	P1	A1	A1	A1	A1	----------		75	7111	--------	2
05	06	02376	236 R S	975–	2	do	11	01011	A1	P1	A1	A1	A1	A1	----------		70	----------	----------	2
05	06	02384	236 R S	071–44142	----------	do	11	01011	A1	----------							84	----------	----------	1

STATEMENT ON BEHALF OF RESIDENTS OF POPLAR CREEK CO-OP TOWNHOUSES

In the summer of 1969 a new concept in moderate income housing was introduced in the Elgin area. Poplar Creek Townhouses were advertised in the Elgin and Chicago papers.

After inspecting the models we acquired information and discovered the project to be a government subsidized co-operative. We anxiously waited for months and finally received approval from F.H.A. We then paid our membership fee and down payment (a tota lof $355.00) and waited for word of when we could move in. Most of us waited a year and a half or longer. The first families moved in in January 1971.

When we signed all the papers we were led to believe, according to our occupancy agreement, that our monthly carrying charges would be fixed at the set rate for 3 years.

Last August we received notice of a $35.00 per month increase to be paid beginning September 1. A few concerned co-op members took it upon themselves to write and circulate a petition protesting the incerase. At this time we presented a copy of the petition to Senator Percy and received a reply stating he had contacted the proper authorities.

We were later notified by Moynahan Properties (the managing agent retained by F.C.H.) that the increase was postponed. Actually, Moynahan had sent out the notices for the incrcases without even receiving approval from the F.H.A. or F.C.H.

In January of this year we were again notified that F.H.A. had approved a $30.00 per month increase. The increase is across the board for everyone, 1-2-3-4 bedrooms.

Although this is moderate income housing we have many people on fixed incomes. Elderly people who planned on retiring here only have Social Security to live off of. Many families have 4 or 5 children and are just making ends meet now. Many of us able to get any money ahead have used it to decorate and beautify our units.

The $30.00 increase has made the possibility of having to move a reality to many. Some have paid the increase. Many of us have not!

We cannot understand why a government who supposedly set this project up to help people have decent housing for their income now is going to destroy many of the people who put their money and confidence into Poplar Creek.

There are by far many more complaints than people at Poplar Creek.

Most all of our latent defects would be non-existent if F.H.A. would have been inspecting and supervising construction.

As for our other complaints—they might also be non-existent if we could get some truthful straight answers from F.H.A. and F.C.H.

We would like to know why we were taxed $20,000.00 more than we should have been, including 6 acres we don't even know about.

RURAL HOUSING DEVELOPMENT CORP.,
Aurora, Ill., April 10, 1973.

Senator JOHN J. SPARKMAN,
Chairman, Senate Subcommittee on Housing and Urban Affairs, U.S. Senate, Washington, D.C.

DEAR SENATOR SPARKMAN: Due to a misunderstanding, I was unable to present testimony before your Subcommittee when hearings were held in Chicago on March 30 and 31, 1973. Nevertheless, I am submitting testimony which discusses the rural housing crisis and the effect the moratorium on housing subsidy programs will have on rural America.

I would like this testimony to be entered into the records of your Subcommittee hearings related to housing subsidy programs. Furthermore, I would be willing to testify, in person, before your Subcommittee, if you feel such action is necessary.

Thank you for your attention to this matter. I would appreciate a response from your office.

Sincerely,

GILBERTO L. ACEVEDO,
Executive Director.

RURAL HOUSING DEVELOPMENT CORP., JEANNE M. FARRIS, DIRECTOR/FIELD OPERATIONS

Mister Chairman and Members of the Committee, 52,460 families living in the rural areas of Illinois do not even have a flush toilet in their homes. Need more be said in order to attract some attention from the problems or the "urban crisis" to focus on the critical, disgraceful and intolerable housing condiffions of millions of Americans living in small towns and rural communities, well beyond the urban centers of political power and influence?

It is a fact that approximately two-thirds of all substandard housing in the nation is located in rural communities and that Federal housing programs and policies have followed a pattern of neglect in dealing with this problem. A housing needs study made by the Illinois Housing Development Authority shows that as of January 1, 1972, less than 8% of all Federally subsidized housing units in Illinois were financed by the Farmers Home Administration, the agency most accustomed to and able to carry out national housing policy in sparsely settled areas.

In recent years, part of the problem in channelling Federal housing sudsidy monies to rural communities has been a result of inadequate administrative funds being allocated to the Farmers Home Administration. In most County offices, the County Supervisor is not only solely responsible for rural housing programs, but he must administer programs for water and waste disposal systems, economic opportunity loans, farm loans, emergency loans, farm labor housing loans and grants, site development loans, and watershed improvement loans including programs for flood control, soil conservation and recreation. Since 1962, the size and scope of Farmers Home Administration programs have increased by more than 620%, while staffing increases have been held to a mere 77%. Such expansion has made many more needy families eligible for participation in Farmers Home Administration programs, while making it even more difficult for any to take advantage of Federal assistance administered by overworked and understaffed County offices.

Nevertheless, Farmers Home Administration staff have not been unresponsive in dealing with the critical housing problem. The number of rural housing loans made has been increasing annually, most markedly since 1965, when Congress authorized the Farmers Home Administration to make loans to any rural resident in need of credit in order to provide his family with adequate housing. Nationally, 50% of these loans have involved interest credits, or subsidies, allowing the program to serve families in the lower income brackets.

In January of this year, the Nixon administration ordered a moratorium on all Federal housing subsidy programs. On January 9, James V. Smith, Administrator of the Farmers Home Administration, instructed his County and State offices to discontinue approving all farm labor housing loans and grants, rental and cooperative housing loans, and Section 502 housing loans involving interest credits, except such loans made to self-help housing group participants. The rationale for this decision is unclear. Historically, the Farmers Home Administration's Rural Housing program has not been characterized by the high default rate, scandal and mis-administration known in FHA's 235 program. Neither has the subsidy program been excessively costly. As of June 30, 1972, the Department of Agriculture estimated that its subsidy program had cost $37 Million, as compared to an FHA expenditure of $379 Million for homeownership assistance payments.

The only Federal housing subsidy program now in operation is the Farmers Home Administration's Mutual Self-Help Housing program. While it is a successful and worthwhile program, its scope is rather limited, and only 892 such loans were made by the Farmers Home Administration in calendar year 1972. Production of units is on a small scale, generally restricted to groups of from six to ten families, and the construction of such units is a long and tedious process due to "free time" work schedules and the inexperience of participants in building techniques. Furthermore, the program cannot meet the housing needs of the elderly or infirm, as it is a work program.

What is needed is the conception and implementation of a comprehensive rural development policy which would focus on rural housing problems, as well as on the related problems of poverty, hunger, health and ecology in rural America. It is incomprehensible that the man who recognized in his historic message to Congress on hunger in America in May of 1969, that "special efforts must be made to see that the benefits of proper foods are not lost amidst poor health and sanitary conditions" should now, four years later, be responsible for budgetary priorities which grossly neglect the rural poor. What kind of relief

does the 1974 Federal budget allow for the children of 52,460 rural Illinois families who do not evne know the luxury of indoor sanitary facilities in the dead of winter?

Restoration of all Farmers Home Administration housing subsidy programs is of immediate and urgent importance in the struggle to eliminate sub-human housing conditions in rual America. Presently, Senate Bill Number 1349 and House Bill Number 4939 are being considered by the Senate Agriculture and House Banking and Currency Committees, respectively. Congressional action on these bills, which would direct the Secretary of Agriculture to reinstate and carry out all housing programs of the Farmers Home Administration that were in operation prior to the January, 1973 moratorium, should be a top priority issue.

At the same time, research for solutions to rural poverty conditions should continue and ultimately result in a rational and workable national rural development policy which would insure a decent home and sanitary environment for every family and person in rural America.

In closing, I would like to remember these words of Juan A. Patlan, Chairman of the Board of the Housing Assistance Council and member of the Mexican American Unity Council, which touch on the human tragedy of rural poverty:

> "People don't know how a man suffers when, after a long day of work, he comes home to his shack and sees his children in front of the television watching the rest of America living well."

STATEMENT OF RESPONSIBLE HOUSING PRACTICES COUNSELING SERVICE

The Responsible Housing Practices Counseling Service of the South Suburbs is an organization of volunteers. Most of the members reside in the far south Chicago suburbs. Some live in Section 235 housing, most do not. Most are active in local municipal affairs; others are not. We are all interested in promoting responsible housing practices with respect to cooperative housing, HUD-FHA policy and practice, housing maintenance and management, mortgage banking, municipal action, real estate practices, housing for seniors, new housing development planning, legislation, and local housing authorities. We are an integrated group with respect to race and ethnic identification and income levels; however, we are predominantly moderate to middle income white people.

The people of the RHPCS approach housing issues from varying perspectives. For some, the already well demonstrated, emotion packed, and continually vexing defects of already constructed "235 houses" and the currently ineffectual developer—HUD machinery for redressing grievances are prime personal concerns. While not wishing to minimize the defects and compelling human stories related to them, the RHPCS today wishes to focus some attention on some less dramatic, less poignant, but no less important issues:

1. Since, in community housing no less than education, there is no such thing as "separate, but equal," the RHPCS calls for legislative and administrative action to promote scattered site low and moderate income housing available on an equal opportunity basis in all municipalities in each region. The legislation should be so drawn as to provide significant financial rewards for communities working for compliance (i.e. non-exclusive zoning and building codes as well as fair housing enforcement) and significant financial penalties (revenue losses) for those that do not.

2. The RHPCS calls upon the Federal Government to recognize that every family and individual requires a decent place to live and that the Federal Government cannot abandon its commitment or call a moratorium on assistance to low and moderate income Americans, even though the administration of present subsidy programs deserves little praise. This does not mean, however, that every family is equipped to benefit from homeownership; for many, the costs and responsibility of even subsidized home ownership becomes an overwhelming family burden, and foreclosures and abandonments result. The need is for housing, not necessarily individual homeownership. The tax and other benefits that now accrue to middle income homeowners can be better shared with low and moderate income people (a) by meaningfully promoting the cooperative housing concept and extending it to single unit dwellings; (b) by reform of income tax law to provide greater tax benefits to non-owners; and (c) by a monetary housing allowance (with counseling) made available directly to low and moderate income people to be used for rent or purchase money anywhere in the private housing market.

Current programs, which are virtually subsidies for developers to build and market substandard houses to an unsophisticated market, must be modified as to demand responsibility from those who are elected and appointed to office to protect the general public. "Let the buyer and taxpayer beware" is a motto by which we can no longer afford to live.

3. The RHPCS is also of the opinion that the Federal Government should seek to rectify some of the damage done by the misadministration of FHA-HUD programs. This aid should go not only to individuals who have been victimized, but also to municipalities and school districts that have been detrimentally affected. The aid could possibly be a part of the proposed Better Communities Act (special revenue sharing program). Communities need money and technical assistance to manage the problems left in the wake of the mistakes of the Federal Government. HUD-created ghettos and, in some cases, instant slums require acceptance of a new Federal responsibility—not moratory edicts.

STATEMENT OF HOME ASSISTANCE FOUNDATION, BENSENVILLE, ILL.

The next step for HAF . . .

"A plan to expand assistance on a self-development basis to low income families, largely Mexican-American, in the Bensenville-Wood Dale area of Illinois."

BACKGROUND

The Home Assistance Foundation is a not-for-profit corporation, organized in 1970 by local community leaders, for the purpose of assisting low-income families in the Bensenville-Wood Dale Area of DuPage County, Illinois, with their own self-development in the areas of housing, education, and health care.

ACCOMPLISHMENTS

Housing

In the two years since its founding HAF has assisted many families and individuals in meeting a wide variety of their needs. Its chief effort, however, has been in assisting seventeen low-income families, twelve of whom are Mexican-American, to acquire an equity position in their own homes. (See Exhibit A) This has been accomplished without a single failure or foreclosure. The families themselves have carried out the work of renovation on a "sweat equity" basis, and HAF has provided consultative services with the result that these houses are 100% adequate from a construction standpoint.

These seventeen placements have demonstrated at least three important benefits:

1. Regular contact with local real estate people has prompted interest and concern on their part for low-income families and has resulted in our being informed of outstanding purchasing opportunities when housing stock first comes on the market;

2. The families are seeing the start of a modest estate for themselves through the appreciation of value of their homes;

3. The effect on the children of these families is and will continue to be more pronounced than on their parents as their families leave welfare and join the mainstream of American economic affairs.

Community Preschool Center

The Community Preschool Center, now in its sixth year, has been referred to by the Illinois Department of Children and Family Services as a "model of excellence". During the past year, 70 children, ages 3 and 4, have participated in a high quality preschool experience of learning relational skills with peers and adults, as well as learning reading readiness and other developmental skills. In addition, Spanish-speaking children have learned the English language through the use of language machines and exposure to Anglo children. Close to 20% of the enrolle dchildren receive partial scholarships. These students are disadvantaged by reason of being non-English speaking or from families with a poverty level of income. Follow-up has indicated that the scholarship children go on to do well relationally and academically in the public schools; and some of them have been placed in accelerated classes.

Other Programs

These and other programs connected with HAF through the Bensenville Community Church (Presbyterian) are described in Exhibit B, "Number of Persons Involved in Programs."

Summary

HAF has functioned at a uniformly high level of performance as measured by its program accomplishments and has been the moving force in seeing several hundred people benefit themselves and their community during the past two years.

UNMET HOUSING NEEDS

There remains a desperate, unmet need for housing and other supportive services on the part of Mexican-American and other low-income families here and throughout DuPage County.

A recent study by the Presbytery of Chicago of the United Presbyterian Church, based upon in-depth interviews with one hundred Mexican-American families living immediately to the north of this area, indicated their most acute problem was a lack of adequate housing. Frequent conditions mentioned were: lack of hot water; lack of any water at all; lack of indoor plumbing, overcrowded conditions and dilapidated structures. (See Exhibit C)

Basedon our first-hand knowledge, these conditions also prevail in regard to Mexican-American and other low-income families living in the Bensenville-Wood Dale Area.

Our observations are borne out by an analysis of 1970 census data, which shows that 633 families living in Bensenville and Wood Dale had incomes below $8,000; 169 families had incomes below the poverty level as defined for census purposes. (See Exhibit D)

We have identified many of these families and know of housing currently for sale which would meet existing needs. (See Exhibit E.)

THE NEXT STEP

We see the hiring of a full-time Housing Director under a 3¼ year contract, who ideally is indigenous to the low-moderate income Spanish Community and who possesses requisite management skills, as the logical next step toward the long-range solution of problems inherent in the Spanish Community in this area; and we have a particular person in mind.

With the establishment of such a full-time position it is anticipated eighty families could obtain an equity position in their own housing between April 1, 1973 and June 30, 1976 without sacrificing the high level of performance on the part of those already placed.

Contingent on funding we also plan to increase scholarships to the Community Preschool Center to twenty per year.

PROGRAM FUNDING REQUIREMENTS

	June 1, 1973–June 1, 1974	Fiscal years 1975–76	Total
Housing:			
1. Housing Director	$12,000	$25,000	$37,000
Coordinate and implement activities of HAF Board; establish broad base of contact within the community; identify continuing unmet needs and make recommendations.			
2. Housing placement costs	15,000	65,000	80,000
80 families; includes renovation, closing costs, mortgage discount ("points"), interim financing, property taxes, and insurance.			
3. Indirect costs	4,500	9,200	13,700
Secretary, Office, Accounting.			
Counseling of families	4,000	8,840	12,840
Housing intake procedures plus personal counseling and referral.			
Preschool	8,000	16,000	24,000
Provide 20 partial scholarships for non-English speaking or otherwise disadvantaged children, ages 3–4.			
Operating costs	43,500	124,040	167,540
Revolving fund	100,000	100,000	200,000
To be used when direct purchase and interim ownership by HAF is indicated, funds to be secured by houses purchased and returned to Revolving Fund when owners take title.			
Total funding needs	143,500	224,040	367,540
			—200,000
Net cost			167,540

NOTE: Net cost per house: approximate $1,800 or under 10 percent.

EXHIBIT A.—SUMMARY OF 17 FAMILIES BY THE HOME ASSISTANCE FOUNDATION (AS OF DEC. 31, 1972)

Number and name	Address and how located [1]		Number in family	Estimated annual income	Purchase price of house	Financing and closing date		Job	Years held
1. Isaias and Laura Fonseca	15W 753 George St	R	5	$5,500	$17,500	235	1/70	Krimko Co	4
2. Louis and Consuela Rivas	15W 751 Jefferson	R	6	7,000	18,500	Conventional	1/70	Milwaukee R.R	10
3. Robert and Bonita Hernandez	17W 154 Elmhurst Rd	O	13	7,800	24,200	235	3/70	Sola Electric Co	14
4. Jose and Nancy Gonzales	15W Crest St	O	7	5,200	2,500	Personal	3/70	Precision Extrusion Co	2
5. Lee and Sue Pender	416 S. Barron St	R	4	5,800	19,900	235	8/70	Social security—part time	
6. Ramon and Belen Chavez	429 Walnut, Wood Dale	R	6	10,000	25,000	Conventional	9/70	W. R. Simmer Co	5
7. Melchor and Suzie Huizar	1005 N. 4th, Maywood	R	6	5,400	22,350	235	12/70	Breakers Confections Co	5
8. Archie and Helene Warnicke	1111 W. Argyle St	R	8	7,500	24,200	235	7/71	School district No. 2	7
9. Alfredo and Dorothy Unzueta	15W 712 Red Oak St		7	2,900		(Rental)		LPM Inc	½
10. Lee and Julia Boatfield	15W 712 Red Oak St	R	4	7,200	12,500	Conventional	9/71	Electric Conveyor Co	4
11. Rosalio and Maria Muniz	220 N. Garden St	R	7	11,000	21,000	235	2/72	Ampex Co	5
12. Mrs. Frances Schneider	389 Oak, Wood Dale	R	4	4,200	19,500	235	3/72	Social security—part time	
13. Rudolpho and Maria Cordova	216 Rose St	R	5	7,500	22,200	Contract	5/72	Factory	6
14. Emanuel and Amy Muniz	722 Algonquin Rd	R	7	7,000	22,500	FHA	6/72	Ampex Co	4
15. Ramiro and Angelica Hernandez	554 Belden, Elmhurst	R	11	6,250	23,250	235	8/72	Cinch Mfg. Co	1
16. Rogelio and Teresa Jimenez	514 Green St	R	5	7,200	13,000	Conventional		Saunders & Co	2
17. Dario and Maria Hernandez	439 Monterey, Villa Park	R	9	12,500	25,000	In Process		Arco Construction Co	4
Total			114	119,950	313,100				73½
Average			7	7,000	[2] 19,600				5

[1] R (Realtor); O (Other).
[2] Average is $20,700 without No. 4.

EXHIBIT B.—NUMBER OF PERSONS INVOLVED IN PROGRAMS

[As of Dec. 31, 1972]

Program	Age			Race				Income		Total
	0–5	5–21	21–up	C	S	B	OT	Below $8,000	Above $8,000	
Housing assistance	30	40	44	20	94			92	22	114
Community preschool center	70			58	10		2	12	58	70
Weekly adult language class			105	10	90		5	85	20	105
Weekly homemaking club	26		30	15	41			41	15	56
Weekly adult medical clinic		60	110	15	155			170		170

Housing Assistance.—HAF has assisted seventeen families secure an equity position in adequate low-moderate income housing.

Community Pre-Schol Center (5-Day) has operated for six years and is used as a model of excellence by state licensing authorities. Emphasis is on assisting three and four year olds, advantaged and disadvantaged, in learning how to develop happy social relationships in small group situations and reading readiness. Non-English-speaking children also learn the English language. Twelve children are on scholarship.

Weekly Language Class uses Laubach ("Each One Teach One") method of teaching English to adults. The need continues to increase.

Weekly Homemaking Club provides housewives an opportunity to enter into significant adult relationships while learning or teaching various homemaking skills such as consumer buying, cooking, sewing and budgeting, resulting in an increased sense of dignity and self worth. It has been "spun off" and now meets at the Peace Church.

Weekly Adult Medical Clinic provides the only clinic located within the county for the hundreds of medically-indigent families in the northeast sector of DuPage County. (Has been "spun off" and is now at the Spanish Baptist Church.)

EXCERPTS FROM SURVEY OF 100 MEXICAN-AMERICAN FAMILIES
(DATED OCT. 12, 1969)

This survey for Mission Council No. 2 involved interviews with 100 Mexican-American families selected at random and scattered throughout Wheeling, Elk Grove, Barrington, Schaumburg, Palatine, Arlington Heights, and Des Plaines. It was conducted under the supervision of the Office of Research of Chicago Presbytery.

1. PROVISION OF ADEQUATE HOUSING

56% of the families interviewed said that housing was a problem, a majority asserting that housing was their major problem. Within the general housing problem, specific concerns include:

Inability to find a safe home for their family;

Inability to find a home in which they can live for more than a short time;

Inability to find a home to buy or rent at a reasonable price;

Inability to find a home that is suitable in size, cleanliness or style;

Inability to find a home that has a suitable location in relation to schools, transportation, church, or shopping.

The surveyor rated the housing of the families interviewed as follows:

19% were rated in good condition with adequate facilities;

40% were rated in fair condition and lacking in adequate facilities;

37% were rated in poor condition.

Frequent conditions were lack of hot water, lack of any water at all, lack of indoor plumbing, crowded conditions, dilapidated structures and dirty conditions.

Many families indicated that rents were exorbitant and others indicated that leases would not be renewed even when no other housing could be found.

It is important to note some of the characteristics of the families interviewed as this need is considered:

Over ½ of the families have lived in the community (somewhere) 2 years or more and ¼ have lived in the community 5 years or more;
93% came to the community because of work opportunities;
60% plan to stay in the community;
78% stated that their income (as a family) was adequate;
74% stated they were happy with their job;
57% of the husbands are employed in factory, construction or service industries while 28% are in farm or related work and 15% gave no information.

Mexican-American families tend to be less mobile, more highly employed and more satisfied with conditions than one generally assumes. Yet, housing is stated to be a concern by well over half of the families interviewed.

2. PROVISION OF DIRECT SERVICES

The families were asked a number of questions to elicit services that they used or services that they needed or wanted. The following data illustrated the need for direct services.

11% relate their children to any club or social service agency;
69% state their children have no place to play;
83% state they receive no assistance from any community agency;
56% state they would like to participate in some church or social organization;
19% state they do not have medical service they can use.

3. LIFE STYLE AND DESIRES OF MEXICAN-AMERICAN FAMILIES

This concern is reflected more in individual comments of those interviewed than in the statistics of the survey. No one specifically recommended the creation of a "Mexican-American Cultural Center" or some such means of communicating or enhancing life styles. The surveyors, however, found a deep pride of the families in their heritage—a heritage strong in self-reliance, self-support, family discipline and close family ties. The pride in their heritage is very real and very deep, yet the desire to learn the American language and American ways is also quite strong.

The stereotypes of migrant families so often encountered do not find support in this survey. Problems often assumed either do not exist or tend to be of little importance in relation to the major concern.

Although many families are in need—housing, food, clothing . . .—charity is deeply resented by many. Thus some of the traditional forms of welfare are not acceptable. More acceptable and more human forms of welfare need to be devised for this situation.

Thus the migrant family and the "settled out" Mexican-American family typically finds itself in the midst of a constellation of problems and concerns which are interrelated and which limit the full participation of the family members in the total life of the community.

The central need to have access to adequate and suitable housing has many ramifications in other areas. This means that a family which would desire to locate close to the husband's place of employment must spend more time in transportation between home and place of employment, thus limiting time for family and community activities. This also means that unless the family has more than one car or can participate in a car pool arrangement, the women of the families are isolated during the day. This limits their ability to participate in community activities or take advantage of direct services which are provided. It also means that often they must pay more for food at small local stores rather than being able to shop in a shopping center. Where language is a barrier this means that these women are further isolated by both lack of mobility during the day and lack of ability to communicate; and this effectively removes them from contacts which would allow them to develop language skills. This lack of mobility during the day also restricts the children closer to home and limits their participation in recreational activities unless a means of transportation can be arranged.

The lack of access to housing at a reasonable price also has direct ramifications in the area of the family budget. It means that an increased portion of the family budget must be allocated to housing which restricts funds available for other items or forces more than one family member to go to work; in many instances the father during the day and the mother on the evening shift. This type of necessity severely restricts the participation of the family in commu-

nity activities and causes an understandable strain on family life, a strain increased by the inability to get a lease which will insure a degree of permanence or ability to get financing which would permit the family to purchase a home.

The restricted access to adequate housing often forces the family to live in housing which lacks some of the elemental and necessary facilities such as plumbing and running water. Dirt becomes an understandable problem within this context, but the existence of Mexican-American families in this type of facility often lends support to stereotypes which are held in the community. The stereotype that Mexican-Americans are dirty and shiftless, is reinforced by the fact that some families do indeed live under such conditions and that they are frequently forced to move from one house to another. The credence which this lends to the image of these families in the broader community intensifies the problem of finding adequate housing and the problems expand.

The system of problems which limits participation in community activities and isolates these families limits opportunities for the types of experiences which would help the broader community to understand the life style and desires of Mexican-American families. The community is thus limited in its opportunity to understand the need of these families so that attempts to foster broad community support to attack the problems are limited to those who are sensitized to the problems. This reinforces the need for broad interpretation to the community of the life style and desires of Mexican-American families as identified previously.

4. CONCLUSION

The central need is obviously for the provision of adequate housing. But the needs created by this concern are varied and allow for responses of many different kinds.

EXHIBIT D.—POPULATION DATA—1970 CENSUS

	Du Page County	Bensenville	Wood Dale	Total
Total population	491, 882	12, 833	8, 831	21, 664
Number of families	122, 365	3, 257	2, 198	5, 455
Mean income	16, 115	14, 087	14, 716	14, 401
Number of families below $8,000	13, 915	393	240	633
Number of families below poverty level	2, 794	89	80	169
Number of poverty households in rental housing	1, 908	63	NA	----------

NOTE: Poverty level varies according to the number in the family. It ranges from $1,487 for a female unrelated individual to $6,116 for a nonfarm family with a male head and 7 or more persons. For a nonfarm family of 4, male head, it is $3,745.

IDENTIFIED NEEDS AND AVAILABLE HOUSING

[As of March 1, 1973]

Item	Families placed so far	Families currently awaiting placement
Number of families	17	10
Average estimated income	$7,000	$6,000
Average family size	7	6
Average cost of house	$19,600	----------
Number of houses in Bensenville and Wood Dale and asking price:		
Under $20,000		4
$20,000 to $25,000		6

EASTGATE RESIDENTS ASSOCIATION,
Park Forest, Ill., March 25, 1973.

Senator JOHN SPARKMAN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR: The Eastgate Residents Association represents approximately 350 homes in Park Forest, Illinois, with only the E.J. & E. railroad tracks sepa-

rating us and the Beacon Hill-Forest Heights area of Chicago Heights, Illinois. Forest Heights is a concentrated area of "235" homes built by Kaufman & Broad Builders with FHA-HUD funds and sold almost in its entirety to black people.

We, in our community were not affected by the poor quality of the homes, but were affected by the fact that this area is in Park Forest School District No. 163, and caused us to have a racially identifiable school in less than two years time, so we had to desegregate, of course. It was done in a big hurry and caused pressure on many of the families in Park Forest who did not wish their children to be bussed, but rather remain in their neighborhood schools, causing them to sell their property and move elsewhere.

Park Forest is an integrated community, and practices Open Housing, but on a slower scattered basis, and everything was going along fine until "Forest Heights" came into being.

We do not think the No. 235 plan should be thrown out completely, but feel it should be most thoroughly changed. First of all, in the future these homes should be on a scattered basis. When put all together, it breeds another ghetto.

Many of our homes nearest the railroad tracks and nearest to the Forest Heights homes have been vandalized, burglarized, and windows broken. The offenders get back over the tracks and into Forest Heights so our authorities can be there, they have disappeared.

We are in total accordance with our sister communities of the South Suburban Coalition Council in stating a list of changes in FHA-HUD programs.

(1) Fix homes that are now in bad shape from poor quality building.
(2) Establish a state "watch-dog" agency over HUD.
(3) Building inspectors should inspect homes and take action.
(4) Create a state law bonding builders.
(5) License builders and allow for revoking licenses.
(6) Enter re-structuring of the FHA 235 program.
(7) Non-discriminatory advertising for all subsidized programs.
(8) Citizen advisary boards to work with HUD in local communities.
(9) Public hearing announcing proposed HUD projects.
(10 Scatter site housing—no large concentration, with no more than 10–15% minority per block.
(11) Publicize eligibility requirement for subsidized housing.
(12) More effective maintenance counseling included in programs.
(13) Subsidy should be given to the owner, rather than the builder.

We wish to thank you for letting us give you our concerns, so a better program will be built to serve all the people.

Sincerely yours,

RODNEY BJERKE,
President.

DES PLAINES CITIZEN OPPOSED
TO LOW- AND MODERATE-INCOME HOUSING
Des Plaines, Ill., March 31, 1973.

Senator ADLAI STEVENSON III,
Old Senate Office Building,
Washington, D.C.

DEAR MR. STEVENSON: After many futile attempts to be allowed to testify in person before the Senate Sub Committee hearings on Federally Subsidized Housing, I offer this written testimony to the committee in hopes that it will be studied and given serious consideration.

Federally Subsidized Housing Funds, in order to survive, must become a workable vehicle acceptable to the majority of American Citizens.

These programs today suffer from an excess of nationally imposed criteria and assorted guidelines that are impossible to enforce upon local communities. I refer specifically to H.U.D. criteria guidelines adopted February 7, 1972, one part of which states that any future subsidized low and moderate income housing must be built in areas away from minority population, precisely where they are most needed. Another portion of that guideline states the availability of such housing must be advertised in minority publication media, no mention being made of advertising in the local community where the housing is to be located, some members of which may be in need of low and moderate income housing, whether

or not they be members of a minority race. Such highly biased attempts to engineer social experimentation through Federal Housing Policies must be discarded and re-written to insure that any low and moderate Federally Subsidized Housing be made available to the eligible local residents first in the community where the housing is to be built.

The current resentment against low-income public housing in the Chicago-land area stems in great part from efforts of Social Activist agencies, such as the League of Women Voters, and the local American Civil Liberties Union to forcefully integrate areas both economically and racially. The American Civil Liberties Union currently has a plea before the Federal District Court here to force a quota system of public housing throughout Chicagoland, hoping to establish their law over the expressed will of you members of Congress, elected to serve all the people. They must be reminded that they are not empowered to pass laws; you representatives are entrusted with that responsibility. In the formulation of the Federally Subsidized Housnig Bills, their suggestions were accepted without considering their impact upon the majority of middle class Americans.

One may argue the constitutionality of President Nixon's Impoundment Action, but cannot deny he has the backing of a large majority of citizens in the action. This is due in large measure to the cavalier manner in which they have been administered.

The Section 235 Program, subsidizing mortgage interest and lower down payments for low and moderate income families must be revised to require a larger down payment and an escrow account be established to assure necessary repairs will be made on these dwellings when repairs are needed. Such a revision should serve to lower the abmandonment rate on these homes, plus assure the F.H.A. a home, if foreclosed or abandoned, will require lesser repairs to be made salable again.

Therefore, to be workable, I believe all Federally Subsidized Low and Moderate Income Housing must be:

1. Subject to local approval and control. The language of the law must be strong enough and clear enough to prevent any usurption of this point by judicial fiat.

2. A higher percentage of equity be required for home-ownership eligibility under the Section 235 program. In addition, some form of escrow account may be desirable to assure necessary repairs being made.

3. Federal Housing subsidy funds be used for low and moderate income families only, not to be combined with State subsidies to cover middle income families ($12,000—$17,000). Such a situation exists in Illinois where the Illinois Housing Development Authority, by combining the Federal 236 Program with their portion of subsidized taxpayer's funds, actually underwrites subsidies for some middle income families who may earn up to $17,000. Such abuse drains monies needed for low and moderate income families and redirects it to those whose earning power should enable them to find market value housing in the middle income range.

4. Much closer control over sponsorship of Section 236 apartment complexes, making sure the designated sponsors have professional experience in building methods, site locations and project management. Many Chicago subsidized developments are in default now because they lack those professional qualities I have cited.

In concluding, I offer these criticisms and suggestions so that subsidized housing for those who need and qualify for such, may have it. Conversely, those communities that do not want Federally Subsidized Low and Moderate Income Housing may have the right to decline.

Please feel free to contact me if I can be of further assistance.

Sincerely,

JOSEPH A. BOTTE,
President.

KELLEY 7 REALTORS,
Chicago, Ill. March 28, 1973.

LES GOLDMAN,
Senator Stevenson's Office,
Chicago, Ill.

DEAR MR. GOLDMAN: I am requesting T.V. time to testify during the Senate Committee Hearings on Housing scheduled for March 30th and 31st.

I wish to present to the viewers the positive side of the housing situation in Austin. I speak as the Secretary of the West Side Real Estate Board and as the Vice President of the Town Hall Assembly, a true representative community organization. (Includes no paid organizers, rabble rousers, or outside picketeers).

Enclosed is the set of facts I wish to present, the second to be sent to your office.

Respectfully,

LEN KELLEY.

FACTS PRESENTED BY KELLEY 7 REALTORS

1. Why not tell what good the housing situation is in? More people have decent housing than ever before.
2. Why try to make it sound and look like every F.H.A. house and any Realtor that lists a house and takes a contract under F.H.A. terms is bad, a block-buster and a cheat?
3. Who ever said that a house sold has to be guaranteed as perfect? Some homes are 40 to 50 years old or older and still very very good.
4. These groups making all these allegations are simply trying to prevent and scare people from trying to move into an area.
5. TOWN HALL ASSEMBLY, a true community organization (no outside agitators or pickets) strongly oppose these tactics.
6. Homeowners should learn to take care of their own property and not look for the government or Realtor to do it for them.
7. Just another way to panic peddle by inciting and upsetting a community by taking the law into their own hands and with the *big lie*.
8. Look at the out of the area organizers and rabble rousers that try to damage our area by steering people and even trying to make new home owners believe that they can get money back from the realtor if they picket or march.
9. Look at the housing referral service held in the church basements which is meant for a clearinghouse so that the wrong people don't get into the wrong area.
10. Look at the constant flooding of our area with pamphlets of hate and crime and rotten schools, rotten Realtors. Not a single pamphlet did ever show the decent, good, healthy aspects of Austin.
11. There are not common housing abuses existing in Austin.
12. The attack on F.H.A. is geared at making it impossible for people with low down payments to buy housing. Depriving those living in ghetto conditions the right to live better through their own efforts.
13. No coalition effort aimed at helping home buyers learn to care for and improve his own property.
14. Strange that no coalition effort is aimed at investigating the epidemic of faulty furnaces. Great Lakes Heating firm has been indicted for fraudulent practices, yet replaced many of the "so-called" defective furnaces. And the area is flooded with brochures offering "free" inspection service from innumerable furnace firms.
15. As a Realtor offering service to our community we maintain communication with all of our buyers as well as sellers. Through this service we have been able to frequently provide further service and counseling to many as can be attested to by our customers.
16. In carrying out the above mentioned service, I, personally, have come upon any number of instances where a new buyer has been informed by a furnace company of the need for a new unit. Yet, upon inspection by myself have discovered the only fault to be that of a blown fuse, empty oil tanks, lines which required bleeding, or other simple self corrected problems. In each instance, the buyer was better informed and also saved many dollars by contacting his Realtor. In other instances, my advice to the new home owner would be to obtain several opinions from other furnace firms, and again this proved to be advantageous to the customer.
17. Over one year this group spent tremendous hours in door-to-door solicitation seeking people who would make a complaint against a broker or Realtor. Why not spend this time in a more constructive fashion? Why concentrate only on the real estate industry when we have seen some abuses by other industries.

DRAPER AND KRAMER, INC.,
Chicago, Ill., March 21, 1973.

MRS. DOROTHY RUBEL,
Metropolitan Housing and Planning Council,
Chicago, Ill.

DEAR DOROTHY: I will probably attend the Stevenson meeting on Friday, the 30th, and possibly Saturday, the 31st, regardless of whether I hear from Mr. Hal Wolman. The ideas which I nave in connection with the housing problem, which I might bring before the meeting of the opportunity presents itself, are as follows:

(1) There has been a great deal of criticism of the FHA, and it is by no means as helpful in the housing field as it was for many years after the creation of the FHA in 1935.

I believe that one of the troubles is that originally they placed some responsibility on the mortgage banker who originated the loan. I believe that when the FHA started, a mortgage banker had to have a capital of $250,000 to become an FHA mortgagee. The amount was reduced, and I don't know what the requirement is today. Originally the builders had to go to the FHA with a mortgage banker. Today, many of the builders have their own mortgage companies and deal direct. Of course it is not possible to have the mortgage banker guarantee the loan, but he should have great responsibility, and if the mortgage banker originates a number of bad loans the FHA should take him off the list.

(2) We thought that the original subsidized housing program, known as 221(d)(3), was a satisfactory one, but this was dropped because the Government funded the entire amount of the loan. The 221(d)(3) was replaced by 236. This loan carries a market rate interest, but when the apartments are rented at rentals below market rentals HUD pays 6% or 7% interest, so that the borrower has to pay only 1% interest.

I think that the 221(d)(3), where the interest rate was 3%, would have been a satisfactory program if the Government had simply paid the difference between 3% and the market interest rate, so that if the current interest rate which would make the mortgage salable were 7%, then the Government would have to pay 4%—the difference between 7% and the 3% which the borrower would pay.

The chief trouble with both 221(d)(3) and 236 in this area was that the real estate taxes were too high—in some instances as high as 30% of gross income. Low-income housing should be in the same class as public housing. Public housing does not pay regular real estate tax, but pays 10% of the rentals for services, which include police and fire protection, garbage removal, etc. One plan could be that the Government would make funds for subsidized housing available only where the community would be willing to give it the same kind of tax treatment that public housing receives.

Another problem was that much of the 221(d)(3) and 236 housing was built by inexperienced, non-profit organizations.

If the mortgage banker was given real responsibility and the FHA insisted that the management be in the nands of experienced property managers, and if the taxes were reduced, most of these projects should be successful.

(3) I did not have much experience with Section 235, but I understand that there is a great deal of trouble with this home ownership plan and that there are a great many foreclosures throughout the country. I am sure that it is not going to be easy to work out a satisfactory program for home ownership by the lowest income group, due to the fact that many of these people are not experienced in handling money and in addition to their mortgage will incur other debts for expensive appliances, furniture, automobiles, and other items, beyond their ability to pay. A possible plan might be for these houses to be rented to the prospective purchaser for a three- or five-year period, with the rental payments being approximately the same as the mortgage payments and with a portion of the rent applying towards the purchase price. Then after the individual has shown his ability to own a home, title could be conveyed.

I hope these ideas will be helpful to you.

Sincerely,

MAURICE A. POLLAK.

CRITICAL ISSUES IN PROPERTY MANAGEMENT

Report to

U.S. Department of Housing and Urban Development

March 20, 1972

C-72753

Prepared by

NONPROFIT HOUSING CENTER, INC.

as consultants to

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I. INTRODUCTION

The purpose of this paper is to determine the nature of good management of residential housing under a peculiar set of circumstances. Briefly, the circumstances include the nature of the housing--rehabilitated older units; the condition of the community--usually deteriorating and distressed; and the often-conflicting goals each of the parties at interest--the sponsors, the city, the community, and HUD.

This report is not intended to be an exhaustive study of techniques that have succeeded or failed in the management of rehabilitated low income housing. Nor is it a list of do's and don'ts or a manual of operation. Rather it is an assessment of some successful techniques that have worked in rehab management. More important, the report attempts to clearly state the multiple problems that management of rehabilitated units in low income areas has faced and offers some remedies that can help in dealing with these problems.

The classic definition of management has been the operation of assets in a manner designed to achieve the objectives of the owner. In Project Rehab, where both the legislative and the administrative intent is to achieve social objectives, the potential for conflict is apparent. Added to this are recent court decisions--as well as legislation--that realigns the relationships implied in the roles of owners, managers and tenants.

Aware as the writers of this paper are of these circumstances, they are also aware that the largest supply of housing for low-income families exists in the present stock of older housing. It is with this knowledge that the body of this paper was written.

While we hope and believe that the effect of good management will be to improve the quality of life of tenants and, ultimately, the community and the cities, we wish to caution against high expectation. The intent of Federal legislation in housing has been to attempt to solve people problems with brick and mortar. There is no reason to believe that management, with its lack of financial and human resources, will be able to handle the problems of the inner city any more effectively than production. The danger lies in failing to recognize the limitations of management from the very beginning, as HUD now recognizes the limitations of production.

Without massive changes in national social objectives and in allocation of national resources, the rate of foreclosure of insured rehabilitated buildings in inner-city areas is not likely to diminish greatly with the emphasis on management. In fact, if foreclosure continues at the same or a similar high rate after the emphasis on management replaces the emphasis on production, the danger will be that cynical attitudes about low-income tenants, already present, will be concretized among the developers and the professionals at HUD. This attitude--that management is not possible with low-income tenants--is at best a shallow truth.

A brief statement of our methodology would be appropriate. We investigated management in four cities: Detroit, Indianapolis, Cincinnati and New York. These cities were chosen because, within the shortness of time that both rehabilitation and Project Rehab have been insured by HUD, they seemed the most different while at the same time having some units under management for the longest period of time. Although we used a rather lengthy questionnaire, our objective was to probe for innovative techniques and attitudes that were conducive to success and to learn from the practitioners what changes they would like to see in the laws, in the regulations, and in practices by the city, the community and HUD to make successful management possible.

In short, we were less interested in bookkeeping and rent collection policies than in staffing policies. But more than staffing policies, we concentrated in how management articulated with the city, the community and the tenant to deal with problems of tenant selection, tenant organization, tenant hostility, tenant problems, unsupervised children, unemployment, underemployment, alcholism, violence, dope addiction, youth gangs and so on.

We found that management--except in rare instances--is not in trouble because of lack of technical ability to handle the bookkeeping, maintenance, record keeping and reporting or other traditional management tasks. Rather, management's troubles stem from constantly rising costs in a physical environment where lack of community amenties join with severe community and individual needs and distress.

Costs are not stationary, but the rents that can be charged in the community or under the housing programs are. The normal means of covering increasing costs by increasing rents is not possible because of the market or the program under which the housing is insured or both. In order to meet mortgage payments, therefore, maintenance has to be deferred and needed services are either never instituted or dropped.

This deferral of maintenance--often added to incomplete rehabilitation--places the low-income tenant back into his usual housing configuration: deteriorating housing in a distressed community. After this, there usually follows the stereotype behavior configuration involved in the terms, "slum landlord" and "bad tenant".

Yet, in some of the cities, some owners--at least for awhile--have been able to break out of the stereotype, to face the problems of rehab with not enough money, of management with rising costs, and of working with tenants and the community. Those that have usually have several attributes in common:

(1) They usually have a community base, or they work closely with organizations that do have a community base;

(2.) They are organized so that they combine the three tasks of sponsorship, contracting, and managing;

(3.) Payment for management staff usually is from the development budget as well as from the management budget or from some outside source; and

(4.) There is a large number of units or the potential for a large number of units (250 or more).

Finally, one of the reasons for success is an attitude on the part of the owners. This attitude, which is hard to define, is perhaps best shown in the fact that from the very beginning the owners provide on-site staff that can immediately deal with problems by providing maintenance and other services. Stated another way, the most successful practitioners of management in inner-city areas, without eschewing the use of force when the health of the community demands it, are geared toward consent and persuasion to gain the ends of management and ownership. Three examples of these practices start the body of the report.

This introduction would be remiss, however, if it ended on a note of optimism. It is likely that without some major changes in regulations and in the laws, these developments will eventually default also. As a consequence, in order to save present housing for families, this paper has recommended a number of remedies in Section IV. These recommended remedies are in three major groups: immediate remedies not requiring new legislation, suggestions for legislative changes, and comments on family-allowance schemes.

The first of the immediate remedies would be moratorium on principal and interest payments and on further processing of developments for insurance be declared while a thorough investigation of subsidized developments is conducted. Several purposes would be served: funds accumulated during the moratorium would become an operating reserve; the investigation would serve both to develop an accurate sense of costs, attitudes and procedures and to translate this knowledge into operation.

Other immediate remedies discussed in Section IV include 1) having local HUD-approved mortgagees rather than FNMA, service project mortgages after final closing; 2) appointment of monitoring teams to help new owners set up their management operations and to monitor the developments at least twice yearly; 3) application of the maximum 40% rent supplement to all 236 rehab projects; 4) delaying mortgage payments for three months after final closing to permit build-up of an operating reserve fund; 5) remitting the operating reserve fund the difference between basic rents and 25% of family income. These remedies would help assure the solvency of developments' operations as well as means of spotting problems before they become insoluble.

Remedies which require new legislation can be expressed in terms of several tasks aimed at developing conditions under which management can be successful.

The first of these is to provide Federal monetary support to upgrade the communities where rehabilitation takes place. The second is to find a means to keep debt service and operating costs at a level consistent with market rents, without compromising on the quality of construction. The third is to overcome the problem of a lack of diversity in income levels and life styles among Project Rehab tenants.

Concerning family allowances, this paper does not advocate them but does believe that a mechanism of family allowances tied to income-tax returns should be thoroughly investigated.

II. THREE EXAMPLES OF SUCCESSFUL MANAGEMENT

Each of the three examples described in this section are models designed to deal with specific local situations. Because of the shortness of the description, we fail to capture much of the reality of day-to-day processes. The examples do provide, nevertheless, general models for dealing with the problems of innercity management.

A. MODERN AMERICAN LIVING, DETROIT, MICHIGAN (MAL)

Nicholas Hood, minister of a black Congregational Church, Plymouth Church, and a member of the Detroit City Council, started Modern American Living, a nonprofit corporation, in the early 1960's in order to bid on Urban Renewal land near his church. Since that time, with the aid of two men, Roger Miller and Clarence White, he has developed a for-profit management firm, a for-profit construction firm, and a for-profit consulting firm. Recently, he has ventured into limited-dividend sponsorship.

Thus, like most of the successful groups managing housing, MAL's activities include development and construction as well as management.

The management firm, however, also manages property that was not developed by Modern American Living or by Urban Housing and Planning Associates, the for-profit arm of Modern American Living. This has necessitated two forms of organization: one to service the developments sponsored by MAL, and one to service sponsors not associated with MAL.

Hood, Miller, and White meet almost daily, discussing policy and administration. Once a week, the three meet with an Executive Committee composed of the sponsors to make policy decisions. Reports are made semi-annually to the full Board of the Sponsoring Organizations.

All sponsoring corporations are composed of members of the community in which the development occurred. The Executive Committee and the Board of the sponsoring Corporations provide Hood, Miller, and White with additional community support. However, the three are very much part of most of the communities in which the group manages property.

Currently, Koinonia Management Company, the management arm of the operation, manages 763 units distributed among new and rehab as follows:

230 units	Medical Center Courts	(new)
50 "	1730 Magnolia	(rehab)
32 "	Selden Courts	(new)
176 "	Newman Courts	(new)
100 "	Lee Crest	(rehab)
74 "	Chatham	(rehab)
26 "	Brush/Canfield	(rehab)
75 "	New Center Pavillion	(new)

The developments are scattered. As a consequence, management is organized to deal with this fact.

The management staff consists of a director, who reports to Hood, Miller, and White, a rental coordinator, a clerk-typist, two bookkeepers, and caretakers who provide on-site supervision and who handle "people problems". There is a director and supervisor of maintenance who report to the director of management.

In addition to one maintenance man assigned to all projects with 150 units or more, there is a mobile two-man maintenance crew.

The caretaker, who handles between 75 and 85 units, also provides assistance in janitorial work and in repairing small maintenance items. Although the director of management has the day-to-day supervisory responsibility over the director of maintenance, they both report directly to the Executive Committee.

During rent-up, two additional persons are hired for every 150 units. They assist in receiving the public, setting up interviews, displaying the models, etc.

All bookkeeping is done by hand by the two bookkeepers. Rent collection, rental of turnover apartments, etc., is the responsibility of the rental coordinator with the help, when necessary, of the director of management.

Mr. Miller lives in Medical Center Courts. No other administrative staff member, however, is a resident of any of the developments.

The tenant selection proceeds as follows:

(1) The Executive Committee plans the rent-up;

(2) A letter is sent to all relocated former residents of the rehabilitated building, but less than 5% apply. All are admitted, if eligible;

(3) No home visits are made. A recommendation is made to the Executive Committee based on the interview of a member of the management staff with the prospective tenant;

(4) Those tenants who are approved by a majority of the Executive Committee are invited to occupy;

(5) Credit checks were attempted, but they proved both costly and unreliable.

All rehab units have been insured under Section 236 with 20% rent supplement. Efficiences and three-bedroom units are difficult to rent. Efficiencies do not attract the elderly because there is little room for their accumulated possessions. Young couples want the extra room afforded

by a one-bedroom unit. The rental on a three-bedroom and larger unit, on the other hand, is difficult because single-family, detached homes are available in the Detroit area at prices that approximate the rents of the larger units.

A tenant handbook is prepared for each project. Tenants are oriented both before and after move-in. The interview prior to acceptance and the interview at the time of lease signing is extensive. In addition, a management person accompanies the new tenant to the unit to explain the use of the apartment and the availability of those common areas that may exist.

Finally, tenants are called together when a project is completely rented in order to become acquainted with each other, the owners, and management.

Tenant organization is not extensive. In the beginning, tenants were encouraged to organize; however, experience showed that the organization is viable only at times of crisis; i.e., when rent is raised, when there are break-ins, faulty laundry facilities, etc. Management still offers to finance publications of events, to provide free secretarial service to resident organizations and free use of meeting space, etc. However, little use has ever been made of these facilities.

The difference between Detroit, Cincinnati and New York in the involvement of tenants in resident organizations is that Cincinnati and New York have stronger community organizations which serve as the foundation for the tenant organization.

A form of organization has developed, however. The men of each building have developed a tenant patrol, with each family in the building, entrance, or court having the phone numbers of the men in the patrol. When an emergency arises, phone calls are made to the men who then congregate for action or security.

Currently, there are not sufficient funds for a social service employee. At the end of 1972, management believes that with over 1,000 units in management, they will be able to have a community-type person who will perform some social services, referrals and follow-ups. College students who are members of Plymouth Church are hired by the Church to engage in services to the developments, mostly with children and teenagers, during the summer.

In summary, the strength of the management arm of Modern American Living is the large number of units. The mixture of new and old units in management provides a better base because, at least in the beginning, new construction is likely to be a more secure base from which to start a management operation. The use of caretakers in buildings as a direct representative of management provides a source for immediate attack on problems whether the problems are management-related, physical or social problems or tenant-related individual or interpersonal problems. An Executive Committee of community leaders who, on a week-by-week basis, make policy decisions and receive reports on problems and operation, develops the necessary community support.

B. COMPOSITE MODEL, CINCINNATI, OHIO

Project Rehab has one of its most successful expressions in Cincinnati. Unlike any other city we visited, a large number of units have been completed; some have, in fact, been in management for over a year. Currently, there are 1,069 units in 111 buildings in management. This represents 42 insured projects. Thirty-eight of these are insured under section 221 (d) (3) market rate, rent supplement. Thus far, Cincinnati has experienced only one default in Project Rehab. This default, as near as the facts are ascertainable, is not due to the building being unable to operate within the budget allowed by FHA.

Because of the success of Project Rehab in Cincinnati, a summary of how the City, FHA and the sponsors cooperate with each other is useful. In brief, the City has modified the codes, pushed housing inspection, and in general, supported the FHA and the sponsors in the rehab process. FHA acted as a teacher, not only as a judge, teaching sponsors how to process for FHA insurance. In addition, they have served as a middleman spreading knowledge of rehab techniques that save money, and unifying rehab techniques. As a consequence, the cost of rehab has gone down in Cincinnati even though the cost of construction has gone up.

FHA is trying to develop the same kind of helpfulness in the management process; that is, by monitoring projects and bring successful management techniques to the attention of both managers and rehab sponsors. However, lack of sufficient staff is hampering this.

Sponsors have been a wide variety of developers. They include church-related nonprofit sponsors, construction companies, owners of deteriorating property, black entrepreneurs, local businessmen.

The mortgage bankers have also entered into this cooperative process. One of the mortgage bankers is sufficiently interested in successful management to hire a staff person to develop management proposals and to monitor management operations.

In addition, this company is providing a mobile camper in which there will be an interior made of the same materials used in the rehab apartments so that demonstrations can be conducted near occupied rehab units of cleaning materials and cleaning techniques complete with free samples, etc.

The management model listed below is a composite of the operation of three or four management concerns, taking some of the best features from each. It should be remembered that Cincinnati is a city that has strong community councils, particularly in the areas where Project Rehab has located units. These councils have direct contact with FHA and with the sponsors. Their roles vary but in some instances, they do the initial referrals in the tenant selection process and they help organize the tenant councils.

Reaction by managers to the councils also vary. However, this paper assumes that, ultimately, they will be a strong force for maintaining both the community and the individual rehab properties.

The model, therefore, includes the community councils as part of the management process even though, in some instances, managers are resisting their action.

The model has 350 units in occupancy and management. Some of the units have been occupied for a year or more. Others are just coming into occupancy. The sponsor owns a construction firm and management firm in addition to being a developer. In fact, staff people are likely to be employed in all aspects of the operation, both management and construction, since the sponsors will have 100 to 200 units currently under construction or being processed.

Staff for 350 units is as follows:

- One Manager/Director;
- Two persons to handle tenant selction, leasing, rent collection, monthly housekeeping visits to apartments;
- Two accountants and one CPA to handle not only the accounting on the occupied apartments but all bookkeeping concerning construction and payouts; and
- Two secretaries.

The developer, however, is likely to take a very personal hand in the entire operation requiring the manager to report to him on a day-by-day basis.

There are five janitors for the 350 units. Janitors serve as caretakers in the Detroit sense but have more duties oriented towards cleaning in their routine. They are required to live in one of the buildings and are responsible for a certain number of units varying from 60 to 80. Repairs have not yet started to be a problem. When there is a problem, individuals are usually detached from the construction job to handle them.

One of the management firms has begun the use of a mobile crew. However, these men can be assigned to construction if the repairs are of a type that can be handled by the janitors.

No additional staff was hired for rent up. Referrals are accepted from the community council, from the City relocation department, from other rehab developers, and from people who came in off the street. Very few of the tenants are relocatees from the building prior to rehab.

The tenant selection process includes a home visit by management and a credit check. Tenants are not oriented in any organized fashion prior to move in. The Cincinnati Better Housing League had training sessions for prospective tenants very early in Project Rehab history in Cincinnati. However, tenant resentment was great, since tenants felt the training sessions were insulting. Instead of orientation, monthly housekeeping visits are made by management.

The mobile camper is an attempt to do training without talking down to people.

FHA requires tenant organization. Tenant councils have therefore been set up in most developments. These councils are members of the community councils. Sometimes they resemble block clubs more than building councils. In all cases, their work is oriented toward watching building cleanliness, street cleanliness, control of children, and problem solving. Although sometimes not directly related to the building as such, they seem to be very effective as a neighborhood or block means of controlling behavior and motivating individual tenants to become better residents.

After initial negative reactions, most managers became very sensitive to the block or building organizations' attitudes and grievances; mutual respect and mutual support seem to be developing.

Some managers have begun to work with the resident organizations on budget problems, giving the council the monthly operating budget and asking their assistance in lowering expenses.

Social service referrals usually go through the community councils rather than management. However, referral services are weak. As a consequence, if difficulties persist after both management and community warnings, legal action and evictions result.

In summary, management has worked in Cincinnati for the following reasons:

(1) The cooperation between the City, the FHA and the sponsors;

(2) The quality of the rehab work is the highest in the four cities that we visited;

(3) Good construction can occur with a total replacement cost of $13,000 or less;

(4) Buildings can be operated at an average of $900 per year including taxes;

(5) Rent supplement has been used on almost all of the developments currently in management causing the rent structure to be as low or lower than the competitive, deteriorating units remaining in the neighborhood.

(6) Because of rent supplement, rehab can occur with successful rent up in 3 bedroom, 4 bedroom units and even 5 bedroom units.

(7) The cost of management has not become a factor since management staff is often engaged in development work as well as management work, thus causing the management fee to be so much additional frosting on the cake;

(8) The community organization, a real force in most communities, is oriented towards community housekeeping problems as well as other social and political concerns; and

(9) The block clubs or buildings' councils are an integral part of the community organizations serving as a pressure group to maintain satisfactory behavior among tenants.

Probably the three most important factors in the success of management thus far has been the fact that rent supplement has made rents competitive, that the rehab job is complete so that a sponsor does not have to spend additional funds from the operating budget during the first year in order to accomplish work that should have been done as part of the rehab process, and that the sponsors have been able to generate a great deal of profit from the sale of depreciation thus making them eager to ensure the success of Project Rehab.

C. JOSE DE DIEGO-BEEKMAN, NEW YORK, NEW YORK

Rehabilitated units insured by HUD have existed in New York for many years. Project Rehab, in fact, benefits from the experience gained in constructing and managing these early developments, particularly by the accumulation of experience of the Housing Development Administration of the City of New York (HDA) through which Project Rehab applications are funneled before HUD processing.

The example outlined below is the management operation of Continental Wingate in a development named Jose de Diego-Beekman in the Mott Haven section of the Bronx. It should be noted that some of the practices used in the management of Diego-Beekman had been used earlier by an organization called UPACA (Upper Park Avenue Community Association) in a non-Rehab development.

A short description of the difficulties and complexities of managing rehabilitated properties in New York City would aid in the understanding of the model. The difficulties begin with the structures. The buildings are either "old law" or "new law" tenements, from 60 to 80 or more years old. They are five or six story walkups with small hallways, stairwells and room sizes. Although rehabilitation is almost a complete gut job, room sizes and layouts are hard to change. The buildings lack set-back from the sidewalks; they abut each other on either side; and they usually have only a small backyard. The communities lack amenities such as green space, adequate parking, playgrounds, shopping, etc.

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Even more important than the physical problems are the community and social problems. HDA requires that relocatees be given priority in fact as well as principle. As a consequence, former tenants who are eligible--unless there are overriding social reasons--must be moved into the completed rehab buildings. According to the staff of HDA, HUD-insured rehabilitated units in New York City have more welfare tenants than public housing. In other words, the average family income of tenants in insured rehabilitated housing is lower than the average income of families in Public Housing. Welfare families are able to pay the rent in section 236 housing because, in the City of New York, the Welfare Department will pay whatever rent is required to obtain adequate housing for welfare tenants. This is, in fact, a form of family allowance and is viewed as such by the staff of HDA.

A discussion of social problems in the rehabilitated units in New York City would be incomplete without a discussion of the problem of heroin addiction. This seems to be the central problem for discussion and solution in the management office of all developments. Vivian Robinson, former manager of the rehabbed units on 114th Street and now a staff person at HDA, states that in the units on both sides of 114th Street between 7th and 8th Avenues, less than five families are unaffected by heroin. Every other family had some member or close relative that was either a pusher or user or both. Although the other Project Rehab developments in New York City do not have nearly that intensity of usage, heroin is a major community problem in every Project Rehab development. The point is that it is viewed as a community problem and not a management problem; consequently, the proposed solution is a joint management-community solution.

Continental Wingate, the developer of Jose de Diego-Beekman, is a limited dividend partnership that first did FHA-insured rehab in Boston. The partnership is also engaged in construction and management. The partnership, because of its prior experience, is probably one of the more sophisticated of the Project Rehab developers.

Continental Wingate began the planning of the projects in Mott Haven with the cooperation and assistance of the Beekman Community Center, the Mott Haven Plan Committee and the Community Service Organization.

A tenant selection committee was trained prior to the first move in the details and intricacies of Section 236 eligibility and in the procedure necessary to establish that eligibility with HUD and HDA. In addition, the committee learned the eligibility requirements for the Welfare Department and the New York City Housing Authority. The members of the committee are members of the Beekman Community Center and the Mott Haven Plan Committee. As will be discussed later, this committee has an important role in both the tenant orientation program and the tenant organization.

Diego-Beekman has, at this point, about 200-250 units that have been in occupancy for six months or less.

On-site, the staff consists of the following persons:

(1) Project Manager who is responsible for daily detailed coordination of maintenance, rent-up, relocation, bookkeeping, income eligibility processing and recertification, coordination of the tenant council, tenant training, tenant selection, rent collection and legal action.

(2) Secretary-Clerk who, apart from secretarial duties, helps with the eligibility processing, leasing, maintenance record keeping and bookkeeping.

(3) Bookkeeper who maintains accounting records, maintains rent accounts, security deposits, arrears reports, subsidy billing and collections of additional subsidies from appropriate agencies, handles accounts receivable and payable, prepares payroll, financial statements, etc.

(4) Maintenance Superintendent who lives on site and is responsible on a 24-hour basis for the handling and supervision of all maintenance tasks, maintenance personnel and janitors (superintendents).

(5) Building Janitors (superintendents) who are responsible for one or more buildings (average about 50 tenants) and its cleanliness, exterior grounds, walks, trash storage and removal, and snow removal. They also assist in building security.

In addition, in the community space next to the management office, there are:

(1) The tenant selection committee, six persons who initiate the tenant selection process and assist in the tenant training process.

(2) One social worker, paid by the Community Service Society, who assists in tenant orientation and provides help to problem families. Hopefully, this staff will be increased to three persons to provide continuous programs and social services after move-in.

Finally, Continental Wingate's Central Office contains supervisory personnel with direct responsibility for overall policy and supervision.

In actual operation, the on-site manager has complete control of operating procedures and has the authority to handle tenant requests and complaints. The central office provides back-up services, legal services and supervision and sets policy. Tenant bookkeeping is done in the main through the Electronic Data Processing and Lock Box service of a local commercial bank. The charges, collections and adjustments originate at the management office. Thereafter, rent, billing, records of arrears, etc. are automatically

printed by the data processing equipment. Because welfare checks are often split into two payments, rent is accepted in two payments. The machine is equipped to note due dates on specific tenants and to inform the office of arrears.

The tenant selection procedures are as follows:

(1) Initial contact with the tenant is made by one or more members of the tenant selection committee in a home visit. At this time, a pre-application form is filled out. The members of the tenant selection committee who have been, as has been previously mentioned, trained in tenant selection processing and in recognizing problems, not only takes the eligibility information on the application, but probes for family difficulties as well as housekeeping and other family problems.

Since the interviewer is a community resident, it is often true that she will have prior knowledge of the family that is being interviewed. If problems are noticed, the member of the tenant selection committee will find reasons for returning to the apartment to develop a complete picture of the family.

(2) The management staff person is given the pre-application with the notification of possible problems. The staff person develops the application for eligibility. If the family is deemed ineligible for social reasons, the tenant selection committee works with the social worker from the Community Services Society and the family until, hopefully, eligibility can be accomplished. In particular, if there is a drug problem with a member of the family, that member is required to go into treatment and show evidence of satisfactory treatment.

(3) If the family is eligible, a date is set for the family to attend the Tenant Orientation Workshop Program. In order to move into a rehabbed apartment, the family must have a Certificate of Graduation from this program.

The Workshop Program is run by the Tenant Selection Committee with the assistance of volunteers and the social worker. The orientation program includes teaching the responsibilities of both management and tenants in the rehabbed units and buildings, homemaking, fire prevention, sanitation, and security.

(4) After graduating from the orientation class, the tenant is allowed to move in and given, on the date of move-in, a little present from management.

All rehab units have been insured under Section 236. However, as stated earlier, almost all the tenants' incomes are lower than Section 236 eligibility limits. As a consequence, supplementation is made either by the Welfare Department or Section 23 leasing.

One of the complaints of every manager that we spoke to in New York was that working people were not eligible. Their incomes were too high for initial occupancy eligibility under the rules of Section 236. As a consequence, in order to move in, they would have to pay market rents. Obviously, market rents are not attractive in these neighborhoods.

Follow-up after move-in has thus far been impossible. Management hopes that regular housekeeping visits can be made at some future date either through the tenant selection committee or through a special arm of management.

Tenant organization is just beginning. In theory, the Tenant Selection Committee would become the tenant board with programatic authority in tenant orientation, tenant services, security, follow up inspection and grievances. It would serve as an advisory committee to management on all management problems. In actuality, the development is too new to evaluate the effectiveness of the tenant council concept. Currently, each floor has a floor captain. In addition, there is a tenant security patrol taking the names of people who enter and leave, inspecting floors for cleanliness, for proper janitorial services and so on. The tenant secutiry patrol seems to work in some buildings, but not in others. The floor captains concept, however, seems to be working quite well.

In summary, an elaborate system has been set up in order to insure community participation in the operation of Diego-Beekman. This system uses community people concerned with the welfare of the community to select tenants, orient them and, in a sense, monitor their behavior. Given the problems of New York City, and the necessity of accepting as many relocatees as possible, the system seems to work.

The identification of family problems, the commitment to training and so on solves one of the major problems faced by developers in all large cities. The use of community people in training probably removes some of the onus of a tenant training program. The commitment of the community volunteers is exceedingly high. The involvement of the community organizations seems to be total.

Some variations of this form of organization is probably necessary in the larger cities in order to insure the success of management in inner-city areas.

Three points should be noted, however:

(1) That paid social service employees are being furnished outside of management;

(2) That it is unrealistic to expect volunteers (the tenant selection committee) to continue to perform semiprofessional tasks without pay for any length of time; and

(3) That is is really too early to evaluate how effectively the program an operation will be over any long duration of time.

III. PROBLEMS IN PROJECT REHAB

A. MARKET

Apart from New York City, where the Welfare Department, in a sense, creates an artificial market, the criticism heard most often of Project Rehab is that the rents are too high for the neighborhood. Rent-up, except in Cincinnati (where most of the projects are rent supplement ones) and New York City, has been difficult. Efficiencies and three and four bedrooms are the most difficult to market unless the rent supplement allocation is used.

This study does not have enough evidence to reach any conclusion; however, two hypotheses should be made explicit:

(1) In most neighborhoods where rehab is occurring, people would rather pay less for deteriorating units than pay the level of Section 236 rentals. If they are going to pay Section 236 rentals--particularly for the larger apartments--they want to live in a "better" community.

(2) The corollary to the above proposition, of course, is that in order to attract non-welfare tenants to rehabbed housing in distressed inner-city neighborhoods, the percentage of income paid for rent must be less than 25%.

If rent-up is difficult when the development is new, it is likely to become progressively more difficult as the development grows older--and operating costs increase.

Needless to say, the developments that rented easiest--and operated best--were in Cincinnati where 38 of the 42 completed projects are Section 221 (d) (3) market rate, rent supplement. Most of the units now being processed in Cincinnati are under Section 236. Both the city and the sponsors are worried about the market for the higher rentals.

B. COMPLETENESS OF REHABILITATION

The quality of rehabilitation varies widely. In some areas, almost a conscious decision is made to emphasize the mechanical and structural elements at the expense of the interior and exterior finishes. In other areas the opposite decision, that marketing requires as nice as possible interior and exterior finishes, is made. In both instances much of the first year's operating cost is spent doing work that should have been completed during the construction phase. The consequence is that the development starts out in financial trouble. If the repairs are of a serious nature, tenant hostility is also engendered.

Another difficulty is that the design and materials used in rehabilitation in the inner-city fail to appreciate use and security problems of inner-city populations. Often, too much glass is used; door and window hardware will not withstand the constant use of large families; there are no security considerations such as audio security systems, in addition to a bell, in the entrance hallway or security for first floor windows and so on. It must be recognized that to a low-income family good housing means housing that will provide the family with security from:

- o an adverse physical environment, and
- o an adverse social environment.

If tenant hostility is to be kept at a minimum, rehabilitation must be complete in every aspect and must recognize the "climate" of inner-city life.

C. OPERATING EXPENSES

The reason most often given for foreclosure in all subsidized HUD programs is the underestimation of operating costs, including taxes. Most of the reasons for the underestimation of expenses are well known and have been often discussed. These reasons--underestimation of cost in order to make the project feasible; inflationary trends in the costs of utilities, materials, payroll and other materials and services; unexpected severe rises in insurance costs and taxes in inner-city areas; vandalism and destructiveness or just wear on poor construction by the tenants or by destructive persons in the neighborhood and so on--are compounded by the slowness of FHA in granting rent increases. Usually FHA requires at least a full year of operating experience before a rent raise is granted. The rent raise is then granted on the basis of that past year's experience. Meanwhile, with costs continuing to increase, the raise is not sufficient.

But perhaps even more important is that a margin for errors or emergencies or small or big failures does not exist. If, for whatever reason, there is a large loss -- due to vacancies, slow rent-up, large number of turnovers, non-payment of rent, emergency repairs, unusual vandalism, increased insurance costs or taxes--immediate petition has to be made to use the replacement reserve fund or to have a moratorium on principal payment or both.

Accumulation of funds for cycle painting, for emergency repairs, for additional personnel for emergency snow removal in the winter or for grounds cultivation in the spring is not possible. The lack of funds for these efforts, of course, also affects the attitude of the tenants.

In short, once difficulty is encountered, it becomes almost an impossibility to arrest the downward spiral because there is no reserve of funds that can be called upon for help. Nor do rent raises provide the total

answer. Even when carefully explained, rent raises will often engender hostility and negative tenant attitudes. In addition, the raises further limit the market.

The ceiling on rents, imposed by the market in the community if not by Section 236, starts the classic downward spiral for properties in low-income areas. When costs in management, maintenance, operations, and taxes rise, as they have consistently for the last two decades, the normal course is to recapture the increased costs through rent raises. In low-income areas the market prevents this. Therefore, ownership--and management--has to defer maintenance, if not principal payment, in order to continue to operate. This, then, start the next loop of the spiral; increased hostility of the tenant which, because the owner is not making repairs, is vented on the building. The landlord, then, does not make repairs, because one, the money is not available and, two, the tenants are destructive anyway. In short, the owner of the insured rehab units can find himself in the position of the slum landlord.

D. THE COMMUNITY

There is not much that this paper should add to the already-extant descriptions about problems of inner-city neighborhoods. Most of the community problems--ranging from building abandonment to lack of resources to service the increasing needs of inner-city populations--have been written about in detail that is beyond the scope of this paper.

All the problems of the inner-city, of course, tend to limit the desirability and, therefore, the marketability of housing as a permanent residence to families who can provide the primary and secondary leadership so necessary for communities and for tenant organizations.

Perhaps the most important fact is that the movement of middle-income families and industries to the suburbs is leaving the cities with the poor and without an adequate tax base. So while the inner-city areas need additional services and resources, the local funds to provide them are usually not present.

The intensity of heroin usage has been described as one of the major problems of management in rehab developments in New York City. A corollary of this problem is the extent of unemployment and underemployment among adult black males in most inner-city areas in large cities. Added to this is the fact that unemployment among black teenagers exceeds 35% nationally and is probably higher in inner-city areas. This cannot be anything but a prescription for disaster--and not only for housing.

IV. REMEDIES

A. IMMEDIATE REMEDIES POSSIBLE WITH PRESENT LEGISLATION

The number of foreclosures, or mortgages assigned to the Secretary that have been insured under the subsidized programs, is large and growing. Because of the nature of the communities where Project Rehab has most of its units insured, it is likely that Project Rehab will have more than its share of these Secretary-held mortgages.

This paper would suggest that a moratorium--resembling the bank holiday of 1933--on principal and interest payments and on further processing of developments for insurance be declared until a thorough investigation is conducted on the operation of each subsidized development. The investigation should begin with those developments that currently are experiencing difficulties and continue until it encompasses even the most solvent developments. The funds accumulated by the individual developments during the moratoriam would become an operating reserve that should be subject to use--with Secretary approval--in varous, specified emergency situations.

The investigation should be under the supervision of the Regional Administrators with delegations of authority to the area offices. Staff for the investigation should be drawn from both within and outside of HUD, with particular emphasis on obtaining managers with successful operating experience.

The investigating staff should be able to concurrently review:

(1) The physical plant, its operation and the cost of operation;

(2) The bookkeeping, tenant accounting and HUD reporting procedures;

(3) The office procedures for handling various aspects of management, including supervision of janitors and maintenance staff, repair requests, tenant grievances, etc.,

(4) The attitude of management toward the tenants, of the tenants toward management and the community toward both;

(5) The security and safety arrangements for the development.

The investigation should be a teaching investigation as well as a reporting one. Corrections or procedures that can be instituted immediately should be.

Information concerning realistic operating budgets and cost of repairs or further rehabilitation that may be necessary should be transmitted immediately to local, area and regional offices so that, if refinancing is required, it can be quickly instituted.

Models of successful tenant organization suitable to local conditions should be carefully monitored in order that the knowledge of them can be transmitted to all owners and managers of that area. HUD should develop training courses for owners and managers that transmit this and other knowledge in much the same way that insurance companies transmit safety knowledge. In one of the smaller cities and in many of the management offices we investigated, failure was almost completely due to the hostility caused by the attitude of the manager and the management company toward tenants. A monitoring operation--with a teaching component--could have caught and corrected this before serious damage occurred.

At the end of the moratorium, projects should be operating with realistic expense budgets and should have started whatever repairs of rehabilitation are necessary for best operation. If additional rent supplement funds are necessary (up to the 40% statute limitation), the funds should be granted.

The above suggestions are radical, but this paper would submit that only a radical solution will forestall massive foreclosures.

Less radical remedies with immediate possibility for application are as follows:

(1) The local HUD-approved mortgagees should service the mortgage after final closing rather than the Federal National Mortgage Association, if FNMA is the long-term lender. Often mortgagees are interested only in pushing the mortgage to initial endorsement when they obtain their fee. With a fee schedule that pays 1.5% at initial endorsement and 0.5% at final endorsement and allows the mortgagee to receive a fee for servicing the mortgage thereafter, local mortgagees would begin to develop a more circumspect attitude toward insured, subsidized mortgages. Eventually this paper would advocate a penalty of 0.5% of the mortgage amount from all mortgagees when one of their subsidized mortgages goes into default within 10 years. If this penalty is assessed, mortgagees as well as FHA would monitor the management of subsidized properties.

(2) Competent, experienced monitoring teams from within and outside FHA should be recruited, to monitor the operation of rehabbed developments. These teams would help a new owner set up his operation during the initial lease-up period and would monitor the development at least twice yearly thereafter. Rent raises would receive immediate attention on the basis of the monitoring teams' recommendations. Funds to pay for this team could come from the Mortgage Insurance Premium Fund.

(3) All Section 236 insured Project Rehab loans should receive the maximum 40% rent supplement funding.

(4) All developments should have a three-month interim after final closing before debt service begins. Funds accumulated during this period would be used as an operating reserve fund.

(5) The difference between the basic rent necessary to amortize the mortgage and 25% of family income should be retained by the development to be placed in the Operating Reserve Fund instead of, as now, remitted to HUD each month.

B. SUGGESTIONS FOR LEGISLATIVE CHANGES

Several tasks need to be accomplished with Federal legislation in order to develop the conditions for successful management. Probably the foremost need is to provide Federal support for the communities involved in a meaningful, monetary way. Additional subsidy support, for the buildings, is also needed.

Task One: Upgrading the Communities

(1) Federal matching funds on a two- or three-to-one basis, pegged to the dollar amount of insured, subsidized rehabilitation should be made available by legislation to be used to upgrade the community in which rehabilitation occurred.

(2) Federal funds for adequate community space, not tied to debt service requirements, should be provided for in each insured rehabilitation loan. The Federal grant should include the funds for properly furnishing the community space.

(3) An annual contribution of Federal funds of three dollars per month per unit should be set aside for Section 236 apartments and five dollars per month per apartment for projects receiving rent supplement funds, to be used to develop social services in all Project Rehab development loans.

Task Two: Upgrading Rehabilitation

The analysis of a limited-dividend, Section 236 HUD-insured loan will show that, with a replacement cost of $12,000 per unit and with operating expenses at an average of $900 per unit, the average monthly rental will be slightly under $115 per unit. The rents for a non-profit development will be lower, but not significantly so.

This paper submits that this is the upper limit of the market in most low-income areas. As a consequence, if rehabilitation is to be successful, some subsidy principle that will allow debt serve to remain within this range, without decreasing the quality of rehabilitation or management services will have to be found.

Proper rehabilitation can be accomplished in few areas with a replacement cost of $12,000. Operating costs--even in cities with tax abatements--are hard to stabilize at $900 per unit.

As a consequence, if the stock of housing presently existing is to be perserved as the main units for housing low-income families, an additional construction subsidy will have to be used so that replacement costs can be limited. A similar means will have to be found to subsidize operating expenses so that debt service requirements will not cause most inner-city projects to be financially infeasible.

Under no circumstances, however, should the quality of Project Rehab construction be less than the best possible given the limitations of the older buildings.

Task Three: Subsidizing Operating Costs and Individual Families

The need for operating subsidies has already been shown. This section will approach another problem: the problem of obtaining some diversity in the economic condition of Project Rehab tenancy.

New York City overcomes the problem of operating subsidy for welfare families by giving them, in effect, sufficient family allowance for housing so that they are able to pay the rent for units subsidized under Section 236. Blue collar workers, on the other hand, more often than not, find their incomes above the basic rent limitation set by 135% of public housing. The consequence is that Project Rehab housing concentrates racially and economically deprived populations in housing where every family is a mirror image of the problems of its neighbors and--more important--where there are few examples of diversity of lifestyles. The same situation has occurred in Cincinnati.

In Detroit, where Modern American Living has, as a goal, obtaining as large an income diversity as possible, Hood, Miller, and White deliberately are rehabilitating buildings in a community where there is a large number of owner-occupied single-family homes. However, they believe that 25% of income is too high a percentage to attract and keep non-welfare families. Their market is further limited by the fact that, if a family's income is over 135% of public housing, rent must be charged at market rates at initial occupancy.

Increasing the subsidy so that an eligible family would be required to pay only 20% of its income as rent would expand the market for rehab units while aiding greatly in stabilizing the tenancy.

C. FAMILY ALLOWANCES

Finally, a major question arises. If part of the legislative goals are realized, at some point in the very near future, over 1,000,000 families will be living in housing subsidized under various HUD programs. The

subsidies vary, but approach or surpass an average of $1,000 per year per family in almost every category. This being the case, the question that must be asked is: "Could this $1,000 average per family develop better housing, if it were given directly to the family in question, thereby giving it the economic power to make its own housing choice and, in concert with others, to control its own housing destiny?"

This paper does not advocate family allowances; it does feel that a mechanism of family allowances tied to income tax returns should be thoroughly investigated, however.

V. CONCLUSION

The use of subsidies is an old American institution. Almost from the beginning of the Republic, various forms of subsidies have been used for business, for industries, and--if tax benefits are included -- for individuals.

After World War II, the government provided subsidies for a whole generation of Americans who had served in the armed forces by giving them free education or technical training and by allowing them to buy their first home with bargain financing. In fact, many of this subsidized generation are now living in the suburbs saying, "Look how I made it on my own. Why can't those people in the cities do the same?" This subsidy to World War II veterans is one of the chief bases of our present national prosperity.

Our national difficulty is that we do not know how to subsidize the poor. We provide a form of dole that is oriented, not toward the poor, but rather toward the bureaucracy that dispenses the money or, in the case of housing, toward the various parts of the industry that produces the housing rather than the families that are the consumers of housing.

The plight of our cities and the divisions within the country are such that the problems of cities and the poor must become the focus of national attention.

A means to save present existing housing--at least until something better can be built--in an environment that offers hope must be part of this focus.