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ABANDONMENT DISASTER DEMONSTRATION RELIEF ACT OF 1975

GOVERNMENT

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HEARINGS

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BEFORE THE

SUBCOMMITTEE ON

HOUSING AND URBAN AFFAIRS

OF THE

COMMITTEE ON

BANKING, HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

NINETY-FOURTH CONGRESS

FIRST SESSION

ON

S. 1988

TO PROVIDE, ON A DEMONSTRATION BASIS, EMERGENCY RELIEF FOR THE GENERAL WELFARE AND SECURITY OF THE UNITED STATES BY PREVENTING THE LOSS OF EXISTING HOUSING UNITS THROUGH THE PHENOMENON OF HOUSING ABANDONMENT, TO PROTECT THE HEALTH AND LIVING STANDARDS IN COMMUNITIES AND NEIGHBORHOODS THREATENED BY ABANDONMENT, TO PROTECT THE INTERESTS OF THE UNITED STATES IN CONNECTION WITH CERTAIN MORTGAGE TRANSACTIONS, TO ASSIST LOCAL PUBLIC BODIES IN THE DEVELOPMENT AND REDEVELOPMENT OF WELL-PLANNED, INTEGRATED, RESIDENTIAL NEIGHBORHOODS AND IN THE DEVELOPMENT AND REDEVELOPMENT OF COMMUNITIES, AND FOR OTHER PURPOSES

OAKLAND, CALIF.—AUGUST 28, 1975

LOS ANGELES, CALIF.—AUGUST 29, 1975

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



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ABANDONMENT DISASTER DEMONSTRATION RELIEF ACT OF 1975

THURSDAY, AUGUST 28, 1975

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Oakland, Calif.

The subcommittee met at 10 a.m. at Melrose School, 1325 53d Ave., Oakland, Calif., Senator Alan Cranston, a member of the subcommittee, presiding.

Present: Senator Cranston and Congressman Pete Stark.

Also present: Carolyn Jordan, assistant counsel, Banking, Housing and Urban Affairs Committee, and Jerry Buckley, minority counsel, Housing Subcommittee, Banking, Housing and Urban Affairs Committee.

Senator CRANSTON. The hearing will please come to order.

Congressman Stark will join us shortly but in order to assure we have plenty of time, we are going to start now.

I will make an opening statement and then we will have three panels that will appear before the committee.

OPENING STATEMENT OF SENATOR CRANSTON

Senator CRANSTON. Last year Senators Hart, Mondale, and I introduced S. 3115, the Housing Abandonment Disaster Demonstration Relief Act, a bill to test a new mechanism for acquiring and disposing of abandoned property and to develop new financial resources for localities afflicted by the disaster of large scale housing abandonment.

Because of the urgency of this problem we have introduced this bill again this year as S. 1988.

Housing abandonment is still a major menacing housing problem in our urban cities. Housing abandonment is a problem of poor people concentrated in overcrowded, unsafe, and unsanitary housing units, of streets scarred by vandalism and fire, of neighborhoods shunned by businesses and investors, of cities with dying central cores.

Housing abandonment is creating housing, crime, health, and tax crises in many of the Nation's cities.

The last national survey in 1971 completed by the Library of Congress on national levels of housing abandonment indicated the growing magnitude of this problem.

Conservative estimates on the number of nongovernment-owned abandoned units for example, run around 100,000 in New York, 12,000 in Baltimore, 10,000 in St. Louis, and 5,738 in Oakland.

Recent up-to-date figures of HUD-VA owned foreclosed properties in selected cities indicate that this problem continues to haunt our cities.

As of May 1975 HUD owned 69,695 single-family properties nationwide and the VA owned 11,345.

The following table will illustrate the volume of units that could be turned over to the corporation by HUD and VA in selected cities:

Area	Housing and Urban Develop- ment owned	Veterans Administration owned
Los Angeles.....	3,874	2,188
Detroit.....	15,905	691
Chicago.....	3,393	294
Atlanta.....	4,953	854
Newark.....	924	485
Cleveland.....	943	983
Houston.....	799	1,055
St. Louis.....	413	337

As of March 1975, the Los Angeles area insuring office of HUD had 3,874 foreclosed single-family homes in their inventory. Of this total, 100 were in Ventura County and the remainder, 3,774 units, were in Los Angeles County.

The city of Los Angeles accounted for 1,395 of these units, 37 percent. Compton owned 759, 20 percent, units and Pomona had 462 units, 12 percent.

Seventy-three other cities within the county accounted for the remaining 1,162 units.

The heaviest concentration of units was in the south-central section of Los Angeles where 1,084 units accounted for 78 percent of that city's total in south-central.

The VA has 1,105 repossessed properties in the Los Angeles area, 404 in Los Angeles citywide, and 8 in Watts.

Exact figures fall short of describing the full magnitude of the housing abandonment problem in terms of the destruction of the quality of life it produces.

The Department of Housing and Urban Development has implemented several programs to rid itself of its growing inventory of repossessed homes.

These attempts include: the urban homesteading program announced May 1974, a 1-year experimental program with a projected goal of putting 700 homes in the hands of low-income citizens.

This program has been fraught with difficulties because low-income homeowners have difficulties getting financing to repair these units; the "sale as is" program to encourage rapid purchase of HUD repossessions; "policy release option" program for local governments; neighborhood housing services program that make available loan funds for inner city areas that are deteriorating. In addition, a few cities have their own homesteading programs.

Overall, very little has been done at the Federal or State level to adequately address the abandonment issue and none of the HUD programs have the necessary elements and flexibility to deal with developing unique solutions to the abandoned housing problem.

There is no specific program to stop the housing abandonment wave from gaining momentum in city after city or to repair the destruction abandonment leaves in its wake.

Many different reasons have been given for the abandonment problem but it is difficult to deny that the Federal Government is not at least partially responsible for the problem.

Many persons who could not afford housing were allowed to buy units.

Little or no counseling for families buying a house for the first time was provided.

Kickbacks, schemes and speculation, by realtors, builders and HUD personnel have also contributed to this problem.

Recognizing that the Federal Government had a hand in creating the abandonment disaster and also recognizing that the Federal Government has a strong interest in the quality of housing generally and specifically in protecting the housing for which it has insured or guaranteed mortgages.

The Abandonment Demonstration Relief Act establishes a special government sponsored corporation to deal with the problem of abandoned housing units.

The Agency to be called the Neighborhood Preservation Corporation would work in this manner:

It would be empowered to seize and acquire title of abandoned housing units quickly to prevent deterioration of the unit and to stem the spread of abandonment in a neighborhood.

The Corporation could renovate, rent, sell, construct, demolish units, repair, refinance, purchase property, condemn, and originate mortgages at interest rates below the going market rate.

The Corporation could hold land for redevelopment and construct new housing according to a city's housing plan.

This proposal seeks to turn abandonment disaster into a "plus" by preventing deterioration of abandoned units by securing possession quickly and seeing whether a single purpose agency on abandonment can bring together with the Federal Government, local officials, lenders, renewal and housing agencies, and community organizations, and others necessary to develop a corporative effort for the improvement of urban life.

[Copy of the bill being considered follows:]

94TH CONGRESS
1ST SESSION

S. 1988

IN THE SENATE OF THE UNITED STATES

JUNE 23 (legislative day, JUNE 6), 1975

Mr. CRANSTON (for himself, Mr. PHILIP A. HART, and Mr. MONDALE) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing and Urban Affairs

A BILL

To provide, on a demonstration basis, emergency relief for the general welfare and security of the United States by preventing the loss of existing housing units through the phenomenon of housing abandonment, to protect the health and living standards in communities and neighborhoods threatened by abandonment, to protect the interests of the United States in connection with certain mortgage transactions, to assist local public bodies in the development and redevelopment of well-planned, integrated, residential neighborhoods and in the development and redevelopment of communities, and other purposes.

- 1 *Be it enacted by the Senate and House of Representa-*
- 2 *tives of the United States of America in Congress assembled,*

SECTION 1. This Act may be cited as the "Abandonment Disaster Demonstration Relief Act".

SEC. 2. (a) The Congress finds and declares that—

(1) the abandonment of residential housing in the United States substantially burdens the flow of interstate commerce and impedes the effective utilization of the Nation's housing stock, and the health and welfare of the people of the United States is damaged by the resulting loss of housing units in many urban areas;

(2) the abandonment of such housing acts as a contagious disease when it spreads unchecked throughout neighborhoods and entire communities, resulting in the abandonment of standard as well as substandard housing in many cases;

(3) certain mortgage guaranty and insurance programs administered by agencies of the United States are relied upon by the holders of mortgages on abandoned residential properties and discourage such holders from taking reasonable corrective actions at the earliest practicable time, thereby imposing a substantial financial burden on the agencies involved in such programs; and

(4) the continued unchecked spread of housing abandonment may, in some cases, impair the financial

1 position and liquidity of federally related financial in-
2 stitutions, and thereby result in an even greater financial
3 burden on agencies of the United States.

4 (b) It is the purpose of this Act to establish a Neigh-
5 borhood Protection Corporation which will have the
6 authority, on a demonstration basis, to enter and take
7 possession of abandoned residential properties in order to
8 prevent the continued deterioration and destruction of
9 neighborhoods and communities and to hold and assemble
10 parcels of land for the orderly development and redevel-
11 opment of neighborhoods and communities.

12 DEFINITIONS

13 SEC. 3. For purposes of this Act—

14 (1) The term "residential property" means any
15 real property (including improvements) which is de-
16 signed for occupancy by one or more families and—

17 (A) which is subject to a mortgage which is
18 insured or guaranteed by an agency of the United
19 States; or

20 (B) which is subject to a mortgage held by
21 any federally related financial institution.

22 (2) The term "federally related financial institu-
23 tion" means—

24 (A) any bank the deposits of which are insured
25 by the Federal Deposit Insurance Corporation;

1 (B) any savings and loan association the
2 accounts of which are insured by the Federal
3 Savings and Loan Insurance Corporation;

4 (C) any thrift or home financing institution
5 which is a member of a Federal home loan bank;
6 and

7 (D) any credit union the accounts of which are
8 insured by the Administrator of the National Credit
9 Union Administration.

10 (3) A residential property shall be deemed to be
11 abandoned if—

12 (A) in any case where the mortgage covering
13 the property was executed in connection with the
14 mortgagor's occupancy of the property, that mort-
15 gagor (i) has vacated such property, and (ii) has
16 defaulted on the mortgage secured by the property;
17 or

18 (B) in any case where the mortgage covering
19 the property was not executed in connection with
20 the mortgagor's occupancy of the property, that
21 mortgagor has substantially reduced the level of op-
22 erating services or other services below an adequate
23 level, and that mortgagor (i) has defaulted on the
24 mortgage secured by the property; and (ii) is more

(4) The term "Corporation" means the Neighborhood Protection Corporation established under section 4.

6 CORPORATION

(b) There shall be a President of the Corporation, who shall be appointed by the President of the United States, by and with the advice and consent of the Senate, and who shall serve as chief executive officer of the Corporation. There shall be a First Vice President of the Corporation, who shall be appointed by the President of the United States, by and with

1 the advice and consent of the Senate, and who shall serve
2 as President of the Corporation during the absence or dis-
3 ability of or in the event of a vacancy in the office of the
4 President of the Corporation, and who shall at other times
5 perform such functions as the President of the Corporation
6 may from time to time prescribe.

7 (c) (1) There shall be a Board of Directors of the Cor-
8 poration consisting of the President of the Corporation who
9 shall serve as the Chairman, the First Vice-President, who
10 shall serve as Vice-Chairman, the Secretary of Housing and
11 Urban Development, the Secretary of Agriculture, the Ad-
12 ministrator of Veterans' Affairs, and four additional persons
13 appointed by the President of the United States, by and with
14 the advice and consent of the Senate. Of the nine members
15 of the Board, not more than five shall be members of any
16 one political party. The terms of the Directors shall be at
17 the pleasure of the President of the United States, and the
18 Directors, in addition to their duties as members of the
19 Board, shall perform such additional duties and may hold
20 such other offices in the Corporation as the President of the
21 Corporation may from time to time prescribe. A majority of
22 the Board of Directors shall constitute a quorum. The Board
23 of Directors shall adopt, and may from time to time amend,
24 such bylaws as are necessary for the proper management and
25 functioning of the Corporation.

1 (2) The members of the Board who are not otherwise
2 employed by the United States shall receive compensation
3 for service as members at the rate provided for individuals
4 occupying a position under level II of the Executive Sched-
5 ule (5 U.S.C. 5313).

6 (3) No director, officer, attorney, agent, or employee
7 of the Corporation shall in any manner, directly or indirectly,
8 participate in the deliberation upon, or the determination of,
9 any question affecting his personal interests, or the interests
10 of any corporation, partnership, or association in which he
11 has a direct or indirect personal interest.

12 DEMONSTRATION PROGRAM

13 SEC. 5. (a) In order to provide for an effective demon-
14 stration program, the Corporation shall carry out its func-
15 tions in three metropolitan housing market areas. In select-
16 ing the areas for the purpose of such demonstration, the
17 Board of Directors should take into account the necessity for
18 local cooperation and assistance and the extent to which ap-
19 propriate local officials in any area being considered for se-
20 lection have demonstrated an interest in cooperating with
21 and assisting the Corporation in carrying out its functions.
22 The Board of Directors shall establish policies which require
23 the officers and employees of the Corporation to consult, on a
24 continuing basis, with local officials and affected residents of

1 a selected area with respect to matters of mutual interest and
2 concern.

3 (b) The Corporation shall, for the purpose of the dem-
4 onstration program, limit its activities to metropolitan hous-
5 ing market areas where the abandonment of residential prop-
6 erty as defined in section 3 is substantial.

7 (c) In carrying out its functions under section 6, not-
8 withstanding the provisions of such section, the Corporation
9 shall—

10 (1) comply with any applicable community devel-
11 opment plan or program;

12 (2) comply with any applicable housing plan or
13 program; and

14 (3) hold public hearings in any case where con-
15 demnation proceedings or a change in land use is pro-
16 posed by the Corporation if such hearings are not
17 required by local law in such a case.

18 (d) Upon the expiration of five full calendar years fol-
19 lowing the date of enactment of this Act, the Corporation
20 may not exercise its power to acquire real property, except
21 in the case of an acquisition in connection with a default on a
22 mortgage held by it.

23 FUNCTIONS OF THE CORPORATION

24 SEC. 6. (a) Whenever the Corporation has probable
25 cause to believe that a residential property is abandoned, the

1 Corporation is authorized, on its own motion or at the re-
2 quest of a Government agency or a federally related financial
3 institution having an interest in such property, to institute
4 proceedings in accordance with the provisions of this section
5 to protect the interests of the United States.

6 (b) (1) In the case of abandoned residential property
7 subject to a mortgage which is insured or guaranteed by an
8 agency of the United States, the Corporation may file in the
9 United States district court wherein the property is located
10 an action for forfeiture of such property to the United States,
11 and an application for an order to seize and take possession
12 of such property as the receiver of the court. An order to
13 seize and take possession shall be issued only on affidavits
14 which are sworn to before a United States district court
15 judge or a United States magistrate, and which establish
16 the grounds for issuing the order. If the judge or magistrate
17 finds that grounds for the application exist, or that there is
18 probable cause to believe that they exist, he shall enter an
19 order appointing the Corporation as the court's receiver, and
20 directing the Corporation to seize and take possession of the
21 property. The order shall state the grounds or probable cause
22 for its issuance and the names of the persons whose affidavits
23 have been taken in support thereof. The order may be exe-
24 cuted and a return made to the court only within ten days
25 after the date of issuance. The Corporation shall execute the

1 order and leave with any person at the premises a copy
2 thereof and a receipt for any property taken. The Corpora-
3 tion shall also post a copy of the order and a receipt for any
4 property taken. The return shall be made promptly and shall
5 be accompanied by a written inventory of any property
6 taken. The inventory shall be made in the presence of the
7 applicant for the order and any person at the premises, or in
8 the presence of at least one credible person other than the
9 applicant for the order, and shall be verified. The court shall,
10 upon request, deliver a copy of the inventory to any person
11 claiming an interest in any property taken and to the appli-
12 cant for the order.

13 (2) In addition to any notice by publication, actual
14 notice of the commencement of any such action, and of the
15 date of the hearing required by paragraph (3) shall be given
16 by the Corporation, in such manner as the court shall direct,
17 to (A) the person who holds title to the property, and (B)
18 any person who has recorded an interest in the property, un-
19 less after search by the Corporation satisfactory to the court,
20 any such person is not found.

21 (3) Not later than thirty days after the issuance of an
22 order under paragraph (1), the court shall hold a hearing
23 on the merits to determine whether forfeiture should be
24 ordered. If at such hearing, the court determines that the res-
25 idential property has been abandoned, and that the abandon-

1 ment of such property tends to constitute a danger to the
2 community or neighborhood, the court shall order that the
3 property be forfeited to the United States and all right, title,
4 and interest therein shall pass to the Corporation. Any such
5 order shall be subject to the payment of just compensation by
6 the Corporation of an amount equal to the value of the in-
7 terest of any person claiming an interest in the property as
8 established in the hearing on forfeiture by persons or agencies
9 having an interest. In any case in which the person or
10 agency having such an interest is an agency of the United
11 States, the payment by the Corporation shall be in the form
12 of obligations issued by it.

13 (4) If the court finds, in any hearing on forfeiture, that
14 a person (other than an agency of the United States) who
15 has an interest in the property failed to protect the interests
16 of the United States by knowingly permitting the continued
17 deterioration of an abandoned property in which it has an in-
18 terest while having the authority under law or contract to
19 prevent such continuation, it shall give notice of such finding
20 to any agency of the United States which has an insurance
21 or other similar obligation with respect to the property or
22 with respect to the person who has an interest in the property
23 so that such agency can take appropriate action to protect the
24 interest of the United States.

25 (5) If at a hearing under paragraph (3) the court de-

1 terminates that the residential property was not abandoned, or
2 that the abandoned property did not tend to create a danger
3 to the community or neighborhood, or that probable cause for
4 an order issued pursuant to paragraph (1) did not exist,
5 the court shall fix and allow to any person with an interest in
6 the property, to be paid by the Corporation, the costs, counsel
7 fees, expenses, and damages as a result of the issuance of the
8 order to seize and take possession of the property.

9 (c) In the case of an abandoned residential property
10 which is not subject to a mortgage insured or guaranteed by
11 an agency of the United States, the Corporation may take ac-
12 tion in accordance with subsection (b) with respect to such
13 property only if it determines—

14 (1) that the mortgagee is a federally related finan-
15 cial institution;

16 (2) that the mortgagee holds a substantial number
17 of mortgages covering abandoned residential properties;
18 and

19 (3) after consultation with the appropriate Federal
20 regulatory agency, that the liquidity of the mortgagee
21 may be affected.

22 (d) The Corporation shall acquire in exchange for obli-
23 gations issued by it residential properties to which title is
24 held by the Secretary of Housing and Urban Development
25 or the Administrator of Veterans' Affairs at the fair market

1 value of the property as of the date the title is passed to the
2 Corporation, and the Secretary of Housing and Urban De-
3 velopment and the Administrator of Veterans' Affairs are
4 authorized and directed to accept such obligations in ex-
5 change for such properties. The fair market value of the
6 properties to be exchanged shall be determined by an ap-
7 praisal made by the Corporation, but in no event shall the
8 fair market value of the property exceed the unpaid balance
9 of the mortgage.

10 (e) The Corporation may acquire real or residential
11 properties by condemnation for the purpose of redeveloping
12 a community or neighborhood, except that before instituting
13 such proceedings, the Corporation shall secure the approval
14 by resolution or ordinance of the governing body of the
15 affected community.

16 (f) With respect to any real or residential properties the
17 Corporation has acquired pursuant to this section, the Cor-
18 poration may, by contract or otherwise—

- 19 (1) make plans, surveys, and investigations;
20 (2) demolish structures or otherwise dispose of any
21 improvements on real or residential property;
22 (3) hold and assemble real and residential property
23 for purposes of redevelopment;
24 (4) construct, erect, remodel, repair, and rehabili-
25 tate structures on residential property;

1 (5) procure necessary materials, supplies, articles,
2 equipment, and machinery;

3 (6) provide approaches, utilities, and necessary
4 community facilities;

5 (7) convey without cost to States and political
6 subdivisions and instrumentalities thereof real property
7 for streets and other public thoroughfares and easements
8 for public purposes; and

9 (8) rent, lease, insure, maintain, exchange, convey,
10 sell for cash or credit, or otherwise dispose of real or
11 residential property, improvement or interest therein,
12 except that if the disposition of such property involves a
13 change in its use, the Corporation shall secure the ap-
14 proval by resolution or ordinance of the governing bodies
15 of the affected units of government. Any instrument ex-
16 ecuted by the Corporation purporting to convey any
17 right, title, or interest in any real or residential property
18 disposed of pursuant to this subsection shall be conclu-
19 sive evidence of compliance with the provisions thereof
20 insofar as title or other interest of any bona fide pur-
21 chasers, leasees, or transferees of such property is con-
22 cerned.

23 (g) Except where the property is being disposed of
24 in conjunction with an urban homesteading program, the
25 Corporation shall determine that the homes it sells are

1 in decent, safe, and sanitary condition at the time of sale.
2 In the event of a sale which does not meet this require-
3 ment, the Corporation may make expenditures to correct,
4 or to compensate the purchaser of any dwelling for occu-
5 pancy by fewer than five families for, structural or
6 other defects which seriously affect the use and livability
7 of any one- to four-family dwelling, if (1) the dwelling
8 was sold by the Corporation, (2) the purchaser requests
9 assistance from the Corporation not later than one year after
10 the sale, and (3) the defect is one that existed on the date
11 of the sale and is one that a proper inspection could reason-
12 ably be expected to disclose.

13 (h) The Corporation may acquire in exchange for
14 obligations issued by it, real properties, residential prop-
15 erties, mortgages on residential properties, and other obliga-
16 tions and liens secured by residential properties (including
17 the interest of a vendor under a purchase money mortgage
18 or contract) recorded or filed in the proper office, and in
19 connection with any such exchange, the Corporation may
20 make advances in cash to pay the taxes and assessments
21 on the residential property, to provide for necessary main-
22 tenance and make necessary repairs, to meet the incidental
23 expenses of the transaction, and to pay such amounts to
24 the holder of the mortgage, obligation, or lien acquired as
25 may be the difference between the face value of the obliga-

1 tions exchanged plus accrued interest thereon and the pur-
2 chase price of the mortgage, obligation, or lien, but in no
3 event shall the purchase price of the mortgage, obligation,
4 or lien exceed the unpaid balance thereon. Each mortgage
5 on residential property or other obligation or lien so ac-
6 quired shall be carried as a first lien or refinanced as a
7 mortgage by the Corporation, and shall be amortized by
8 means of monthly payments sufficient to retire the interest
9 and principal within a period not to exceed thirty years. In-
10 terest on the unpaid balance of the mortgage shall be at a
11 rate determined by the Corporation. The Corporation may
12 at any time grant an extension of time to any mortgagor
13 for the payment of any installment of principal or interest
14 owed to the Corporation if, in the judgment of the Corpo-
15 ration, the circumstances of the mortgagor justifies such
16 extension.

17 (i) The Corporation shall provide directly or by con-
18 tract counseling on household management, property man-
19 agement, budgeting, and related counseling services which
20 would assist low- and moderate-income families who pur-
21 chase homes from the Corporation in improving their living
22 conditions and housing opportunities, and in meeting the
23 responsibilities of homeownership.

24 (j) Whenever the Corporation sells property improved
25 by dwellings for occupancy by fewer than five families to

1 a purchaser, the Corporation may originate and service the
2 mortgage covering such property. The Corporation may sell,
3 deal in, or otherwise dispose of the mortgage it originates,
4 but it shall continue to service all of the mortgages it origi-
5 nates, and may service other mortgages on properties it sells.

6 (k) Whenever the Corporation sells property improved
7 for occupancy by more than four families, the Corporation
8 may provide the services referred to in subsection (i) to
9 low- and moderate-income families who occupy such hous-
10 ing, and originate and service the mortgage covering such
11 property. The Corporation may sell, deal in, or otherwise
12 dispose of the mortgages it originates, but it shall continue to
13 service all of the mortgages it originates, and may service
14 other mortgages on properties it sells. From time to time,
15 but not less than semiannually, the Corporation shall review
16 the management and maintenance of any project covered by
17 a mortgage originated by it.

18 POWERS OF THE CORPORATION

19 SEC. 7. (a) The Corporation is authorized—

20 (1) to sue and be sued in its own name and appear
21 by its own counsel in any legal proceedings brought by
22 or against it;

23 (2) to issue capital stock and other obligations sub-
24 ject to the provisions of section 8;

25 (3) to refinance any mortgage, obligation, or lien,

1 and to grant an extension of time to any mortgagor for
2 the payment of any installment of principal or interest
3 owned to the Corporation;

4 (4) to employ and fix the compensation of such
5 officers, employees, attorneys, or agents as shall be neces-
6 sary for the performance of its duties under this Act,
7 without regard to the provisions of other laws applicable
8 to the employment or compensation of officers, em-
9 ployees, attorneys, or agents of the United States,
10 except that no such officer, employee, attorney, or agent
11 shall be paid compensation at a rate in excess of the
12 rate provided for members of the Board;

13 (5) to impose charges or fees for its services where
14 necessary with the objective that all costs and expenses
15 of its operation shall be fully self-supporting;

16 (6) to issue such regulations, orders, and reports
17 as may be necessary to carry out the provisions of this
18 Act; and

19 (7) to take such other actions as may be neces-
20 sary to enable it to carry out its duties under the pro-
21 visions of this Act.

22 CAPITALIZATION OF THE CORPORATION

23 SEC. 8. (a) The Board shall determine the minimum
24 amount of capital stock in the Corporation and is authorized
25 to increase such capital stock from time to time in such

1 amount as may be necessary, but not to exceed in the aggre-
2 gate \$35,000,000. The Corporation is authorized and di-
3 rected to issue and deliver to the Secretary of the Treasury,
4 and the Secretary of the Treasury is authorized and directed
5 to accept, the capital stock of the Corporation. Payments for
6 such capital stock shall be subject to call in whole or in part
7 by the Board and shall be made at such time or times as the
8 Secretary of the Treasury deems advisable. The Corporation
9 shall issue to the Secretary of the Treasury receipts for pay-
10 ments by him for or on account of such stock, and such re-
11 cepts shall be evidence of the stock ownership of the United
12 States.

13 (b) For the purposes of this section, the Corporation is
14 authorized to issue, upon the approval of the Secretary of the
15 Treasury, and have outstanding at any one time, obligations
16 having such maturities and bearing such rate or rates of inter-
17 est as may be determined by the Corporation, with the ap-
18 proval of the Secretary of the Treasury, to be redeemable at
19 the option of the Corporation before maturity in such manner
20 as may be stipulated in such obligations; but the aggregate
21 amount of the obligations of the Corporation under this sub-
22 section outstanding at any one time shall not exceed 10
23 times the sum of the capital stock issued by the Corporation.
24 In no event shall any such obligation be issued if, at the
25 time of such proposed issuance, and as a consequence thereof,

1 the resulting aggregate amount of its outstanding obligations
2 under this subsection would exceed the amount of the Corpo-
3 ration's interest pursuant to this Act free from any liens or
4 encumbrances, or property, cash, mortgages, or other secu-
5 rity holdings, and obligations issued or guaranteed by the
6 United States, or obligations, participations, or other instru-
7 ments which are lawful investments for fiduciaries, trusts, or
8 public funds. The Corporation shall insert appropriate lan-
9 guage in all of its obligations issued under this subsection
10 clearly indicating that such obligations, together with the in-
11 terest thereon, is not guaranteed by the United States and
12 does not constitute a debt or obligation of the United States
13 or any agency or instrumentality thereof other than the Cor-
14 poration. The Corporation is authorized to purchase in the
15 open market any of its obligations outstanding under this
16 subsection at any time and at any price.

17 (c) The Secretary of the Treasury is authorized in his
18 discretion to purchase any obligations issued pursuant to
19 subsection (b) of this section, and for such purpose the Sec-
20 retary of the Treasury is authorized to use as a public debt
21 transaction the proceeds of the sale of any securities here-
22 after issued under the Second Liberty Bond Act, and the
23 purposes for which securities may be issued under the Sec-
24 ond Liberty Bond Act are extended to include such pur-
25 chases. The Secretary of the Treasury shall not at any time

1 purchase any obligations under this subsection if such pur-
2 chase would increase the aggregate principal amount of his
3 then outstanding holdings of such obligations under this sub-
4 section to an amount greater than \$350,000,000. Each pur-
5 chase of obligations by the Secretary of the Treasury under
6 this subsection shall be upon such terms and conditions as to
7 yield a return at a rate determined by the Secretary of the
8 Treasury, taking into consideration the current average rate
9 on outstanding marketable obligations of the United States
10 as of the last day of the month preceding the making of such
11 purchase. The Secretary of the Treasury may, at any time,
12 sell, upon such terms and conditions and at such price or
13 prices that he shall determine, any of the obligations ac-
14 quired by him under this subsection. All redemptions, pur-
15 chases, and sales by the Secretary of the Treasury of such
16 obligations under this subsection shall be treated as public
17 debt transactions of the United States.

18 TAXATION OF THE CORPORATION

19 SEC. 9. The Corporation, including its franchise, capital,
20 reserve, surplus, and income shall be exempt from all taxa-
21 tion now or hereafter imposed by the United States or any
22 district, territory, dependency, or possession thereof, or by
23 any State, county, municipality, or local taxing authority.
24 Any residential or other real property of the Corporation

1 shall be subject to taxation to the same extent, according to
2 its value, as other residential or other real property.

3 RECEIPTS AND DISBURSEMENTS OF CORPORATION

4 EXCLUDED FROM THE BUDGET

5 SEC. 10. The receipts and disbursements of the Corpo-
6 ration in the discharge of its duties shall not be included in
7 the totals of the budget of the United States Government and
8 shall be exempt from any annual expenditure and net lend-
9 ing (budget outlays) limitations imposed on the budget of
10 the United States Government. In accordance with the pro-
11 visions of the Government Corporation Control Act, the
12 President shall transmit annually to the Congress a budget
13 for program activities and for administrative expenses of the
14 Corporation, which budget shall also include the estimated
15 annual net borrowing by the Corporation from the United
16 States Treasury. The President shall report annually to the
17 Congress the amount of net lending of the Corporation, in-
18 cluding any net lending created by the net borrowing from
19 the United States Treasury, which would be included in the
20 total budget of the United States Government if the Cor-
21 poration's activities were not excluded from those totals as
22 a result of this section.

23 RETIREMENT OF OBLIGATIONS

24 SEC. 11. The Corporation shall retire and cancel its
25 bonds and stock when its purposes under this Act have been

1 accomplished. Upon the retirement of such stock, the reason-
2 able value thereof as determined by the Board shall be paid
3 into the Treasury of the United States and the receipts issued
4 therefor shall be canceled. The Board shall proceed to liq-
5 uidate the Corporation and shall pay any surplus or accu-
6 mulated funds into the Treasury of the United States. The
7 Corporation may declare and pay such dividends to the
8 United States as may be earned and as in the judgment of
9 the Board it is proper for the Corporation to pay.

10

SEVERABILITY

11 SEC. 12. If any provision of this Act or any part there-
12 of, or the application of any such provision or part to any
13 person or circumstance, is held invalid, the remainder of
14 the Act or provision, or the application of such provision
15 or part to other persons or circumstances, shall not be
16 affected thereby.

17

ANNUAL REPORT

18 SEC. 13. (a) The Corporation shall transmit to the Con-
19 gress not later than March 31 of each year a detailed report
20 on its operations and activities during the preceding calen-
21 dar year.

22 (b) In its fourth annual report, the Corporation shall
23 include its recommendations with respect to whether the
24 demonstration authorized under this Act should be con-
25 tinued, expanded, or terminated. If the Corporation recom-

- 1 mends a termination of the demonstration, it shall include
- 2 in such report a detailed plan for the transfer of the assets,
- 3 liabilities, and functions of the Corporation and for its
- 4 dissolution.



THE GENERAL COUNSEL OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C. 20410

NOV 7 1975

Honorable William Proxmire
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

Subject: S. 1988, 94th Congress (Cranston, et al)

This is in further response to your request for our views on S. 1988, a bill relating to the problems of housing abandonment.

S. 1988 would establish a Neighborhood Protection Corporation as an agency of the United States and authorize that Corporation, as a demonstration, to carry out certain functions in three metropolitan areas. The functions would include seizing and taking title to certain abandoned properties which are covered by federally insured or guaranteed mortgages or mortgages held by "federally related" financial institutions, improving, leasing, selling or otherwise disposing of such properties, and redeveloping communities or neighborhoods. The Corporation would be authorized to issue capital stock and debt obligations to the Secretary of the Treasury in amounts not to exceed \$35 million and \$350 million respectively, and its receipts and disbursements would be specifically excluded from the budget.

This Department is sympathetic to efforts to devise new and more effective methods of preventing the abandonment of needed housing and for coping with community problems presented by abandonment. We are also particularly interested in proposals that might facilitate the handling and ultimate disposition of properties subject to defaulted FHA-insured mortgages. Nevertheless, we believe that the approach set forth in S. 1988 involves a number of major difficulties, as detailed below.

First, the authorities contained in the bill would largely duplicate what can already be done by local governments with Federal assistance under title I of the Housing and Community Development Act of 1974 and would also duplicate property disposition functions of this Department and, to a lesser extent, the Veterans Administration. Title I funds can be used by local governments for property acquisition, rehabilitation and disposition purposes, as well as for supporting neighborhood services and improvements, and we see no need for establishing a Federal Corporation for these purposes. Moreover, we believe it would be wasteful and inefficient to create a Federal Corporation with property disposition functions which parallel but do not displace or supersede those which this Department would retain in affected areas with respect to properties not acquired by the Corporation.

Second, the approach of the bill would inject a Federal agency into innumerable problems best left to local governments and local citizens. Under S. 1988, for example, a Federal Corporation would be empowered to carry on direct local development and redevelopment programs that may last for years and involve countless matters of strictly local and neighborhood concern. Such an extensive, continuing Federal role is not required to protect the financial interest which the Federal Government may have in some of the property involved. Nor is such a role consistent with efforts made in recent years to reduce Federal oversight and expand the responsibilities of local elected officials.

Third, the bill would impose a major burden upon the Federal courts in the areas in which the Corporation would operate. The procedures authorized for seizure and forfeiture would require these courts to make findings on a variety of issues that could entail complex factual disputes and substantial evidentiary presentations on matters not normally within the purview of those courts, such as whether services have been reduced below an "adequate level", whether abandonment "tends to create a danger to the community", whether owners have knowingly permitted deterioration, and whether the liquidity of the mortgagee is in jeopardy. In many instances, these procedures, instead of expediting handling and ultimate disposition of property, could result in new delays and uncertainties that would complicate existing problems.

Fourth, the bill appears erroneously to assume that the Corporation could be self-supporting. As a result, it provides no mechanism for meeting the losses which we think are certain to be involved in the Corporation's operations, and if implemented would thus involve a potentially large hidden subsidy in the form of Federal borrowings which could not be repaid. Also, the bill would provide for backdoor financing which is inconsistent with the Congressional Budget Act and contains an exemption from budget controls which we believe to be unnecessary and unjustifiable, particularly in view of the substantial costs, borrowing and real economic impacts contemplated.

Fifth, the bill would provide that the Corporation would acquire properties from FHA and other Government agencies, on a mandatory basis, through the issuance of corporate obligations in amounts based on fair market value but not to exceed the unpaid balance of any mortgage. These provisions, in the case of FHA, would operate to deprive the insurance funds of cash flow that would otherwise be realized in property dispositions and would also in some cases preclude recoveries that might have been obtained covering full losses. In this respect, the bill would complicate the already difficult financial problems of the Special Risk and General Mortgage Insurance Funds which would be charged with most of the properties likely to be acquired by the Corporation.

The above comments are made with recognition of the fact that the program proposed by S. 1988 is a "demonstration" only. However, the demonstration would be costly, involve creation of an entity and program that might be difficult to terminate, and contemplates an approach which -- for the reasons indicated -- we believe to be unpromising and undesirable.

For all of the reasons discussed above, we strongly oppose enactment of the bill.

The Office of Management and Budget has advised that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

/s/ Robert R. Elliott

Robert R. Elliott

Senator CRANSTON. I am grateful to each of you for being here; now we will start with a panel of local government officials consisting of the following persons: Hon. John Reading, mayor, city of Oakland; Bob Chastain, Oakland Redevelopment Agency; Hon. John Sutter, city councilman, Oakland; and Hon. Fred Cooper, chairman, board of supervisors, Alameda County.

If you would each come forward to the front table I would be very grateful.

Fred and John have not yet arrived but they were out in the neighborhood, and I expect them very shortly.

Mayor READING. Fred is back there.

Senator CRANSTON. Fred, would you come up to the table. We are starting off with the first panel.

Mr. Mayor, if you would lead off.

STATEMENT OF JOHN READING, MAYOR, CITY OF OAKLAND

Mayor READING. Thank you, Senator Cranston.

Senator CRANSTON. I appreciate your presence very much.

Mayor READING. Let me say I appreciate your presence here also and your holding a hearing here in the city of Oakland. I think it is encouraging to all of us that you recognize the problem and are willing to address yourself to it.

In the three decades since World War II, Oakland has seen dramatic changes. Population growth has remained modest compared to the growth of the metropolitan area. An exchange of population has taken place that has left the city with a disproportionate share of low-income and unemployed people, while at the same time, industry and trade have moved to the suburbs, eroding both the job opportunities available and the tax base that supports basic city services. The city, in short, has increased problems and has less fiscal capacity to deal with them.

I don't need to belabor the plight of central cities. Oakland's experience is a familiar story to us all, Oakland has been a leader in making use of available programs, Federal, State, and local, to deal with its problems. Our urban renewal program, public housing program, past activities supported in part by EDA and other programs, give testimony to our ability to utilize the programs available.

We have by no means, however, placed our total reliance on Federal or State programs. We have always been active in our own behalf. We have faith in the future of Oakland and are prepared to invest our own funds and efforts in that future. A notable example is Oakland's sports complex, which, combined with winning baseball, football, and basketball teams, has focused national attention on Oakland. Local taxes made possible the bay area rapid transit system. Port facilities developed by the Port of Oakland have made Oakland a leading center for port activities on the west coast. Oakland has made a significant commitment to many improvement projects through the use of tax increment funds, including a project to house 300 displacees from our city center project.

I emphasize the local effort we have made because we see the solution of urban problems as a partnership between local, State, and Federal levels, and I want to make it clear that we have demonstrated in the past our willingness to carry our share of the burden so we feel quite free to point out those areas where we think the Federal effort has not always kept pace.

We are not pleased with the freeze on subsidized programs such as 235 and 236, or with the manner in which public housing, subsidized housing and FHA housing programs have been administered by the Federal Government in the last few years. We are pleased to have a greater concern on the part of the Federal Government for local input in the programs, but alarmed at what appears to be a withdrawal of support for the programs both in money and in people.

The bill S. 1988 appears to us to be a move in the right direction. I support the purposes of the bill, that is, to prevent "the loss of existing housing units through the phenomenon of housing abandonment" and "redevelopment of well-planned, integrated, residential neighborhoods."

I have two particular concerns with the present draft: One, the experimental nature of the program; and, two, I want to make sure that where counties are able and willing to participate in the program, that there is a maximum degree of local participation. I am not going to go into the details of Oakland's problems. John B. Williams, executive director of the Oakland Redevelopment Agency, will be testifying and supplying that kind of input. I simply want to emphasize that we need Federal intervention in Oakland with the abandoned housing problem, not on an experimental basis, but on a basis of commitment that is commensurate with Federal responsibility for the problem and that gives evidence of a willingness to work with us until the problem is solved. We understand that new programs need a startup phase that may involve a modest beginning and changes as experience dictates, but we need something beyond an experiment.

I have emphasized the willingness and ability of the city of Oakland to be active on its own behalf. I believe a maximum degree of local operation of the programs should be included.

Thank you.

That concludes the statement as far as the city is concerned.

I am wearing two hats here today. One, of course, is the mayor of the city of Oakland, but the second one as a member of the board of directors of the League of California Cities, and they also have a short statement which they would like to enter into the record and which I will read now at this time.

STATEMENT OF JOHN READING, MEMBER OF THE BOARD OF DIRECTORS OF THE LEAGUE OF CALIFORNIA CITIES

Mr. READING. This statement summarizes the League of California Cities' recently adopted policy on housing abandonment, and I might say that this was an item of extensive discussion at the last board of directors' meeting.

The Department of Housing and Urban Development's as-is sales program, while providing more immediate occupancy of foreclosed and/or abandoned FHA-insured housing units, allows deteriorated housing to be occupied without repair, and in so doing, increases the levels of substandard housing and the blighting influence of deteriorated units in marginal neighborhoods. The league, therefore, urges HUD to modify the as-is program to require that acquired units be repaired to local housing code standards. Member cities are urged to examine the local impact of as-is sales and, if adverse effects are determined, to enter into discussions with HUD to develop alternative disposition programs.

Other possible action programs for the cities include a mandatory presale inspection of any unit unoccupied for over 2 months; presale on prerenal code enforcement.

I want to interject here a personal observation on that point. The question of either presale or prerenal code enforcement, I have some concerns about that. The concerns lie chiefly about the economic impact of requiring the owner of a rental unit, which is already marginal in terms of the economic return to him based on the rent. The economic feasibility of him putting into that a substantial amount of money to bring it up to code in some cases, in many cases, my observation is that this is going to result in a further abandonment of the homes because the landlord, the owner, simply can't get back enough on rents to pay for those improvements. So if we are entertaining that type of legislation, I think there has to be some subsidy involved.

I think there should be serious consideration of this because we do need those housing units. To have them continue to be abandoned and subsequently torn down just means that many more housing units are off the market. However we do need them badly and obviously they should be brought up to adequate standards.

Other items that are suggested as possible actions for the cities include an early warning system for monitoring neighborhoods for housing abandonment so we can get started on it early enough before it gets out of hand.

Second, the league supports foreclosure aversion bills submitted in this session of Congress [A. 1457, H.R. 5398] which would provide mortgagor, rather than mortgagee, insurance. In addition, there is a proven need for educational and legal counseling to homebuyers and those caught in the foreclosure process.

The league urges its member cities to reexamine their allocation of public investments throughout the city and, if warranted, increase the level of public services and improvements in certain target neighborhoods where foreclosure and abandonment is prevalent.

By and large S. 1988 is consistent with the league's policy on housing abandonment. It is also consistent with the league's housing policy which stresses housing conservation as the major housing issue to be addressed by local governments. The bill, however, has not been presented to either the board of directors or the Community Development Committee of the league. An area of obvious concern to the league is the extent of cooperation and consultation between the corporation and local officials and residents [section 5(a)]. Housing

abandonment is primarily a local concern and local input at every step of the program is essential if the problem is to be adequately addressed.

Thank you very much.

Senator CRANSTON. Thank you very very much, Mayor Reading. That was a very helpful statement and I appreciate it a great deal.

Pete, do you have any remarks to make?

Congressman STARK. Not at this time, Senator. Thank you.

Senator CRANSTON. If each of the others of you have preliminary statements before we go to some questions and give and take, we'd be delighted to hear them at this time.

Mr. Chastain.

Mr. CHASTAIN. Thank you. I would like to read from John Williams' statement. He sends his regrets that he was unable to join you here today. He asked that I bring the statement to you.

STATEMENT OF JOHN B. WILLIAMS, EXECUTIVE DIRECTOR, OAKLAND REDEVELOPMENT AGENCY

Mr. WILLIAMS. A survey by a consultant to HUD, Linton, Mields and Coston, Inc., entitled "A Study of the Problems of Abandoned Housing," dated November, 1971, found no significant abandoned housing problems in Oakland. The situation has changed dramatically since that time. A major housing abandonment problem is visible to anyone who drives through East Oakland.

Community organizations have banded together to help themselves and to urge private and public entities involved to take more decisive and effective actions in dealing with the problem. With our 20/20 hindsight, we can surmise that the 1971 survey did not probe to a depth that would have revealed the early symptoms of housing abandonment. Housing abandonment, rather obviously, is an eye-catching symptom of older and deeper inner-city social ills, including:

1. A stable or declining inner-city population growth contrasted with rapid suburban growth.

2. An exchange of population that finds the affluent ex-city dwellers in the suburbs being replaced with low income residents in the inner city.

3. A flight of industry and commerce to the suburbs with a resultant declining tax base in the city.

4. Declining property values relative to inflation in the less affluent residential neighborhoods of the city accompanied by housing deterioration and red-lining practices by lenders.

The dimensions of the problems as they relate to housing are outlined in the attached ORA staff reports, entitled "East Oakland Housing," dated November 6, 1974, and "HUD As-Is Sales Program," dated February 7, 1975. Oakland's response to the problem is evidenced by the following actions that have taken place over the past year.

1. The city has adopted a transition plan for reorganizing city functions to make maximum use of the community development block grant program, utilizing the experience that exists in city

departments and city agencies. The Oakland Redevelopment Agency has been assigned by contract the major responsibility for implementing CD programs during the first year and planning for second year actions.

2. The city has allocated more than 40 percent of its community development funds to housing conservation programs. A major component will be a rehabilitation loan fund using CD funds and funds to be obtained from the recently created State Housing Finance Agency, funds raised through the technique made possible by the State Marks-Foran legislation and, hopefully, funds from private lenders.

3. The city has authorized the use of CETA funds, as well as city general funds and community development funds for an East Oakland revitalization program aimed at neighborhood clean-up and short-term improvements.

4. The city has appointed an East Oakland housing task force composed of concerned citizens to provide citizen's input for the programs dealing with housing abandonment and seven community development district boards have been formed to provide citizen's input for ongoing CD activities.

5. The city has been certified as the HUD Housing Counseling Agency and has delegated responsibility for operating the programs to the Oakland Redevelopment Agency. The counseling program is now in full operation and has already dealt with 238 families who have delinquent loans.

6. The Oakland City Council, at its meeting of August 26, authorized the filing of an application for the recently announced urban homesteading program. That application will be delivered to HUD by August 29. We are hopeful that Oakland will be selected as one of the homesteading cities.

The neighborhood protection corporation proposed by Senate bill 1988 could become a most useful tool in the arsenal we are building to attack the problems of housing conservation in Oakland. We are particularly interested in provisions that would enable us to reduce the time that a property caught up in the default process remains vacant.

The attachment entitled "HUD As-Is Sales Program" includes a graph prepared by James Price, Director of the San Francisco HUD area office, showing a typical time cycle of 16 months from abandonment to reoccupancy. Eight months of that cycle takes place prior to acquisition by HUD. It is our experience that non-HUD insured properties have a similar time cycle, or, in some instances, a longer cycle. Nothing is more damaging to a residential neighborhood than vacant, boarded-up housing. It is an invitation to vandalism. It impairs marketability. It inevitably leads, in too many instances, to the demolition of a rapidly vanishing resource—a single-family sales house available to low and moderate income people.

The features of the bill that we see as particularly useful are those that would:

1. Create an agency, the primary concern of which is abandoned housing and its effects on neighborhoods. In our experience, existing

lenders and insurers have been primarily concerned with protecting their own financial interests and have shown little concern for the effects of their practices on neighborhoods.

2. The ability to speed up the process of getting abandoned housing occupied once more and reducing the number of cases in which the final remedy is demolition.

The low level of housing production we have experienced over the past 2 years is a very dangerous situation. With the moratorium on the old subsidized programs and the lack of production from new programs, we are telling moderate and low income citizens that, although we have been able to house a substantial segment of our population comfortable since World War II, they are now going to have to wait indefinitely for fulfillment of the promises of the Housing Act of 1949 and subsequent legislation.

I think the situation holds dangers of social decay and disruption that could make the turmoil of the sixties seem mild. In Oakland, demolition of housing units has exceeded new construction in 5 out of the first 6 months of this year. The impact falls almost entirely on the low and moderate income community.

We would like to see: (1) Stronger provisions for utilizing the services of local entities in communities that have strong programs to deal with their situations. (2) A program that is not time limited and experimental in nature. We recognize the need for a startup process and a careful monitoring of ability to deliver meaningful services. However, we believe that a commitment on the part of the Federal Government to deal with problems that result to some degree from Federal policy is essential to success.

We are frankly concerned that Oakland might be left out of an experimental program. We certainly don't object to other communities being included, but want some assurance that our problems will receive the attention they need at the Federal level.

The spirit of the bill is encouraging. We stand ready to offer any assistance we can in seeing it move forward.

[The following material was submitted for the record:]

EAST OAKLAND HOUSING, Nov. 6, 1974

FACTS

Total population—5th Avenue to San Leandro, MacArthur to Estuary—166,000 persons (1970 Census).

Total housing units—52,500 (1970 Census).

Total HUD repossessions, area-wide—1,466 units (J. Price letter dated 7/31/74).

Total HUD repossessions in Oakland—334 units (J. Price letter dated 7/31/74).

Total HUD repossessions in Oakland—349 units (HUD files, 10/31/74). (The Alameda County Assessor's records show an additional 85 properties owned by the Secretary of Housing and Urban Development. This would make a total of 434 properties.)

Total abandoned homes—not known (student count 1,100 to 1,700 units, report not available).

Total VA repossessed homes—62 units.

Sales listings (private market)—514 units; 126 vacant, 388 occupied.

Vacant, boarded up public housing units—not known.

Repossessed homes (private market)—not known. (According to Vice-President, Federal Home Loan Bank Board these figures would be impossible to

obtain because loans are in the computers by loan number not by geographical area.)

FHA has an unusually high rate of foreclosures.

FHA underwriting practices were especially lenient a few years ago.

Price range of vandalized, repossessed properties is between \$15,000 and \$21,500, the range of 235, VA and 221d2 properties.

Price range in East Oakland generally is between \$15,000 and \$30,000.

SAMCO, International Mortgage, VA and FHA are only lenders in the area now.

Presence of turnkey units, repossessed properties or boarded up buildings causes a drop of \$2,000 in market value of other units on the block or in the neighborhood.

Realtors are not advertising any properties in "bad areas" so there is probably undercounting of vacant properties.

Code requirements, termite inspections, seller's points, broker's commissions often exceed equity in house; result is abandonment.

The situation is not unique in Oakland. Experience in other central cities has shown that code enforcement and acquisition of properties has the potential for increasing the problem unless it is conducted as part of a concerted effort to upgrade a neighborhood.

Vacant properties become garbage dumps.

Most houses on current listings are owner-occupied.

Appreciation of real estate values in East Oakland varies. In some areas property is appreciating up to 5%; in others is depreciating as much as 10%.

A nationwide study shows that: With 1% rate of appreciation, default probability is 8.8%; with zero rate of appreciation, default probability is 13%; with 1% rate of depreciation, default probability is 25.6%.

In East Oakland, in 1973, the ratio of foreclosures to reported sales ranged from 8 foreclosures/11 sales in flatlands to zero foreclosures/24 sales in hills.

The foreclosure ratios appear to correlate with price range of housing.

The majority of listings are for two-bedroom one-bath homes. There is less than a \$3,000 spread between two- and three-bedroom houses, and the cost of an additional room would be about \$6,000, making additions economically infeasible.

Residents fear being victimized by fire and burglaries.

Trends in real estate rates of appreciation are not reassuring to homeowners or to the City.

The situation calls for extraordinary measures.

STRATEGY

Begin both short- and long-term measures immediately; distinguish between those measures in the following ways:

Short-term

Intervene with *maximum legal measures* to eradicate hazardous properties.

Organize joint neighborhood and police patrols to stop "organized vandalism."

Formulate housing policy as part of Housing Assistance Plan; apply to HUD for discretionary funds for emergency, demonstration housing measure.

Launch rehab program which utilizes all existing rehab efforts in the City (see Gearing Oakland for Citywide Pride).

Long-term

Establish a housing policy which emphasizes private housing market incentives, i.e., appreciation of real estate values.

Use regulatory actions (concentrated code enforcement, property acquisition) only in specified selected areas.

ACTIONS

Convene all interested parties: City/Redevelopment Agency/Housing Authority/FHA/VA/Financial Institutions—Savings and Loans/Banks/Homeowners/Real Estate Board/Rehab organizations.

Identify interests, responsibilities and capacities of all parties.

Negotiate with HUD 1) to stop "as is" sales, 2) to grant 312 funding, "Gearing Oakland" money, discretionary funds, and Urban Homesteading Program.

Negotiate with financial institutions 1) to stop "as is" sales, 2) to stop red-lining, to join Gearing Oakland program.

Announce intention of governmental agencies to attack problem in a systematic way by launching eight simultaneous programs as listed below in order to accomplish the outlined objectives.

PROGRAMS

I. Rehab program

Gearing Oakland to Citywide Pride—which includes continuation of: Oakland Neighborhood Housing Services, Inc.; Oakland Rehab, Inc.; Oak Center Better Housing Corporation; Spanish Speaking Unity Council; West Oakland Housing, Inc.; and East Oakland Community Council, and others.

Utilization of Marks-Foran State Legislation for rehab financing.

II. Neighborhood interest and community organization program

Citizen participation.

III. Neighborhood and home maintenance employment program

Affirmative action in all above rehab efforts.

IV. Homeowners counseling program

Financial counseling—presale, delinquency and default.

Maintenance practices.

Public housing—community integration.

V. Crime and fire prevention patrol program

Joint neighborhood/police.

VI. Urban marketing program

Urban homesteading.

Immediate efforts to get families into vacant housing on a provisional basis—as house sitters.

Replacement housing for Grove Shafter Freeway.

VII. Local financial aid to housing authority

Community development funds for public housing units.

VIII. Research program

Improving capacity to monitor trends in private market.

Exploring ways to ensure funds for neighborhood improvements, recreation facilities, street and sidewalk improvements, lighting, etc.

Exploring ways to improve competitive position of the City through public development corporation, sale of tax-exempt bonds, and other financing mechanisms.

Interview homeowners who have moved to determine why they moved.

OBJECTIVES

Arrest present trend of increasing rate of foreclosures or abandonments.

Remove or rehabilitate abandoned substandard houses.

Rehabilitate homes that are now occupied and deteriorated or showing signs of deferred maintenance.

Stabilize housing market by declared public policy and public investment and services.

Improve neighborhood environment.

Encourage a high level of home maintenance.

Achieve rate of appreciation of real estate values up to the level enjoyed by other areas in the City.

Stimulate private investment in new housing construction.

HUD AS-IS SALES PROGRAM

HUD's guidelines for the as-is sales program define the primary objectives of the program as "the reduction of the inventory of HUD-acquired properties, while insuring the maximum return to the insurance fund."

The fact that HUD will not warranty or provide mortgage insurance for properties sold through the "as-is" program indicates very clearly that HUD is withdrawing from a situation that they played a primary role in creating and that they are quite willing to let the financial consequences of that act fall on the local community rather than on the insurance funds that were established by Congress to deal with such losses.

The use of the "as-is" sales program has increased rapidly during the past year. It represented only 5% of sales during 1973. By the second quarter of 1974, it represented 25% of sales and HUD apparently was urging area offices to sell at least 50% of their properties "as-is." Among other things, this means that the largest source of rehabilitated homes in Oakland is engaged in at least a partial withdrawal from the field of rehabilitation and rehabilitation lending.

Previously, HUD has been advancing the cost of the rehab out of their own funds and then providing mortgage insurance on the take-out loan to the buyer. It is highly questionable whether a speed-up in sales is worth trading for HUD's role in providing construction funding for rehabilitation and takeout financing for repossessed properties.

HUD's attempt to sell a substantial portion of their inventory without warranty and without loan guarantee can hardly fail to have an adverse influence on the marketability of all properties in East Oakland. Indeed, the practice appears to be a rather blatant form of red lining by HUD, itself. Such limited funds as the local community has available could be better spent on the properties that are not HUD-owned, while looking to HUD to take care of the properties that have become a problem through the operation of HUD programs.

Oakland is not the only community that has expressed reservations about the "as-is" sales program, as is evident from the two attached news articles.

Jim Price's memo to the City Council Civic Action Committee (see copy attached) sets forth some interesting statistics. One of the reasons advanced for supporting the "as-is" sales program is that it will reduce the time that properties remain vacant.

The "critical path of a defaulted home" that is part of Price's memo shows a total time of 16 months from default to close of sale to a new buyer. HUD does not gain title until the end of the eighth month. Six months are allowed for the rehab process and two months for a sale. The times set forth are averages; in individual instances, the process may be shorter or longer.

Obviously, the only period that is subject to shortening by the "as-is" program is the 8 months following acquisition by HUD. Whether this period would be shorter if proper safeguards are imposed on the "as-is" programs is open to question. Whether HUD itself could shorten the period through tighter administration of the program, given adequate funds and personnel, is also open to question.

The six month period between HUD's acquisition and sale of the property is taken up by turning the property over to a management broker who obtains a code letter, a termite report and prepares specifications for repairs and makes a cost estimate and an appraisal to determine the recommended sale price after repairs. HUD then puts the work out to bid, selects a contractor and has the work completed. The final two months are required to close the sale. A private purchaser would be faced with the same process—the assumption that it would get done more rapidly needs demonstrating—at least to people who have been involved in enforcing the obligations of redevelopers to complete projects within projected time schedules.

The question is not necessarily one of efficiency. The private profit-motivated operator or owner who intends to rehab for his own use may have compelling reasons for delay, such as anticipated fluctuation in the money market, trouble with contractor or sub-contractor, or trouble obtaining needed materials, and finally, trouble finding a willing purchaser who can qualify for whatever financing he may have available.

It has been suggested that the "as-is" purchaser could be required to post a bond guaranteeing completion. Such a requirement might well be effective in many cases of insuring timely completion. However, it would not guarantee that the property would be sold and occupied. In those cases where the bonding company had to complete the work the element of time saving would certainly be lost. Getting a bonding company to complete a job is not an easy or quick process. A bonding requirement would eliminate many small contractors who could not qualify for a bond. Minority contractors particularly have experienced great difficulty in obtaining bonding.

Declaring a property sub-standard prior to sale would give the City the necessary authority to enforce completion before occupancy, but it would not guarantee timely completion and where enforcement was necessary, another time-consuming legal process would be involved.

"As-is" property sales to the City or to non-profit organizations under carefully controlled conditions may have some merit.

At a minimum the City should ask HUD to make "as-is" sales only with the consent and involvement of the City in the process and then only on the condition that HUD make construction and take-out financing guarantees available to each purchaser.

Mr. Price's memo shows that HUD typically experiences a loss of \$6,723 in selling property. If the City gets involved in purchasing HUD properties it should make sure that this loss situation is not transferred to the City. Congress established the FHA programs and HUD has operated them. The law provides an insurance fund to take care of defaults. It is not reasonable to expect already overburdened cities to pick up the tab for programs that have come to grief through circumstances outside the control of the City. Such an end result could not even fit within Mr. Moynihan's phrase "benign neglect." It would have to be called malignant neglect.

AGENCIES

Cities, Community Groups Wary of HUD's As-Is Disposition Program

HUD's "as-is" property disposition program, under which abandoned, HUD-FHA-held properties are sold without rehabilitation to both investors and owner occupants, has recently come under heavy fire from both city governments and community groups.

The complaints range from accusations of federal insensitivity to the larger social cost of unloading the homes indiscriminately to the highest bidder, to charges that HUD is luring unsuspecting homebuyers into a deal from which they will never be able to recover.

Among the suggestions put forward by critics is one that no title be forwarded to a buyer until the property is certified as meeting code standards. Another is putting a warning on all contracts which advises buyers of the enormous costs they may have to bear in rehabilitating the homes.

"Completely Inappropriate"

Andrew Olins, housing aide to Boston's Mayor Kevin White, is one of the program's most bitter opponents. "This policy is completely inappropriate," he told HDR recently. "It may save HUD's bacon, but it'll ruin us."

He argues that HUD's desire to get the homes out of the federal inventory at any cost makes sense from a management point of view, but not as policy. Although the homes cost HUD millions every year to maintain—\$86,000 per month for 700 buildings in one neighborhood of New York alone—Olins says that the eventual cost to the city could be many times greater.

One reason for this is HUD's policy of denying FHA insurance of any type to homes bought by individuals. Unsuspecting buyers, Olins says, will put down the cash payment needed to get the house and then find out that they cannot secure financing to rehabilitate it. The next step would probably be abandonment, he claims, and then the city, not the federal government, would be facing the same dilemma.

"The whole fundamental problem in the as-is and homesteading programs," Olins concluded, "is the lack of financing—its deception and absolute fraud."

Very similar concerns were voiced in a recent letter from a New York community group to HUD Secretary James T. Lynn and Regional Administrator S. William Green. The July 29 letter to Lynn from the Association of Neighborhood Housing Developers demand an "immediate cessation" of the as-is program in New York. The group, which spoke for 7 neighborhood development groups, says that it supports the concept of homeownership for lower-income families, but is "appalled at the procedures by which HUD" is selling the homes. Too often, the letter continues, "unsuspecting low income purchasers" will have "neither the means nor access to necessary professional, technical and financial assistance required to restore these homes to livable condition."

In a telephone interview with HDR, Robert Schur, the group's president, estimated that the average cost of buying and rehabilitating a HUD-owned one-family home is between \$13,000 and \$24,000. For a two-family house, the cost jumps to about \$30,000.

With such high costs, and HUD's policy of denying insurance to owner-occupants, Schur predicted two possible scenarios. On the one hand, owner occupants will buy the homes, not knowing what's in store. They'll see the bills start to mount up, and they'll seek financing. Without insurance, no lender in the area will be willing to make the investment. Typically, Schur said, the final step is abandonment. In these cases, this could be accompanied by financial ruination

of unsuspecting buyers who sank their meager life savings into what they thought was a good investment.

If such buyers are cautious and stay away, the result may still be the same, Schur continued. Then speculators could pick up the properties at HUD's rock-bottom prices. Unscrupulous ones could do minor, cosmetic rehab work, sell the homes to the same poor families, and secure them mortgages with HUD-FHA insurance, since HUD has said it will insure homes bought this way. Says Schur, "we've been this route before. It's the reason why the houses are abandoned in the first place."

Instead of "wholesaling" the houses, Schur advocates a measured and coordinated HUD policy for unloading the homes and assisting the buyers and neighborhoods into the bargain.

Representatives of the group will be meeting on August 19 with Green to discuss these issues.

Code Certification

One way to short-circuit the gloomy process outlined by Schur was offered by Ron J. Hewitt, Acting Director of Detroit's Community and Economic Development Department. With the nation's largest single inventory of HUD-owned, abandoned homes, Detroit is also nervous about HUD's disposition plans. He said that the city had suggested to HUD that it hold back title to the properties until Detroit inspectors could certify that code violations had been met. "This would give us some control over what's being sold," he explained.

Such an arrangement was in effect for several months, according to Hewitt, but the FHA sent out a circular rescinding it in May. He said the agency justified the move on the grounds that "it's not done anywhere else." Subsequent discussions with the FHA, Hewitt stated, have not been productive. As a result, the city council has asked the buildings department to draft an ordinance which would require HUD to follow this course.

Without such a qualification, Hewitt added, "I can't think of a single group in this city that's in favor of the as-is plan."

HUD Confidence

Officials at HUD responded to these criticisms by expressing a basic confidence in the as-is disposition concept, while acknowledging that there may be some problems to work out in its actual administration. William K. Cameron, Director of the Office of Property Disposition at HUD Central, told HDR that field personnel are currently examining recent sales to see what the problems are. A study is being prepared, he said, in order to provide the basis for new regulations to govern the program. He hoped they would be ready "soon."

Cameron added that as-is sales are presently accounting for about 30 percent of HUD's overall monthly sales figures. In recent months, this overall figure has topped 5,000 properties.

In New York, where the issue has been joined more forcefully than elsewhere, S. William Green, Regional Administrator for Region II, told HDR that he is confident that the sales materials provided to prospective buyers "make it very clear" that substantial amounts of money, secured by loans not eligible for federal insurance, will be needed to bring the houses up to code.

Cameron also said that HUD had specifically instructed its field offices to make it "very clear" to prospective buyers that they will be facing costs far above that of the purchase price, and will not be eligible for federal insurance.

"I have to assume," added Green, "that any person who can walk into the office and put down a couple of thousand dollars is capable of making responsible decisions."

He said that the average price of an as-is home has been around \$3,000 in New York.

Speaking to the question of speculators, he asserted that the lack of rehabilitation loan insurance in the first instance and the lack of any guarantee of FHA mortgage insurance later would keep the shady operators out of the business. He added that the FHA scandals of the past had stemmed largely from a lack of adequate inspection by FHA appraisers when insurance was involved. "That won't happen again," he stated.

HUD CONSIDERING FUNDING PRIORITIES IN PUBLIC HOUSING MODERNIZATION

A forthcoming revision to HUD's public housing modernization handbook may include guidelines for setting priorities in the use of limited federal moderniza-

tion funds. This would be a change from present practice, which allows local housing authorities latitude in deciding where the funds will be utilized.

Other changes being considered in the revised handbook include some technical amendments to simplify processing, and provisions for tighter HUD monitoring of fund utilization. C. Wayne Hunter, acting chief of the publicly financed housing programs branch of HUD's Office of Housing Management, told HDR that all of the changes are only in the discussion stage at this point, however.

"Generic Priorities"

Hunter explained that the agency is considering advancing certain "generic priorities" for the use of modernization funds. Especially in times of rising costs. Hunter said, it is important to answer two questions: how much to spend, and where to spend it. Thus, where funds are limited, HUD might tell local authorities receiving the funds that they should be used primarily for code violations, for example, as opposed to amenities.

The other changes under consideration, according to Hunter, are aimed at expediting funds request processing, and insure "more efficient use" of modernization funds.

Delayed Publication

Although the handbook was originally scheduled for publication in the *Federal Register* in mid-August, Hunter said that staffing problems had prevented the necessary work from being done. He declined to give a new estimated publication date, nothing only that "it is a very high priority here."

Prior to publication for comment, Hunter said field office personnel would be consulted on the contents of the handbook. He also said that "advisory participation" by FHAs is being considered.

FEW ASSIGNMENTS BECAUSE OF GNMA PASS-THROUGHS, HUD FINDS

HUD's inability to offer forbearance to insured multifamily project owners whose mortgages are backing GNMA securities has not seriously affected the assignment rate among such mortgagors, an ongoing HUD study shows.

These findings diverge from earlier concerns expressed by housing management officials that the mortgage backed securities program's lack of flexibility regarding forbearance would hamper efforts to keep temporarily distressed projects in private hands through so-called "work out agreements." (See HDR Vol. 1, No. 26, B-3; Vol. 2, p. 197 for background reports.)

Under the mortgage backed securities program, GNMA guarantees investors timely "pass-through" payments of principal and interest on their securities. Thus, owners whose property is in the pool are not able to take advantage of HUD forbearance measures without jeopardizing the pass-through. This puts them at a relative disadvantage to other owners of HUD-FHA programs, according to some officials, who pointed out that the guarantee to investors means HUD has to be assigned the mortgage as soon as it defaults, to protect GNMA's stake in the issue.

According to the partially completed report, however, only six of 91 projects put into GNMA's securities pools through the first half of calendar year 1973 have been assigned to HUD because of mortgage defaults. Of course, says William M. Fox, assistant to the director of HUD's office of loan management and author of the study, only one could have been helped by forbearance measures. The others have continued in defaulting despite assignment, and increased the amounts by which they are in default. The one exception, a relatively small, \$500,000 mortgage, has decreased its default amount sharply since it was assigned, indicating that short-term forbearance might have helped.

In calendar 1974, another 95 projects have been placed in mortgage backed security pools. Two of these, said Fox, went into default and had to be assigned. He warned, however, that it is probably too early to draw reliable conclusions about these 95.

Data from the second half of calendar 1973 are not available, Fox said.

[From McGraw-Hill News, Chicago, Ill.]

If the preliminary opinions of Judge Hubert Will are made effective through a court order, the whole nature of the Federal Housing Administration's subsidized mortgage program could change dramatically. Mortgage bankers and lenders who see themselves as prudent middlemen protecting investment would

have to assume some "handholding" functions with borrowers, and HUD might have to become much more of a policeman in monitoring FHA-subsidized mortgages.

Both HUD and Chicago's mortgage companies are frantically trying to forestall that possibility.

78,000 houses. Judge Will made his charges in a class suit against HUD, its officers, and mortgage bankers and lenders, by Mrs. Johnnie D. Brown, whose FHA mortgage was foreclosed in 1972.

Mrs. Brown, a mother of six who is still living in her \$24,200 house, missed one monthly payment to the mortgage company because of a hospital stay, a loss of work and a delay in the delivery of her aid-to-dependent-children check. After notifying the company of the delay, Mrs. Brown made up her late payments and penalties but refused to pay \$525 in legal fees. The company filed for default.

In denying a motion to dismiss HUD or its officials from the case—the mortgage companies were dismissed—Judge Will blasted the department's handling of the entire mortgage-subsidy program. As of last April, the program had left HUD as the owner of 78,000 foreclosed houses—2,200 of them in Chicago. Another 5,000 foreclosures were then expected.

Warning. The judge pointed out that HUD has become by far the largest owner of abandoned slum buildings in the Chicago area, and he observed:

"If HUD had consciously and deliberately set out to frustrate the Congressional purpose and sabotage the (FHA) program, it could hardly have done so more effectively short of simply refusing to carry it out."

The judge then warned that, if it is proved that HUD did not enforce its guidelines, the HUD policy constitutes "an abuse of discretion in violation of the National Housing Act." This abuse of discretion, he further cautions, is actionable.

Defense. At the hearing, HUD defended its policy of allowing mortgagees to make foreclosure decisions, subject only to HUD's suggested guidelines. But Judge Will said the existence of HUD's guidelines indicates that Congress intended that HUD protect those in "marginal financial circumstances" from being "thrust . . . into the marketplace." He said HUD apparently "believes its commitment is limited to assisting poor families in acquiring a mortgage but that the commitment somehow evaporates thereafter."

The department "has tragically misled thousands of low-income Americans," the judge said, by its failure to deal with "inevitable temporary crises such as illness (and) temporary unemployment."

Delays. The case will now go through months of a legal process called "discovery," during which the plaintiff's attorney will try to prove that HUD did violate its own guidelines.

Mrs. Brown's attorneys have added eight homeowners to the case and will add more. They may also appeal the judge's dismissal of the mortgage companies from the suit.

The case could break new ground, for HUD may be forced to reexamine itself—as Judge Will puts it—"preoccupation with its commitment to the mortgagees." The judge upheld HUD's contention that due process was not violated in the foreclosure, but that was a small victory when considered along with the suggestion that HUD must enforce its handbook provisions.

Chicago's HUD officials agree that mortgage companies are foreclosing too quickly in some cases, but these officials argue that there is nothing they can do about it.

John Waner, Chicago's regional administrator for HUD, has been accusing many mortgage companies of mercilessly foreclosing on FHA-subsidized mortgages and of ignoring HUD recommendations to counsel homeowners. Waner says that, in 70,000 to 80,000 foreclosures, "I couldn't find five cases where forbearance was granted."

"If a person shows good faith, for God's sake, we should at least give him that one break," Waner insists. "Somebody has got to care."

Lenders' side. A mortgage banker takes a somewhat different view. "Our basic posture is we make loans to people but the basic obligation to make payment is theirs," says Leonard Biglin, vice president of Great Lakes Mortgage in Chicago. "We have an obligation to be fair to them, and to be reasonable when they have a problem. But we don't have a social-welfare obligation to do everything possible to keep them in the house. We are still a lender and they are a borrower."

"If our basic posture is going to be changed—instead of our first obligation being to protect the investment, we must protect the borrower—then it will not be done without a lot of adjustment and agony throughout the lending world."

Reforms. The Chicago Mortgage Bankers Assn. and HUD have formed a 10-member liaison committee on servicing of loans. The committee will look at supervision problems in securing property, along with possibly reinstituting the informal-notice procedure.

While HUD still has its defenders—"We have hundreds of thousands of insured mortgages, which means people in homes that they wouldn't be in if it weren't for HUD," one federal official says proudly—the defenders are dwindling. Dissatisfied homeowners have been criticizing the FHA program for years, and now an angry judge and federal officials have joined in.

—DENNIS CHASE.

[From McGraw-Hill News, Chicago, Ill.]

FIRST REFUNDS APPEAR IN GYPSUM PRICE-FIX

That \$67.64-million settlement of the gypsum price-fixing suit [News, Feb.] is finally filtering into the hands of gypsum users.

The first checks went out in November to members of three of the five categories of plaintiffs in the class-action suit: participating governmental bodies, dealers and subcontractors. More checks, for general contractors and owner-builders, will be out by year end.

These payments are only half of the total settlement, which, including accrued interest, now runs to about \$75 million. The other 50% will sit in escrow pending court appeals by defendants.

Here is the breakdown of payments to plaintiff classes:

Owner-builders, 36.90%; Dealers-wholesalers, 21.15%; Subcontractors, 21.15%; General contractors, 10.80%; Government bodies, 10%.

The defendants were U.S. Gypsum, National Gypsum, Kaiser Gypsum, Flint-kote, Fibreboard, Georgia-Pacific and Celotex.

The distribution to the roughly 68,000 claimants is being handled by Frederick Furth of San Francisco, chief counsel for the plaintiffs in the action and now trustee for the settlement fund. Cutoff date for filing a claim was April 5, but any interested parties may write to Furth at the Russ Bldg., 235 Montgomery St., S.F., Calif. 94104.

CITY OF OAKLAND,
OFFICE OF THE CITY MANAGER,
Oakland, Calif., January 2, 1975.

Hon. CITY COUNCIL,
Oakland, Calif.

Subject: Status of moratorium on "As Is" sales of FHA-HUD owned properties.

MR. MAYOR AND MEMBERS OF THE COUNCIL: On December 10, 1974, the Council asked for a report on the status of an agreement wherein the U.S. Department of Housing and Urban Development was to withhold until January 15, 1975, the further sale of residential properties on an "as is" basis.

There are several reasons why this moratorium should be extended until March 15, 1975. The staff has discussed these reasons and requested a 60-day extension with Mr. James Price, Regional Administrator, HUD. Mr. Price indicated that he will consider granting an extension of the moratorium for 30 or 60 days provided the City is making progress on instituting some remedial measures, and provided the Council supports the staff request for an extension.

During this additional period, the staff will initiate negotiations to obtain a waiver from HUD of their present time and notice requirement, during which the City's Housing Advisory and Appeals Board would have time to formally declare a residential building as substandard. The waiver is intended to cover those buildings which HUD officials have already recognized as substandard and have advertised for sale on an "as is" basis. The code requires that a buyer must rehabilitate a substandard and/or unsafe residential building before it can be reoccupied. Failure of a buyer to obtain a certificate of occupancy to conform to this requirement constitutes a misdemeanor.

Time is also needed for the staff to complete work on an application for HUD certification of a housing counseling program. Preparatory work on this

new program started on December 20, 1974. The staff will have an application ready for submission to HUD before January 31, 1975. This proposed counseling is essential to reducing the number of delinquency and default cases which cause so many homes to be abandoned.

The City staff is also exploring with HUD officials the possible implications of the City arranging for caretakers for houses that are rehabilitated under HUD contracts, so that the houses could be finalized and certificates of occupancy issued. In this way the caretakers could move in, assuring that the housing is maintained in safe and livable condition until such time as the property is sold and ready for occupancy by the new buyer. The thought that we are exploring is finding couples who would be willing to assume the role of caretakers with free rent during the period that they were acting as caretakers of the rehabilitated unit.

In addition to the proposed agreement to provide security, we hope to have HUD contract with the City for a housing surveillance program. The object will be for the City to check all HUD repossessed units on a monthly basis to determine if the broker under contract with HUD is maintaining these units according to HUD specifications.

At the present time, HUD owns approximately three hundred of the estimated twelve hundred vacant houses in the City. The Building and Housing Department is proposing an accelerated program to inspect all vacant and unsecured buildings. As fast as possible the files on such buildings will be presented to the Housing Advisory and Appeals Board in order to have them declared sub-standard. This will entail additional staff time and more time on the part of the Housing Advisory and Appeals Board.

Finally, more time is needed to determine the status of the Urban Homesteading Program and the lowest price (if any) that these properties can be deeded to the City.

Under these circumstances, the staff recommends that the Council adopt a motion requesting an extension until March 15, 1975, of the moratorium on the sale of these residential properties on an "as is" basis by HUD.

In this respect, the Council should consider Resolution No. 2850 of the Housing Advisory and Appeals Board regarding the sale of property on an "as is" basis. This Resolution was forwarded to the Council on December 30, 1974 (copy attached).

Respectfully submitted,

CECIL S. RILEY,
City Manager.

CITY OF OAKLAND,
December 30, 1974.

INTEROFFICE LETTER

To: City manager's office.

From: Building and Housing Department (Housing Division).

Subject: Resolution No. 2850 by Housing Advisory and Appeals Board on HUD "as is" property.

The Housing Advisory & Appeals Board, for the past few months, has been concerned with reports from staff on "As Is" properties being sold to unsuspecting low-income citizens without full disclosure of violations existing in said properties.

On December 19, 1974, the Board passed the attached resolution as a recommendation to the Mayor and Council to help solve the problem.

The Board felt with the 60 day moratorium on "As Is" housing sales, that the enclosed resolution, with its recommendation, might assist the Mayor, Council, and City Manager in future dealings with the H.U.D. staff.

ENRICO LABARBERA,
Housing Division Official.

Attachment.

Approved for Forwarding to the City Council.

CECIL S. RILEY,
Office of the City Manager.

CITY OF OAKLAND,
Oakland, Calif., December 19, 1974.

HOUSING ADVISORY AND APPEALS BOARD, RESOLUTION No. 2850

Moved by Jones and seconded by Thoman.

RESOLUTION REQUESTING CONSIDERATION BY CITY COUNCIL OF ESTABLISHMENT OF
"SUBSTANDARD" POLICY ON HUD "AS IS" PROPERTIES

Whereas, Ordinance No. 8549, C.M.S., commonly referred to as the "Oakland Housing Code", sets forth at Section H-207 (a) the requirement and responsibilities for a Housing Advisory and Appeals Board, and

Whereas, Your presently constituted Housing Advisory and Appeals Board has noted the practice of the Department of Housing and Urban Development in selling their repossessed housing units in the City of Oakland on an advertised "As Is" basis to the highest bidder, and

Whereas, It has been determined that properties purchased on an "As Is" basis have been resold to unsuspecting moderate and low income citizens without the full disclosure that the Housing Division of the Building and Housing Department has a list of violations outstanding against the property and many of these properties are in such condition as to warrant a case file being presented to this Board for substandard action; and

Whereas, Many of the "As Is" sales have been rehabilitated to a high level and Certificates of Occupancy have been issued; and a complete suspension of such "As Is" sales will ultimately result in many of the structures being demolished and removed from the tax rolls; and

Whereas, It is felt that the time period of the moratorium presents an opportunity for a constructive program to be developed with the Department of Housing and Urban Development; and

Whereas, The Oakland Housing Code provides that buildings declared Substandard by this Board cannot be re-occupied until such time that a Certificate of Occupancy is issued; and the noted Code provides for prosecution of persons violating such declarations; now therefore be it

Resolved, That the Oakland City Council consider the establishment of a policy with the Department of Housing and Urban Development for this Board to declare such "As Is" properties, which are listed for sale and which do not have Certificates of Occupancy, as "Substandard and/or Unsafe Residential Buildings," thus preventing their occupancy while in a substandard condition.

In regular meeting at Oakland, California, on Thursday, December 19, 1974.

Passed by the following votes: (7) Ayes: Bachman, Bruce, Jones, Payne, Pennington, Rubenstein and Thoman. (0) Absent.

JAMES L. BRUCE,
Chairman.

EVALUATION REPORT: THE "AS IS" PROPERTY DISPOSITION SALES PROGRAM, PROGRAM PLANNING AND EVALUATION, REGION IX, OCTOBER 1974

EVALUATION OF THE "AS IS" PROPERTY DISPOSITION SALES PROGRAM

I. PURPOSE OF THE STUDY

This evaluation was undertaken to determine if the "As Is," All Cash, Without Warranty Sales Program was being utilized in Region IX to meet the Department's goal of reducing the inventory of acquired properties in such a manner as to ensure the maximum return to the mortgage insurance funds while complementing the national goal of developing decent, safe and sanitary housing. The evaluators developed their assessment of the "As Is" Sales Program through an analysis of three major questions: They were: (1) What is the impact of the Individual "As Is" Sales Program on localities; (2) What is the impact of the Individual "As Is" Sales Program on consumers; (3) What is the impact of the Individual "As Is" Sales Program on HUD.

II. SUMMARY

The "As Is" Program appears to be capable of meeting the Department's objective of reducing the inventory of HUD-acquired properties while returning

housing to communities which may be made free of major health and safety deficiencies. However, the evaluation also revealed a number of exceptions to this general rule. In fact, the absence of serious health and safety conditions in properties appears to be more the result of fortuitous conditions than of program design. To minimize the number of properties sold under the "As Is" Program which are not subsequently made free of major health and safety deficiencies, the evaluators have developed a series of recommendations designed to strengthen HUD and local management of the program.

III. BACKGROUND

The study was requested by the Regional Administrator and the Assistant Regional Administrator for Housing Management in response to the increased use and new interpretation of the conditions of an "As Is," All Cash, Without Warranty Sale as described in the May 8, 1974, memorandum of H. R. Crawford, Assistant Secretary for Housing Management. That memorandum modified one of the five conditions under which the program could be utilized as described in Chapter 6, paragraph 149 of HUD Handbook 4310.5. The effect of the policy was to make any property available for disposition through the "As Is" Program, subject to the three major limitations. The limitations were: comparability with the surrounding properties; major structural deficiencies defined as foundation defects and unsound studs, rafters and beams; and maximum return to the insurance fund. The policy of increasing the use of the "As Is" Program was designed to decrease the HUD inventory of acquired properties.

Prior to the May 8, 1974, memorandum, the program had minor usage in Region IX with "As Is" sales comprising 5% of property dispositions in 1973. Program usage increased in the first three months of 1974 with "As Is" sales comprising 16% of property dispositions and again in the second quarter comprising 25% of all property dispositions.

Subsequent to the circulation of the initial draft of the present study, the Department formally amended its guidelines governing "As Is," All Cash, Without Warranty Sales. The revised guidelines describe the primary objective of the property disposition program as the reduction of the inventory of HUD-acquired properties while insuring the maximum return to the insurance fund. The primary technique for achieving this objective is a maximized use of the "As Is," Without Warranty, All Cash Sales Program. The revised program guidelines dated September 11, 1974, extend the use of the "As Is" Sales Program beyond the framework established by Secretary Crawford's May 8, 1974, memorandum. The revised policy allows for the utilization of the program subject only to the limitations of compatibility with neighborhood and maximum return to the insurance fund.

Although developed prior to the new policy issuance on "As Is" sales, the findings and recommendations contained in this report are consistent with the new policy guidelines. Because the evaluation identified potential problem areas not addressed in the September 11, 1974, notice, the recommendations are designed to complement the policy established in the memorandum.

The study evaluated only the Individual, "As Is," All Cash, Without Warranty Program which constituted only a narrow segment of the property disposition program at the time of the evaluation. The evaluators did not attempt to explore the multitudinous factors surrounding the disposition of all acquired properties. In addition, the study was conducted within narrow time constraints to provide an early assessment of the program. Because of the relatively limited usage of the program prior to the May 8, 1974, memorandum and the high rate of unoccupied structures sold under the program, the early assessment was able to identify potential problems in the program. Despite its time constraints and its focus on only the "As Is" Program, the evaluation was within the framework of both the objectives of the Property Disposition Program as well as those of the entire Department. Those objectives were the reduction of the inventory of HUD-acquired properties as described in the September 11, 1974, notice, HM 74-57, as well as the provision of a suitable living environment and decent housing as described in Title I of the Housing and Community Development Act of 1974. The evaluation indicated that both of the Department's objectives could be accomplished through the "As Is" Program. However, to preclude the achievement of one objective at the expense of another, the evaluators developed a series of recommendations intended to achieve the objective of reducing the HUD inventory while assuring the achievement of the Department's responsibility of providing decent housing and a suitable living environment.

IV. METHODOLOGY

The study design was comprised of three separate evaluation efforts. The first effort was comprised of a review of 407 individual, "As Is" files in four Region IX offices: The San Francisco Area Office, the Los Angeles Area Office, the Sacramento Insuring Office and the Santa Ana Insuring Office. All available files for properties, and a limited number of files for lots, sold and closed during the period January 1, 1974, through June 30, 1974, were reviewed. In addition, properties advertised during the "As Is" Sales Week announced by Secretary Crawford, but sold and closed during the month of July were added to the file review sample. Properties sold under the bulk sales program were not included in the sample.

The second effort involved interior inspections and interviews with occupants of properties sold under the "As Is" Program in localities under the jurisdiction of three of the four HUD offices. Interviews with occupants and interior inspections of some 57 properties sold under the "As Is" Program were conducted in Oakland, San Jose, East Palo Alto, Sacramento, Southwest Los Angeles, Northwest Los Angeles and Southeast Los Angeles. An additional 81 exterior inspections of properties in the same areas were made. Interviews were conducted by members of the PP&E staff with the housing inspections being conducted by single family housing inspectors from the two Area Offices.

The third evaluation effort involved interviews with the local officials responsible for Code Enforcement in 11 localities within the jurisdictions of the four HUD field offices. Those localities were: Richmond, Oakland, San Jose, San Mateo County, Sacramento, San Bernardino, Fontana, Ontario, Pomona, Los Angeles City and Los Angeles County. These interviews were conducted by members of the PP&E staff.

V. FINDINGS AND CONCLUSIONS

A. The current housing market and mortgage market are factors in the feasibility of the "As Is" sales technique as a disposition method for HUD-acquired properties

1. "As Is" sales occur in almost all localities where HUD has acquired housing and where a market for housing exists.

2. The "As Is" sales technique is not an effective method of disposition in areas where HUD has acquired properties but where there is no market for housing. e.g. There are several localities within the Los Angeles Area Office jurisdiction where sales of acquired properties are not possible without HUD insurance.

3. Where the "As Is" sales technique has been utilized, the volume of "As Is" sales appears to have been proportional to the volume of acquired properties.

4. With the exception of condominiums, "As Is" sales occur in all types of housing.

5. The majority of properties sold under the "As Is" Program were comparable to the housing stock of the neighborhood in which the sales occurred.

6. Investors are making primary use of the "As Is" Sales Program.

The identification of purchasers was established in discussions with occupants of inspected properties as well as by reviewing the identification of purchasers in file reviews. The results of those two separate reviews indicated that: (a) In their inspection of occupied structures, the evaluators found that eighty percent of the structures had originally been purchased by investors; (b) in the review of files, the evaluators found that seventy-one percent of the structures sold under the "As Is" Sales Program, where identification of the purchaser could be established, were sold to investors.

B. The "As Is" Program appears to have the potential to work reasonably well

1. The "As Is" Program appears to have the potential for returning housing to localities which may be made free of major health and safety hazards. Almost eighty percent of the structures sold under the "As Is" Program which were occupied and inspected did not appear to have any serious safety or health deficiencies. (See Attachment A.)

2. The "As Is" Sales Program appears to have the potential to improve the living conditions of the occupants of structures sold under the "As Is" Program.

(a) The "As Is" Sales Program resulted in an increase in living space for 17 of 40 families occupying "As Is" structures. Occupants were able to rent or own structures with a larger number of bedrooms than previous residences. Family size of the same occupants did not increase while available living space did increase. The average increase in number of bedrooms was 1.5 with a corresponding average increase of monthly housing costs of \$30.

(b) Fourteen instances of "first time ownership" were identified in the properties surveyed. However, only five of these owners purchased directly from HUD. The remaining nine ownerships resulted from investor resales.

3. The "As Is" Sales Program has the potential for positive consumer satisfaction. Eighty percent of the 44 families who stated a comparison between their "As Is" unit and their previous living circumstances indicated that they liked their "As Is" unit better.

4. The "As Is" Sales Program appears to have the potential for reducing the time HUD-acquired properties are held in inventory.

(a) The average closing time required for the "As Is" Sales Program was 1.4 months in contrast to the 4.8 months required for closing under the repair program. This results in an overall savings of 3.4 months, in the closing time of the "As Is" Sales Program.

(b) The average time in inventory for properties sold under the "As Is" Sales Program was 8.1 months in comparison to an average time in inventory of 11.6 months for properties sold under the repair program. This results in an overall savings of 3.5 months in the time in inventory for properties sold under the "As Is" Program. (See Attachment B.)

5. The financial losses incurred under the "As Is" Program are comparable to those incurred under the repaired program. A comparison of the estimated repaired selling price less estimated cost of repairs was made with the actual "As Is" selling price less actual repairs. Both figures were adjusted for taxes, sales expenses and holding costs. The results of the comparison revealed that the utilization of the "As Is" sales technique resulted in an average greater loss of \$150 or a 2% greater loss than that estimated for the repaired program. Since the difference between the two sales programs was less than ten percent, the difference was considered to be relatively insignificant, resulting in comparable costs.¹ (See Attachment C.)

C. Although operating reasonably well, a number of problems were identified in the course of the evaluation which warrant examination

1. At the time of sale, the properties disposed of through the "As Is" Program displayed a wide range of ages and deficiencies.

(a) The age of the housing stock ranged from an average age of 19 years in the LAAO to an average age of 38 years in the SFAO. (Attachment D.) (It should be noted that the ranges of age are a description of the housing stock, and are not intended to be indices of deficiencies.)

(b) The average estimated cost of repairs for properties sold under the "As Is" Program was \$6,475 with the averages of estimated repair costs ranging from \$4,700 in the LAAO to \$8,900 in the SFAO. (Attachment D.)

(c) Sixty-six percent of the properties sold had recommended repair estimates which exceeded 25% of the estimated repaired sales value of the structure in three of the four field offices surveyed.

(d) Thirty of the structures under the "As Is" Program contained a foundation, rafter or stud deficiency. This information was obtained from the comments of HUD or City inspectors as described in the HUD files.

2. Properties sold under the "As Is" Program are not rehabilitated or repaired in numerous instances. (Attachment A.)

(a) Forty-two percent of the inspected properties sold under the "As Is" Program were vacant.

(b) Thirty percent of the vacant properties which were inspected did not evidence any sign of repair.

(c) Although not complete, the repairs on the remaining 70% of the vacant properties ranged from a coat of paint to complete renovation.

¹ It should be noted that the sample, described above, included numerous properties sold "As Is" prior to the revised policy of May 1974. Usage of the "As Is" Program prior to the May policy varied from the usage of the program after the issuance of the May policy. It is anticipated that the changes in office use of the "As Is" Program should result in different savings/loss figures for the "As Is" Program. Specifically, if disposition recommendations are made and implemented quickly on newly acquired properties, it is anticipated that the savings attributed to the lower holding costs will result in a savings to the Department. At the request of the Assistant Regional Administrator for Housing Management, the profit/loss comparisons will be monitored to determine the cost effectiveness of the "As Is" Program in Region IX.

3. Twenty percent of the inspected occupied properties which had been sold "As Is" appeared to have health and safety deficiencies. The defects occurred in five categories: foundation, roofs, wiring, heating systems and hot water heaters. The defects were noted by inspectors only if they were so severe as to pose a potential hazard to occupants.

4. Properties recommended for demolition but sold "As Is" were found still standing and occupied.

(a) A total of 13 structures (9% of those surveyed) which had been recommended for demolition during the disposition process were still found standing. Although the reasons for the demolition recommendations were not evident in all cases, one-third of these properties had been recommended for demolition because the repairs were considered prohibitive in relation to the repaired value of the structure.

(b) Four properties which had received demolition recommendations were occupied by rental families. However, only one of these properties was found to have serious health and safety deficiencies.²

5. Within the limited sample, investors performed less necessary repairs than owner occupants.

(a) Of the twelve properties found to have serious health and safety deficiencies, ten were investor purchased (9 rentals and 1 resale). It was not possible to determine the ownership status of the remaining two deficient properties.

(b) Thirty percent of the interviewed renter occupants indicated that no repairs had been performed by the owner investor.

(c) Twenty-five percent of the units with investor ownership verified had been resold. In two of these instances, the properties had been purchased for less than \$10,000 and were resold for approximately twice that amount with less than half the difference apparently spent on repairs. In four separate instances, however, the properties were subsequently purchased with VA insurance.

6. At the time of the evaluation, there did not appear to be common agreement among the field offices as to the conditions or procedures under which the "As Is" Program may be utilized.

(a) The field offices had different understandings of the period of time during which advertised "As Is" sales were limited to owner-occupants and different understandings as to the pertinent and necessary file information. The quality of available file information varied from office to office. Where file information was missing, the missing item was most frequently one of the following pieces of information: the estimated repaired selling price, the estimated cost of repairs, the repair specifications and the acceptance of the broker's tender.

(b) Twenty-eight percent of the files reviewed contained either no contracts or no contract conditions identifying the sale as an "As Is" sale.

(c) Only six percent of files reviewed complied with all the Region IX contract requirements for Individual, "As Is," All Cash, Without Warranty Sales as prescribed in the December 7, 1973, memorandum of the Regional Administrator. The December 7, 1973, memorandum required that the warranty be deleted and that both the Underwriting Operations Division and the appropriate local building department be notified of the "As Is" sale. In addition, the sales contract was to be amended to: contain a statement that the property might not meet local or state building or housing codes; indicate that HUD assumed no responsibility for compliance in connection with the sale; include any known deficiencies or code violations and alert the purchaser that the local building department had been notified of the sale and condition of the property. All such contract amendments were to be acknowledged by the signature of the buyer.

It should be noted that, subsequent to the evaluation, the Regional Administrator for Housing Management has clarified the outstanding procedures and procedures for "As Is," Without Warranty Sales.

² Subsequent to the evaluation, the Assistant Regional Administrator for Housing Management has indicated his intent to monitor demolition recommendations to ascertain that such recommendations are made in conformance with outstanding HUD regulations.

D. The absence of serious health and safety conditions in occupied structures appears to be a matter of fortuitous condition which cannot be attributed to program design

1. HUD requirements are not adequate to prevent post-sale occupants from living in structures with serious health and safety deficiencies.

(a) After the sale of an "As Is" property, HUD relies upon the local authority to insure that properties sold under the "As Is" Program are not occupied while containing severe health and safety deficiencies. "As Is" procedures do not address the issue of HUD responsibility for assuring that properties were made free of health and safety deficiencies after sale and prior to occupancy.

(b) With the exception of several localities under the jurisdiction of the SFAO, purchasers are not adequately informed of the specific and general conditions of the properties purchased under the "As Is" Program.

(1) Prospective purchasers of "As Is" properties are not informed of specific known deficiencies in properties proposed for "As Is" sales.

(2) The identification of the general conditions of "As Is" properties varies from office to office. In some offices, the notification of the sale as an "As Is" sale with potential code violations in the sales advertisement is considered adequate to inform a purchaser of the condition of the property, while in other offices the language is incorporated into the sales contract.

(c) HUD procedures during the subject period were not adequate to assist local authorities in the implementation of their responsibility for the safety and health conditions of a property sold under the "As Is" Program.

With the exception of the Santa Ana Office, HUD files do not indicate that all localities were being notified of "As Is" sales on a consistent, timely or relevant basis. The localities interviewed indicated that such information is essential to their enforcement of local policy.

2. Local requirements are not adequate to prevent occupants from living in structures with serious health and safety deficiencies.

(a) Many cities have neither developed a system for inspecting HUD-acquired properties nor for enforcing code compliance for properties sold under the "As Is" Program.

(1) Six or 55% of the cities interviewed had no procedures for inspecting HUD-acquired properties prior to sale.

(2) Eight or 73% of the cities interviewed had neither developed a compliance program nor taken any action to enforce local standards on properties sold under the "As Is" Program, unless such properties received specific complaints or were located within an area receiving systematic code compliance.

(b) Surveyed cities, which had developed a system for the inspection of HUD-acquired properties and the enforcement of code compliance for "As Is" sales, have not succeeded in eliminating the occupancy of structures which are sold under the program which contain serious safety and health deficiencies.

(1) In the City of Oakland, which has a certificate of occupancy program, only nine of the twenty owners of inspected occupied structures had received certificates of occupancy. Of the remaining eleven inspected occupied structures, five owners had applied for but had not received certificates of occupancy while six owners had not even applied for certificates of occupancy.

(2) Two communities have attempted to coordinate the turn on of utilities with certificates of occupancy in an attempt to preclude occupancy of structures prior to the elimination of serious health and safety deficiencies. This effort has not been successful because owners turn on the utilities. In addition, the poor record keeping of utility companies in Oakland undermines this effort. In Pomona, utility companies have exhibited poor cooperation with the City.

VI. RECOMMENDATIONS

The "As Is" Sales Program has the potential for achieving both the Departmental goal of reducing the inventory of HUD-acquired properties as described in circular 74-57, dated September 11, 1974, as well as the Departmental goal of providing decent housing and a suitable living environment as described in the Housing and Community Development Act of 1974. To preclude situations where the goal of reducing the inventory of HUD-acquired properties is achieved

at the expense of the goal of providing decent housing, the following recommendations have been developed to implement current Departmental policy. The recommendations have been developed to ensure that structures sold under the "As Is" Program are made free of serious health and safety deficiencies prior to occupancy. The recommendations are:

1. To clarify the purchaser's responsibility to bring "As Is" properties into compliance with local codes, all field office Property Disposition staffs should:

(a) Amend the "As Is" contract to: (1) Delete the warranty; (2) insert a statement indicating that the property may not meet local or state building codes; (3) insert a statement that HUD assumes no responsibility for the compliance of property with local or state building or housing codes; (4) insert a statement that the local building department (or housing department, as appropriate) has been notified of the sale and the condition of the property; (5) insert the known property deficiencies or code violations.

(b) Have purchasers of "As Is" properties acknowledge all contract amendments or addendums.

2. To strengthen the ability of localities to assume responsibility for "As Is" properties sold in their jurisdictions, field office Property Disposition staffs should:

(a) Report all "As Is" sales to the local building or housing department.

Such local notification should occur at the HUD closing and should include all relevant information: street address of the property; name, address and telephone number of the purchaser; copy of the sales contract and addendums; and a copy of the City Inspection letter.

(b) Provide incentives for the development of both local pre-sale inspection programs for HUD-acquired properties and for local post-sale compliance with applicable local standards. (1) HUD should require and pay for local pre-sale housing inspections of all HUD-acquired properties which receive "As Is" disposition recommendations and (2) where cities cite lack of staffing or funding as a deterrent to the development of compliance programs, and where cities request HUD assistance, HUD should provide information on possible funding sources in the Housing and Community Development Act of 1974.

3. To implement existing Departmental responsibility for the development of disposition strategies as described in paragraph 143 of HUD Handbook 4310.5, as authorized for "As Is" sales, as described in Section 1, paragraph 3, subparagraph a of HUD Handbook 74-57, as appropriate, and as described in the 1974 PMS goals of the Assistant Regional Administrator for Housing Management. The Housing Management staffs in conjunction with the Community Planning and Development staffs should:

(a) Develop joint HUD/local strategies for the handling of "As Is" properties in cities with large inventories of HUD-acquired properties.

(b) Provide information on the "As Is" Sales Program and other housing programs authorized under the Housing and Community Development Act to localities, regional planning organizations and appropriate policy organizations such as the League of Cities. Such information should not be limited to but should include: (1) Materials on the development of local inspection and compliance programs; (2) materials on planning tools such as the housing assistance plans which could include the utilization of "As Is" properties; (3) Discussions of isolated problems identified in the "As Is" Program such as investor owners who consistently do not comply with local requirements.

(c) To implement existing Departmental responsibility for the coordination and development of policy, Housing Management staffs should: (1) Report all "As Is" sales to the Underwriting Division. (Proper coordination should exist within an office to assure that such notification is utilized if and when a subsequent application for insurance is made.) and (2) Monitor the operation of the "As Is" Program, within six months, to determine that the program continues to operate in such a way as to meet the objectives of the property disposition program as well as the objectives of the Housing and Community Development Act of 1974. Whenever it is determined that a disproportionate number of "As Is" sales are not being repaired or brought up to code in a community, the Property Disposition staff, in conjunction with local officials, will review the use of the "As Is" Program, as provided in HM 74-57.

Attachment A

Location	Total ¹ as is sales	Occupied				Unoccupied			Worse than neighbor	Remaining problem conditions
		Total inspections	Own	Rent	Do not know ⁵	Total	Total	Rehabitable	Resales	
Los Angeles.....	58	44	12	8	6	26	10	9	9	4
Oakland.....	101	47	3	11	6	20	27	17	2	1
Sacramento.....	21	18	6	5	2	13	5	5	2	5
San Jose.....	20	19	2	6	1	9	10	6	0	0
East Palo Alto.....	11	10	1	3	0	4	6	5	0	2
Total.....	211	138	² 24	33	15	72	58	42	13	12
Percent of total.....	³ 30	54	17	24	11	52	42	30	9	17

¹ Includes "as is" sales only in the localities studied.

² Only 11 of these properties (8 percent of total, 15 percent of occupied units) purchased by present owners. Remainder of present owners bought from investors.

³ Total "as is" sales in region IX during the period under study approximated 700 (includes lots and 239 bulk sales in Los Angeles).

⁴ External visual comparison with surrounding properties only.

⁵ Evaluators were unable to determine whether occupants of these structures were owners or renters.

AVERAGE SALES CLOSING TIME

[In months]

	As is ¹ closing time	Repaired ² closing time	Closing time savings ³
LAAO.....	1.9	7.5	+5.6
SFAO.....	.9	3.6	+2.7
SAIO.....	.9	2.1	+1.2
SACIO.....	(⁴)	1.9	-----
Region.....	³ 1.4	³ 4.8	³ +3.4

¹ All available data for evaluation period.² All available data from HUD 9505 for evaluation period.³ Regional averages are weighted on a 5:4:3 weighting for the LAAO, SFAO, and the SAIO.⁴ Inadequate information to develop figure.

Attachment B

AVERAGE TIME IN INVENTORY

[In months]

	"As is" ¹ inventory time	Repaired ² inventory time	Savings in inventory time
LAAO.....	10.7	14.3	+3.6
SFAO.....	7.8	10.8	+3.0
SAIO.....	5.1	9.5	+4.4
SACIO.....	6.9	9.5	+2.6
Region.....	³ 8.1	³ 11.6	³ +3.5

¹ These figures were based on all file reviews with the following types of files omitted: Empty lots, properties for which the initial disposition date is unknown, properties which were initially recommended for the repair program and properties for which the initial disposition date occurred 1 yr or more after acquisition. The figures were based on a 6-month period.² These figures were developed on a 4 mo average of repaired properties.³ Regional averages are weighted on a scale of 5:4:3:2 for the LAAO, SFAO, SAIO, and the SACIO.

GENERAL NOTE.—All averages computed for "repaired" properties include a number of "as is" properties. The effect of this inclusion is to decrease the differential between the "as is" and the repaired averages; i.e., the true differential is greater than is indicated by the figures, though this error is not very significant.

Attachment C

AS IS/REPAIRED COMPARISON

Office	Estimated repaired proceeds	Actual as is proceeds	As is savings
SACIO.....	7,997	10,262	+2,265
SAIO.....	15,613	14,740	-873
SFAO.....	12,383	10,591	-1,792
LAAO.....	17,297	17,815	+618
Weighted 4-office average.....	14,203	14,048	-155

GENERAL NOTES

"Savings" mean savings of the "as is" sales program over the repaired program. A negative number in this column indicates a savings for the repaired program.

The averages in line 5 represent weighted averages based on a 3:2:4:5 weighting of the averages for the Santa Ana, Sacramento, San Francisco, and Los Angeles field offices.

Actual "as is" proceeds include the average of the actual "as is" selling price less actual repairs plus the savings in the taxes, sales expenses, and holding costs which were calculated separately.

In developing a profit/loss comparison for the present evaluation, the evaluators developed 2 comparison models. In addition to the model described in the text and supported by the preceding chart, the evaluators made a comparison between 2 sets of properties: a group sold "as is" without warranty and a group sold in the normal repaired program. That comparison resulted in an average greater loss of \$500 for the "as is" program. This represented a 6 percent greater loss than that experienced in the repaired program. Since the increased loss developed under both comparisons was less than 10 percent, the loss was not considered significant and the programs were deemed comparable.

ESTIMATED REPAIR COSTS "AS IS" PROPERTIES

[In percent]

Office	0 to \$5,000	\$5,001 to \$10,000	\$10,001 to \$15,000	\$15,001 to \$20,000	Over \$20,000
SFAO.....	21	51	21	6	1
LAAO.....	66	14	17	3	
SACIO.....	13	70	17		
SAIO.....	64	36			

Attachment D

AGE OF "AS IS" PROPERTIES

[In percent]

Office	0 to 20 yrs	21 to 50 yrs	Over 50 yrs
SFAO.....	18	61	21
LAAO.....	66	31	3
SACIO.....	38	57	5
SAIO.....	56	38	6

NOTES

1. Total files reviewed for the 4 offices were SFAO 199, LAAO 91, SACIO 59 and the SAIO 58.
2. Estimated repair costs were not available in all files. They were present in 59% of the SFAO files, 32% of the LAAO files, 51% of the SACIO files and 78% of the SAIO files.
3. The age of structures was not always identified in the files. The information occurred in 76% of the SFAO files, 84% of the LAAO files, 68% of the SACIO files and 83% of the SAIO files.

[Memorandum]

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,

January 7, 1975.

To: Frank Ogawa, chairman, Oakland Civic Action Committee.

From: James H. Price, San Francisco area office.

Subject: Information for Oakland City Council Civic Action Committee, FHA insured single family housing, Oakland, Calif.

SINGLE FAMILY MORTGAGE INSURANCE AS OF JUNE 30, 1974, ALAMEDA COUNTY

	Units	Mortgage amount	Estimated annual subsidy
Total in force.....	50,455	\$951,551,227	\$992,960
235.....	1,160	22,632,250	992,960
203(b).....	43,455	823,777,489	

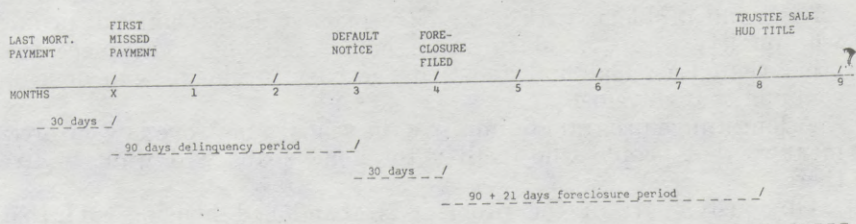
Defaults in the City of Oakland—660 as of December 31, 1974.

Foreclosures Total January–December 1974; Acquired—292; Sold—428 (a number of properties sold in 1974 were acquired in 1973).

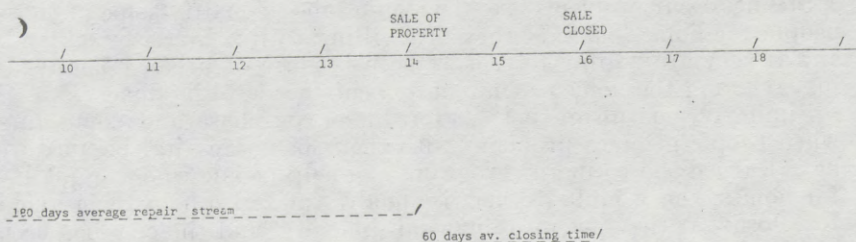
Inventory:

January	423
February	423
March	419
April	412
May	387
June	360
July	334
August	324
September	329
October	327
November	325
December	328
Estimated per unit acquisition cost	\$15,437
Estimated per unit repair cost	5,535
Other costs (cost to hold in inventory, commission on sale, escrow charges, etc.)	2,595
Estimated resale price	16,844
Loss per unit	6,723

CRITICAL PATH OF A



DEFAULTED HOME



Senator CRANSTON. Thank you very much.
 We will hear next from Fred Cooper, chairman of the board of supervisors. Fred.
 Mr. COOPER. Thank you, Senator.

STATEMENT OF FRED COOPER, CHAIRMAN, BOARD OF
SUPERVISORS, ALAMEDA COUNTY

Mr. COOPER. For the record I am Fred Cooper, chairman, board of supervisors, and we happen to be in the heart of the third supervisorial district which I represent. I would like to enter a slight dissent from some of the things that have been said. I think what we saw this morning would perhaps serve as an example.

Obviously, redlining has occurred in Oakland from time to time, and probably still does, but the one-block area on Bromley Street we looked at this morning had five or six abandoned homes.

At the same time, there were under construction two apartment buildings financed by savings and loan and other lending institutions. So at the same time there were 5 or 6 vacant dwelling units on that block, 8 or 10 new dwelling units in the form of apartments were being constructed, so I think it is hard to say that the lending institutions have redlined that area in terms of being unwilling to make loans.

I think what you saw there reflects the fact that there is a market for rental housing, low-cost rental housing in the area, and no market for single-family homes.

I think that is a reflection of a number of things. It is a reflection more of the fact that essentially because of the problems of poor schools and problems with law enforcement in East Oakland, people who qualify for it, want to buy a home, will buy some place else other than East Oakland and that the basic problem is to develop community involvement.

A long-range program to improve the schools, improve law enforcement so that people who qualify for home loans will want to live there.

Obviously, part of the problem is abandoned housing and that turns off people who might otherwise want to live there but the basic thing, the basic problem, is that that block points out that there is a market for rental housing because a lot of people wouldn't qualify for a home loan. They had to rent, and if their income is low, they had to rent in an area where rentals are low and that market exists, and is obviously expanding and new rental units are being built.

So one of our problems is to develop means to qualify some of those people for home loans. If they are willing to live in East Oakland, and if they are willing to rent, some procedure of urban homesteading, relaxing the homeowner requirements needs to be done.

Similarly, consulting both before home purchase and counseling when people get into problems with their loans are vital because we have learned those kind of programs can help people who can qualify for homes who wouldn't otherwise qualify and also help them avoid foreclosure if they get into financial difficulty, and the city has been involved in that.

Let me say the county does not have direct jurisdiction in Oakland. We have a small redevelopment-type program, community development-type program in the unincorporated area but the Federal Government recognizes the fact that while we have over 100,000 popula-

tion, we don't have serious problems in the unincorporated area because most of the housing in those areas are relatively new compared with Oakland.

Oakland gets \$12 million in funds and we get \$375,000.

Similarly in terms of a housing authority, we have a County Housing Authority; Oakland has it. And the housing authority covers the city, some county and incorporated area, and we have just gotten approval for 700 or 800 units under the section 8 program; and we are proceeding with that.

That, of course, wouldn't help Oakland, but it will help some of the poor people.

One of the things I have been most concerned with is getting savings and loans involved in an urban homesteading program involved in East Oakland in terms of relaxing or reducing their requirements for home loans and loans for other homesteading and get them involved in the counseling programs. And to get banks and savings and loans to commit their funds, it is important for them to know whether the Federal agencies that are involved in mortgage lending will back up or purchase those mortgages.

Yesterday, I met with representatives from the Los Angeles office of GNMA who said GNMA would participate.

I have been working with the mayor on this. Last week, I met with the president of GNMA in Washington. He said he couldn't commit yet, but he would look into it and probably would be able to send a representative to a meeting.

We previously had a commitment from the Federal Home Loan Mortgage Corporation, so as soon as we get a commitment from GNMA, I will work with the mayor in terms of setting up a meeting with the banks and savings and loans and mortgage bankers to meet with these Federal agencies and attempt to get commitments from the Federal agencies to back up or purchase the mortgages of the savings and banking institutions, maybe in East Oakland which will in turn enable them to make some commitment to get involved in these programs, to get more people qualified and able to buy homes in East Oakland.

Thank you.

Senator CRANSTON. Thank you very, very much, Fred.

Did you have a comment?

Mayor READING. Yes. I would like to reinforce Supervisor Cooper's statement, but we just received as of last week a recap of the number of new building permits that were issued in Oakland last year. We were staggered to find it was only 102 permits so you can see there really is obviously practically no new construction taking place throughout the whole city.

Senator CRANSTON. Councilman John Sutter. Delighted to have you with us.

Councilman SUTTER. Thank you, Senator. It is a pleasure to be here.

My name is John Sutter, and I sit here with two hats on as does the mayor.

One is as a member of the city council and another is the council representative to the East Oakland Housing Task Force.

**STATEMENT OF JOHN SUTTER, CITY COUNCILMAN, OAKLAND,
AND REPRESENTATIVE TO THE EAST OAKLAND HOUSING TASK
FORCE**

Mr. SUTTER. About a year ago the citizen group which you have referred to, I think, Senator, in our walking tour of the East Oakland Housing Committee, brought to the attention of the community the serious problem of housing abandonment in Oakland. I suggested that the council sponsor an official body, the East Oakland Housing Task Force and that has been done.

I think that our studies indicate that this is really an emergency situation. The city council has passed a motion to that effect. As a matter of fact unless action is taken and taken rapidly, the situation deteriorates.

Anyone who lives on a street such as the one we toured today and sees around him abandoned houses becomes pretty demoralized. There is little incentive to maintain your own property when you see other properties around you deteriorating and deteriorating rapidly.

So there is an effect of more abandonment once you have one or two abandoned houses on the street. So we need whatever assistance may be available.

There is no one answer. I think the bill which we are discussing here today is one approach which will be useful and helpful.

I would hope that if this bill is passed, that Oakland is designated as one of the cities, and I would hope that the hearing here is some indication that that is what is in the back of our Senators' and Congressmen's mind.

It would be one approach that would be helpful for the reasons of which Mr. Chastain has mentioned.

I think there are a number of other things that can be done and which we need your help on. One of them requires appropriations. The others require some regulatory or administrative changes.

The one that requires appropriations is help with our public housing program.

One factor which is often overlooked in the abandoned housing problem is that it extends to public housing, not only in Oakland but in other communities. We have the phenomenon of some very new public housing, some of which was only built 5 or 6 years ago with abandoned units.

The reason the units are abandoned is that the Housing Authority does not have enough money to do the modernization or the repairs that are required in order to get those units rehabilitated and re-rented.

The Federal Government has decided to cut back on modernization grants and in general to try to reduce the cost of public housing in this country and we see one of the effects of that. One of the effects of that is that we have a substantial number of abandoned units and that's a very depressing situation for the other tenants who reside in public housing and for the people who reside in the neighborhood and that's a particularly serious problem for neighborhoods in Oakland because we have scattered-site public housing in East Oakland.

We have triplexes, four-plexes, six-plexes in neighborhoods which are primarily single-family areas and those multiple buildings in those cases are public units, public housing buildings with abandoned units in them.

The other items which I think can be attacked by administrative regulation or direction, one of them—or three. One relates to urban homesteading; another to redlining; and the third to the whole process of the 16-month cycle which Mr. Chastain referred to when there are foreclosures.

With respect to urban homesteading, as you have been informed, an application has been filed by the city of Oakland. I know that you gentlemen have been helping us. We need your help, your continuing help and continuing support so that Oakland can be designated one of the cities for the urban homesteading program.

I think we have to face reality. The program which has been suggested by HUD is a \$5 million program nationwide. That is a very small program. I understand they are going to select a few cities, perhaps 10 or so nationwide. For those few cities it could be a substantial help. I think that Oakland is in an excellent position to be one of those cities. We have the citizen organization which has been working on this problem, the East Oakland Housing Committee. We have the unanimous support of the mayor and the city council to try to resolve this problem. We have dedicated a substantial portion of our public funds to the East Oakland area.

So we have the local support. We have designated a substantial amount of our community development funds for this problem. So we feel we merit support and we hope that you can help us become one of those cities for the urban homesteading program.

Second, with respect to the redlining, I really don't agree with what Supervisor Cooper has just got through saying. Redlining is a serious problem. There is redlining in East Oakland and there has been for many years and the studies of the East Oakland Housing Committee show this very conclusively.

I don't know if they brought their map but they have a map where they checked all the recorded sales and loans over a period of several years in East Oakland, and you see a lot of dots in hill areas, Piedmont, in the more affluent areas of Oakland. And you see very few dots representing loans made in East Oakland and when you examine those dots they are usually where there is some kind of 100 percent guarantee so the bankers and loaners can't lose a dime. It is a problem.

We are now living with a problem that has existed over many years. One of the reasons that some single-family dwellings are hard to sell is because they are not in good condition and they are not in good condition because one could not get a loan for the purpose of rehabilitation.

I would like to call to your attention an item which appeared in yesterday's newspaper on the approach that's been taken by the State of California. Our business and transportation director, Mr. Donald Burns, had promulgated a number of regulations which would outlaw or which would prohibit the practice of redlining by State-chartered

financial institutions. These regulations would set up boards of inquiry to review lending procedures and hear customer complaints. They would require the State-chartered savings and loan associations, among other things, to tell customers that they could file a written loan application to which the savings and loan must respond in writing within a 21-day period.

The savings and loans must inform customers how they can have their rejected application reconsidered and referred to this new board of inquiry.

I think some such procedure as that is also needed by the federally chartered savings and loan associations and banks.

In addition to that it seems to me some regulatory change is needed with respect to the practices of bank examiners.

We often hear the complaint of savings and loan officials and bank officials that they are not making loans in difficult areas because the books had to look good when the bank examiner comes around.

I don't know if that's real or if that is an excuse or an accommodation of both. I suspect it is not entirely an excuse.

Let's hope—there is an additional risk on the part of a financial institution to make loans in some areas like East Oakland but that is a risk that must be taken for the public good and that's a risk that must be part of the privilege of operating a financial institution which is granted by the issuance of a permit by the State or by the Federal Government.

In addition to these kinds of regulations, it seems to me an approach, which is worthy of further study and on which I have personally supported although I recognize it is in controversy, is an assigned-risk concept where banks and savings and loan associations are assigned loans in risky areas so that all of them are required to provide loans on the same basis that loans are provided elsewhere and in that way provide the same kind of benefits of loans to people in areas like East Oakland as exist elsewhere.

Finally on the matter of regulatory changes which could make a difference and help us in this question of the 16-month cycle Mr. Chastain referred to.

If the people for one reason or another cannot maintain their houses—and sometimes the reasons are not entirely financial, there may be divorce, whatever reason, people move out—they give up and meanwhile a lot of legal procedures are pending and the house just sits there vacant and that is an invitation to vandalism.

It seems to me a number of things could be done. One is to obviously give some financial help to those people who can stay and your bill addresses that problem. Another is to provide caretakers. FHA and VA do not put caretakers in these buildings. If a building is occupied, it is much less likely to be vandalized and become further rundown. Also the whole period of process it would seem to me could be speeded up. There are many other things that could be done but I have just tried to stress a few where your help would be most useful to the city. Thank you.

Senator CRANSTON. Thank you very much. I appreciate very much your very constructive and concise statements.

We have some questions to ask of you now. Some will be directed at an individual, some at the panel, and if others of you wish to comment on another's response or contradict anything said or expand on it or bring in another factor, please feel perfectly free to do so.

John, you referred to people coming in on a temporary basis as a caretaker when a house is abandoned. What did you have in mind? How would that work?

Mr. SUTTER. Let's take the situation where a family is facing the possibility of foreclosure. It seems to me a couple of things we should do. We should try to help that family if it is at all possible to stay in the house but if for some reason they decide no, they are going to move out, that they don't want the house or they don't want the neighborhood or whatever it is, they are just going to move out of the house, then there should be some procedure where we will—say HUD could have a list of people who would want to live in houses at low rents or perhaps even rent-free, agreeing however to move out on very short notice and that those people would be able to reside in the house and their mere residing in the house would prevent a lot of property damage. Kids don't go around and vandalize houses that are occupied.

Senator CRANSTON. That is interesting and useful comment.

Pete, feel free to come in any time you want to ask a question.

Congressman STARK. I want to see if I can understand the redlining problem and also to see if perhaps the mayor, Mr. Chastain, or John could clear up this point for me: I think I saw in the Trib that about \$4½ million—round figures—of the \$12 million that Oakland should get in its HUD community development funds going into a revolving loan fund. The mayor is nodding. That's about correct?

Mayor READING. Yes.

Congressman STARK. Is that a revolving loan fund that is designed to put that money in the bank so the banks and savings and loans will be encouraged to make loans in neighborhoods and act as a guaranty fund?

Mayor READING. Mr. Chastain has been involved in setting that up. I am going to let him answer your question.

Mr. CHASTAIN. The actual revolving loan fund has not yet been set up. The proposal that the staff of the agency had made is that there be three basic types of loans made available; first an emergency-type loan to speak to the needs of people who have an immediate problem, a leaking roof, a deteriorating plumbing situation and that those loans be made available directly from a loan fund which would be a city-controlled operation. It could be administered either by a city, a city directly or by a private lending institution on a contract.

Second, the loan would simply be a rehabilitation loan available to low- and moderate-income people to resolve, at least in part, the absence of other facilities to fix up homes and even through private lenders. Let's say there was no such thing as redlining. There is still the problem of cost. There are many people who in East Oakland cannot afford a second mortgage on top of an existing mortgage at the going rates for short-term improvement loans which are in the neighborhood of 12-or-more percent now.

So the revolving loan fund would be based on an interest rate that would accommodate the needs of the family, loan payments would be based on an interest rate that would not bring the payment in, total payment for housing expenses in excess of 25 percent of the family's income.

The third category of use suggested is for a loan guaranty fund which could guarantee loans to be made by private lenders.

Congressman STARK. Thank you. We all question what redlining is and where it does and doesn't exist. There is now sufficient information available to tell us where State savings and loans make all their loans, and there are areas where installment loans are just not available. Most appliance dealers will tell you that the major purchaser of installment contracts wouldn't take installment contracts below East 14th Street. You call in one of them and they will tell you that is simply the reason for it, and unfortunately that is not against the law. Is there any discussion coming from the council or mayor's office on how we might direct those funds into those areas where there is no credit, call it redlining or lack of credit? It sounds to me like you come up with a very workable solution here in Oakland if you take that fourth ingredient and find a way to really limit the extension of credit only to those areas where the banks and savings and loans and credit unions are not now going, whether it is because of high risk or because of lack of funds or whatever.

Mr. SUTTER. Could I comment on that?

The recommendation—I don't think that it matters, when Mr. Chastain's outline has been finalized, and I think he explained that, that this is still at a working state so to speak. The East Oakland Housing Committee, East Oakland Housing Task Force had long discussions on this problem. Their recommendation was to make a division essentially but to give a substantial priority to those parts of the city, namely East Oakland, where we have the problem of housing abandonment but not to completely exclude problems elsewhere in the city. So there would have to be a formula which would give weight to the area where we have this problem.

Senator CRANSTON. How much Federal funding is actually available for abandoned housing in this community presently?

Mr. COOPER. Well, it depends on what you mean by "abandoned housing." I talked to San Francisco HUD over a year ago about a program in the sense that if they were willing to turn the home over to the city or housing authority at a low figure, below their appraised value, something could be done and we kicked it around and finally they decided they couldn't do it and similarly when you talk about 235 loans or guarantys, that's what they are mainly in business for. But you first had to find somebody willing to make the loan. But in terms of subsidies, I think Mr. Price will tell you they haven't had that. Urban homesteading program is designed for that.

Senator CRANSTON. There is nothing really adequate in terms of Federal assistance presently, is that correct? Is there nothing available that is really adequate in terms of amount?

Mr. SUTTER. I would disagree in that part of the problem. You had to look at the economic problem. If a bank, for example, says, "We are only going to lend to people who are earning \$40,000 a year or more"

then their loans are going to occur in Montclair because people with that income——

Senator CRANSTON. What were you disagreeing with?

Mr. SUTTER. I am saying if you found somebody who wanted to buy a home below \$40,000, he could get a Federal mortgage.

Senator CRANSTON. How likely is that situation?

Mr. COOPER. I am saying that is not possible so you are dealing with people making \$7,000, \$8,000 a year and banks won't lend too much even with family guarantee.

Mr. CHASTAIN. The average currently is something like \$10,500 and there's currently no program that really serves that income level. The closest approach is a 312 loan which has been available only on an extremely limited basis. HUD is proposing to make them available along with homesteading to those cities for homesteading purposes but there is no Federal program that really speaks to the needs of low-income homebuyers at the present time.

Senator CRANSTON. We have pretty good statistics through HUD and the VA on the number of FHA and VA foreclosed homes but we don't have adequate figures on those that had, a conventional mortgage on them.

Has the League of California Cities, Mayor Reading, developed any statistics on that?

Mayor READING. Not to my knowledge but we have a representative on the staff that is suppose to be here. Yes.

Senator CRANSTON. Do you have any statistics on that particular point?

Would you identify yourself for the record, please.

Mr. YOUNG. My name is Stephen Young.

Senator CRANSTON. You are with the League of California Cities?

Mr. YOUNG. Yes. Actually I work for the Institute for Local Self-Government but I am appearing today on behalf of the League of California Cities and the County Supervisors Association of California. We were requested to do a report for the league on housing abandonment and we found it very difficult to get figures from private lenders on the number of foreclosed units.

What we did find was basically through the cooperation of HUD, and I think they are the same figures that you have in your statement.

Senator CRANSTON. What figures do you have or do you have figures on the number of homes that have been acquired by cities because of the failure to pay property taxes?

Mr. YOUNG. I do not have figures on that.

Senator CRANSTON. Does the league have any plan to get any such figures?

Mr. YOUNG. The community development committee has forwarded this policy to the board and any policy direction or further word will be forthcoming from the board. I have no instructions to that.

Councilman SUTTER. Senator, I can give you some figures for Oakland.

The East Oakland Housing Committee made a survey of East Oakland—being roughly the area, if I recall correctly, east of 23d Avenue and below MacArthur Boulevard. This survey is now about 1 year old. At that time there were 1,200 abandoned houses. Of those

1,200 abandoned houses, approximately one-third were foreclosure by FHA and VA and the balance private.

Senator CRANSTON. What does the city do when it acquires such homes?

Councilman SUTTER. The city does not acquire such homes under California law. If there is a delinquency by reason of failure to pay taxes, the house would become the property of the State of California.

Senator CRANSTON. Then what happens?

Councilman SUTTER. And that rarely happens as a matter of fact. There aren't very many of these homes that fall in that category because you have to be delinquent for 5 years before that happens.

Senator CRANSTON. What happens during the 5-year period normally?

Councilman SUTTER. Well, the house just sits there and there's a big lien on the house for unpaid taxes.

Mr. COOPER. Well, the county is responsible for this, county tax collector, and if the taxes aren't paid for 5 years then a sale is made pursuant to regulation by the State but—

Senator CRANSTON. Is that an auction?

Mr. COOPER. Yes; and we have on occasion reduced minimum bid price in order to make sure an abandoned property was sold but those things occur rarely because of the fact most houses have mortgages on them and the mortgage holder will foreclose long before the taxes become 5 years due. The mortgagee requires the taxes to be paid and if the taxes aren't paid—most mortgage payments include the taxes so that the mortgagee is either paying the taxes or payments aren't being made.

Senator CRANSTON. What does a typical mortgagor do when he acquires a home under those circumstances and it is battered and vandalized?

Mr. COOPER. A number of them are vacant in east Oakland because the usual thing is you sell at a foreclosure sale and what usually happens is the mortgagor bids him out of the mortgage then if anybody wants to bid a higher amount, they will. But by bidding the amount due on his mortgage he will be sure to be paid off. But in areas where there is a market for housing, they will get the bid in the Oakland hills, Alameda and so on.

Senator CRANSTON. Most of those we have seen today in the neighborhood we were in and others that are in that 5-year period will something happen to them before 5 years?

Mr. COOPER. Oh, yes. Well, most of the homes that have been foreclosed and are vacant are foreclosed after 6 months or 8 months of delinquency and so the tax matter would come up only if they are delinquent 5 years and no mortgage holder is going to wait 5 years of delinquency before foreclosure.

Occasionally you will have a situation where there was no mortgage and the property gets run down and the people decide "well we have got 5 years before the county can foreclose on us so we'll just milk whatever we can in the way of rent and then just walk away" but that's rare because most houses have mortgages on them.

Senator CRANSTON. What plans is there now in the city and the county for general areas that are showing very early signs of decay

but haven't really reached the point of abandonment? Do you have any early warning signal?

Mayor READING. No. We are considering it, I think this East Oakland task force has addressed itself more to that than anything else. Here you have a community group that is actually continually surveying neighborhood to determine what potential there is.

Councilman SUTTER. There again we have been faced with a withdrawal of Federal funds. We did have a program where we had door to door inspections. Those funds have dried up. Any program like that is useless anyway in my opinion unless it is coupled with a loan program. It doesn't do much good to go around to someone who is making \$8,000 or \$9,000 or \$10,000 a year and say, "Now here's \$10,000 worth of repairs you should make to your property and I am sorry we don't have any funds available. There are no loans available and the prevailing interest rate is 11 percent." This is the dilemma that you are faced with. So something like the 312 loan program has to be greatly expanded to be able to avoid the problem of further deterioration in the neighborhood.

Even the ability to get a loan really doesn't resolve the problem. In many cases there isn't the motivation or desire on the part of the owner or the tenant to do anything about it and I also say again that in terms of rental property, it is not economically feasible for a landlord to put an additional amount of money into the house simply because the rentals he receives don't cover costs.

Senator CRANSTON. Does the city or county have any plans for preservation of housing in connection with the urban homestead plan, or do you plan to use section 8 leased housing program in any way with this program?

Mr. CHASTAIN. In the homesteading plan we plan to use 312 loans. We have asked for that as part of the package but we also are anticipating the city's revolving loan fund be used in the program also so that the city would be making funding available and we hope that that program can be expanded beyond simply HUD-acquired properties.

With the East Oakland housing task force, it has been meeting regularly with some local lenders and one of the things we would like to achieve with them is to persuade them that in some cases they would be better off financially and otherwise when they acquire property to cut the price, the sale price, and sell them to a nonprofit organization that can rehabilitate them early instead of hanging onto them in hopes of recouping their losses.

I think as I mentioned in my statement, one of the things that is distressing, as far as the action on the lenders but of HUD is that basic attitude seems to be oriented not to the neighborhood that they are serving but to a short-term attitude of recovery of a maximum amount on the properties that they take back.

I think this is reflected all the way up to congressional hearings where the concern expressed is Congress sees in the HUD insurance programs rather than the effect of this repossessions on neighborhoods and communities.

I think one of the things that has to be recognized is that there is some basic problems underlying housing abandonment, problems of

unemployment, underemployment and local income which means that if you were going to do significant lending in areas where those conditions are prevalent, your losses are going to be higher than they are in other areas and that has to be recognized if your program is going to be real.

Senator CRANSTON. Do you have any kind of local zoning program for individual families that are prospective owners of homes?

Mayor READING. Yes. Mr. Chastain will explain that program.

One point of clarification though: When Mr. Chastain refers to city funds being used for subsidies in these programs that he explained, this means community development funds. It does not mean general revenue fund. There is no way we can take our general revenue and cover these subsidies or costs.

Mr. CHASTAIN. Yes. The city recently was certified, this spring, as Housing Council Agency and that agency is being operated by the Redevelopment Agency by—We hired Mr. Scott who has been running a similar program in Richmond for 4 years to head up the program through the SETA program. We have hired 11 counselors who are now engaged in default and delinquency counseling, presale counseling, tenant counseling, fair housing counseling. We expect to continue with that program. It is being funded out of the SETA fund.

Both the homesteading program and the proposed SETA loan program will include counseling services as necessary and beyond counseling, technical assistance for people who want to do their own work.

Senator CRANSTON. What is the city-wide foreclosure rate?

Mr. CHASTAIN. I have never seen figures on that city-wide.

Senator CRANSTON. Have you ever seen them for the East Oakland area?

Mr. CHASTAIN. No. One of the holes in the program, I think, is a lack of that hard kind of data.

Senator CRANSTON. Is there any present program working with financial institutions to convince them to reinvest in these areas or to pool resources for that purpose?

Mr. CHASTAIN. The savings and loan institutions several years ago set up SAMCO, the savings association mortgage company, which was geared to speak to that problem and they have been working very closely with the neighborhood housing services, among others, which is an organization set up in part with the—consulting with the urban reinvestment task force to address some rehabilitation problems in East Oakland.

Councilman SUTTER. But it is a drop in the bucket, Senator.

Senator CRANSTON. Pardon me?

Councilman SUTTER. But is is a drop in the bucket. SAMCO is a good idea but if you look at the number of loans they have made the last few years it is in the critical area. It is very small.

Mr. COOPER. As I indicated earlier, Mayor Reading and I are working with a local group of banks to try and set up a meeting which we hope will occur shortly with representatives of Federal mortgage agencies to try and get commitments in this area.

Senator CRANSTON. Pete, should we go on to the next panel or do you have any further questions?

Congressman STARK. I just wanted to come back to a point. We have come all around it. I think the loan fund that has been proposed by the city and by the redevelopment agency is an exciting concept. My own hope is that the provisions of your bill would really be addressed almost exclusively to neighborhoods that are credit short and I think we have been able to indicate that those are identified. I think the private sector has got the money to make loans in the hills in Montclair and Piedmont and they are not as willing to come into other areas so you have got the best of all worlds.

You are going to be using these quasi-public funds in areas that the private lenders are avoiding anyway and I'd just encourage you, if you can, to write that concept more clearly into the use because I think it is innovative and would be very productive.

Senator CRANSTON. Fred.

Mr. COOPER. If you are getting into urban homesteading with abandoned housing, then it is going to be an area where abandoned housing occurs and, of course, subsidizing that kind of thing would be useful and some cities are subsidizing loans by paying the first thousand. That reduces the amount of monthly payment and interest rate and that's another approach to the problem.

Senator CRANSTON. Thank you very, very much. You have been helpful to be with us and I appreciate it on behalf of the committee.

We will now hear from the second panel consisting of Fran Matarrese, chairperson, East Oakland Housing Committee; Richard Ilgin, director, Oak Center Better Housing; Bard Saladin, regional manager, Great Western Savings and Loan Association, East Oakland Housing Task Force, and Dr. Marjorie Evans, consultant, Bank of America, East Oakland Housing Committee.

Each of you have brief opening statements. We would welcome them. Please summarize whatever statements you have so we have time to ask you questions about your full statements, if you have prepared statements, will go in the record.

Please be sure to use the mike so that all can hear.

Fran, I would like to call on you first and I congratulate you on the very effective work you and your committee have been doing.

Miss MATARRESE. Thank you.

STATEMENT OF FRAN MATARRESE, CHAIRPERSON, EAST OAKLAND HOUSING COMMITTEE

Miss MATARRESE. Senator Cranston, Congressman Stark, ladies and gentlemen, the history of the East Oakland Housing Committee is exciting because over the past 2 years this committee, formed by 28 neighborhood groups here in East Oakland, has seen an issue, namely 1,200 abandoned houses concentrated and scattered throughout our community—from 23d Avenue to the San Leandro border and from MacArthur to the Oakland Estuary. The East Oakland Housing Committee researched the issue and together with thousands of residents has developed what we feel is one of the finest, if not the best

and most effective comprehensive housing program in the country today.

Our research showed us that 1,200 abandoned houses were abandoned because of high interest rates, because of short term high risk payment schedules, because of the unavailability of mortgage loans, the unavailability of rehabilitation loans, the unavailability of conventional financing—in short, redlining. Sellers can't sell and buyers can't buy. The houses were abandoned because of faulty FHA construction and rehabilitation, because FHA sold houses "as is" indiscriminately to speculators, because HUD sold Government repossessed houses not to qualified 235 certificate holders but to "investors" and "speculators," abandoned because counseling and necessary forbearance advocacy in human situations in today's economy were not available, abandoned because of 100 percent insurance to the mortgage houses—and we only have to look at Chicago's \$4½ billion scandal to understand the effect of 100 percent insurance, abandoned because of scare tactics and quick foreclosures. These houses were abandoned because of the paucity of city services, abandoned because some absentee landlords seek capital gain off capital loss, some were abandoned because of inheritance and probate, abandoned because rehabilitation costs, requiring second mortgages, forcing the payment schedule for housing above 25 percent of a family's adjusted income.

Housing is still being abandoned. This morning, ladies and gentlemen, you say houses abandoned this year. And more will be abandoned.

The East Oakland Housing Committee has taken steps, with phenomenal results, to deal with present and future abandoned houses. Just last week, the city council voted \$4,645,000 for housing. Just Tuesday evening, the city council unanimously passed a unique homestead proposal and forwarded it to HUD Secretary Hills. This program was developed in a combined community and governmental effort. The city of Oakland is presently preparing enabling legislation to sell Marks Foran bonds for housing and we have already received a tender offer from the Bank of America to purchase those bonds. The city is also preparing a program for participation in the newly created California Housing Finance Agency. The city has already established an excellent counseling agency, certified by HUD and headed by Mrs. Henrietta Scott, to do financial counseling and forbearance advocacy. The city has established an East Oakland Housing Task force made up of representatives of labor, realtors, lenders, contractors, city council, and residents.

The State of California has passed the Gregorio Act insuring the Marks Foran bonds and has also created the California Housing Finance Agency with \$450 million. Arnold Sternberg, director of State housing and community development told the community at the Mills College meeting that the State would look to Oakland's present housing stock rather than to new construction and also that the 160 houses the State must purchase from HUD for replacement of the Grove Shafter homes would be located in East Oakland. He also assured us that he was anxious to work with Oakland through the California Housing Finance Agency because Oakland is the only

California city applying for funds. The State is presently considering a 5-year tax exemption for rehabilitation work up to \$12,000 for owner occupants.

HUD, too, is responding. And Mr. Price has taken positive steps. Monday, Mr. Price sent out a press release stating "James H. Price, director of HUD's San Francisco area office, in response to a request from the East Oakland Housing Committee, has announced the expansion of HUD's 518b home repair program to larger areas of Oakland. This program will not require that 50 percent of the houses in a census tract be built prior to 1940; and it also includes, for the first time, the 235 houses as well as the 203's and 221D's. HUD has, as of July 13, been listing their east bay houses in the Oakland Tribune. Prior to that time they were listed in the San Francisco Chronicle. Mr. Price was present at our public meeting at Mills College on June 14 and promised to be an advocate for Oakland homesteading proposal with Carla Hills. In December 1974, Mr. Price granted a 90-day moratorium on "as is" sales and now has developed a special program to place all HUD "as is" houses on Oakland's sub-standard listings, so they will be required to be rehabilitated prior to occupancy.

The Oakland Board of Realtors has set up and is staffing a counseling office at 98th Avenue and is waving all commissions on HUD "as is" sales in East Oakland. They are presently helping develop a citywide presale inspection program with the Associated Realtors which could see as many as 4,800 houses rehabilitated in 1 year and 48,000 in 10 years.

Labor is developing plans for reactivating the prep and up-grade projects as well as offering to provide free technical assistance for low-income and elderly homesteaders involved in sweat equity.

In May, at the request of Senator Proxmire, I testified before the Senate Committee on Banking, Housing, and Urban Affairs, regarding S. 1281—Home Mortgage Disclosure Act of 1975. Though it is not the entire answer, Senator and Congressman, it will "give local citizens the right to know where their local neighborhood banks or saving and loan associations were making their loans, and I would expect an informed citizenry to do the rest." This bill has been severely changed, but we still favor its passage as Senator Proxmire introduced it. The pressure of this bill has produced results here already.

Lenders are beginning to respond. I pointed out above about the Bank of America's tender offer regarding purchase of the city's Marks Foran bonds. But also, we have had several meetings with savings and loan associations, including Security Savings, Imperial, SAMCO, Great Western, Golden West, and American and very positive negotiations are in progress. We are optimistic.

Senator, we have a severe problem, but we have a concerned community that has organized, researched, and taken creative initiative to deal with the issue on all fronts. Because of the action of the neighborhood groups and their East Oakland Housing Committee, results are being realized. Senator, what has happened and is going to happen in Oakland to correct and stop the abandoned housing

crisis is the result of the residents, the East Oakland Housing Committee, and the East Oakland Housing Task Force taking initiative. What has happened is a response to the residents by lenders, realtors, labor, contractors, and Government. The initiative has been with the residents, but your bill, Senator Cranston, signals the type of initiative that we as East Oakland residents have been asking for and that urban centers throughout our State and country need. We hope others follow your lead.

Senator CRANSTON. Thank you very much and I hope that others will follow your lead also.

STATEMENT OF RICHARD ILGIN, DIRECTOR, OAK CENTER BETTER HOUSING

Mr. ILGIN. Senator Cranston, Congressman Stark and fellow people, I was very intrigued when I first saw this bill because the Neighborhood Protection Corp. that is to be set up under this bill is in many ways very similar to the organization that I have been working for for the past few years.

I work for Oak Center Greater Housing Corp. and we started out as a neighborhood organization operating in the Oakland center neighborhood which is West Oakland. That is a redevelopment agency project there and we were set up to rehabilitate properties and provide home ownership opportunity for low and moderate income families.

Since that time when we first started out we have expanded and most of the houses we have done are in East Oakland and throughout our entire history we have done virtually all aspects of this operation, everything from acquiring properties to packaging loans, the architectural work, the selling of the properties and the rehabilitation of the properties using our own crews.

So this involves virtually all aspects of the abandonment and reoccupancy problems.

Now, our observations in the abandonment problem would be as follows: The abandonment itself is a very complex situation, as you well know, and there is no single factor that you can point to as really the cause of housing abandonment but I would like to list some factors which I think contribute greatly to the abandonment.

First of all the inability of people who live in this area of high abandonment or people who potentially would like to live in this area to be able to afford the housing cost.

People referred to the studies that have been done by the East Oakland Housing Committee and so on in terms of the income people have in these areas, and it is fairly obvious that few of the people can even afford the housing costs they are paying now, let alone to try to buy houses at current interest rates and the way current construction costs are going.

The second part would be the lack of a positive well-coordinated program by Government for assisting in the revitalization of these areas of high abandonment.

We are seeing the format of this program through community effort in Oakland now, but to date there has been in East Oakland

zero effort on anybody's part to really put together some kind of a program which is really going to solve this abandonment problem. It not only involves Government but involves bringing private enterprise back in to provide additional funding because Government simply cannot do the job alone.

This \$4.6 million that is coming from community developing for housing rehabilitation, that is merely going to scratch the surface if that.

The third item is redlining not only by lending institutions but by insurers, meaning mainly the private mortgage insurance people who the conventional leaders depend on for insuring a large portion of the loans and when the private mortgage insurance people back out, the lenders will only go up to let's say 80 percent on loans and a great majority of the people who want to live in these areas and want to buy homes, it is almost impossible to meet a 20 percent downpayment plus closing costs, and also I have found the Government has been doing redlining and hasn't just been FHA either. I notice some redlining from the cal vet program too and also from VA.

I think these problems need to be dealt with because if Government is going to redline, if Government is not going to go into these areas, how can you expect private enterprise to?

The fourth item which makes rehabilitation financially impossible is the declining market value of many of these areas which have been declining so rapidly because of the abandonment and because of many other factors. Their value would not even be up to the value of the cost of rehabilitation even if the properties were given away free.

What do you do with these properties? Do you tear them down? It is financially even more unfeasible to build a new house on that location and I think we have seen the experience of what large number of apartment houses and particularly those turnkey units have done in the areas of East Oakland. So it is not particularly feasible to build multiple units in a lot of these lots.

I think many of the East Oakland people simply do not want more multiple units because of the pressure it is going to put on the community and schools and everything else.

In fact, we have done some studies on rehabilitation of housing versus new construction and on one house, in particular, just recently torn down, we estimated it would take about \$24,000 to rehabilitate that house. It had about 2,500 square feet in it. To build a new house on that lot with approximately half that square footage would cost about \$28,000 and the older is much better quality house than can be built today.

Another item is structural deterioration or obsolescence which makes houses physically impossible to rehabilitate. Many have deteriorated through lack of maintenance, vandalism or simply wear and tear on the house to the point where it is almost impossible to rehabilitate them. In other situations code requirements of FHA, minimum property standards or what have you have made these properties impossible to rehabilitate because they have made them obsolescent. That is, for example, in many areas houses were built with brick foundations which are perhaps perfectly good foundations, will last many, many years but because of new requirements they had to be

replaced. It is impossible to rehabilitate when you are talking about \$6,000 or \$7,000 in redoing the foundation.

The last item I have on here would be the lack of adequate programs or measures to abate foreclosures. This would include home ownership counseling, liberal forbearance programs and some kind of emergency loans to enable people to either make the mortgage payments during periods when their income has been cut off or to help them make emergency repairs, if that is what it takes to keep them in those houses.

What essentially happens is that you have got a situation where once a house has been foreclosed on, because you haven't had really the programs to deal with the foreclosure process, it is extremely difficult to rehabilitate the house and even if it can be rehabilitated, there are little opportunity for home ownership for people to come in and purchase these homes and live in them because of the redlining and because of the lack of an adequate low-income housing program.

So, on that basis, I would like to make the following recommendations: First, go to Roger Hills—tell Mr. Ford, his boss, that he not be Associate Justice of the Supreme Court unless there is a 235 program back on the books. This is necessary, not simply to get an additional market for these homes, because we used to work with the 235 program exclusively. We have seen the market for our homes drop off drastically because over half of that market has been cut out. We have been operating primarily in those areas where there is some fairly high abandonment, or it's been difficult to rehabilitate houses. I think you are aware of the benefits of homeownership not only to the family, but neighborhoods. It brings more stability to the neighborhoods and it would prevent some of these kinds of abandonment problems in the future. In addition low-income people very rarely have the opportunity to own anything and this whole tax structure is oriented toward ownership. Renters get absolutely nothing out of this tax structure and if you can create more homeowners out of low-income families, I think you are going to find a lot of your property problems are not going to be solved but at least you are going to find something to be done about those problems.

Second, would be enact the bill that you represented today but provide more local autonomy than is presently in the bill. I think local situations vary so much from community to community that you really need to have a great deal of local autonomy to deal with these problems. For example, Oakland's problem is primarily single family dwellings. A lot of people have abandonment problems. But they are in multiple structure which is a totally different animal to deal with.

Also the whole context of working in East Oakland as opposed to working anywhere else where there are abandonment problems, you have a whole totally different set of parameters that you are working for.

So what you should have basically is a monitoring agency but that's about it.

Let the local communities deal with the problems and make sure that those efforts are combined with whatever community development efforts, whatever other efforts are going on in the cities. It

would be almost a waste of money to have this program enacted in an area where there's nothing else going on.

So try, if at all possible, to combine that effort with community development and other areas, get strong legislation against redlining and if necessary require lenders, insurers, and governmental participation in these abandonment areas.

I realize the problems for lenders in going into this but I also feel they have a responsibility. In theory they are making money partly because there is some kind of risk. Well, maybe a little higher risk but if we can bring in all these programs together, I think you are going to cut down substantially that risk.

Continue with emergency loan programs for mortgage payments and emergency repairs and counseling. Counseling is the real key here. We have tried for a number of years to get counseling going in Oakland. It has finally got going under the auspices of the redevelopment agency but could have got going a hell of a lot sooner if there had been money coming from the Federal Government.

I think in the long run counseling is going to save the Federal Government a lot of money in abating foreclosures and definitely feel that there should be money coming together from Federal Government for counseling. You should not depend on community development for counseling money.

The last item is institute an insurance program, federally funded insurance program which would not insure lenders against loss but rather would insure the homeowner. I think the thrust of the present insurance program has been in the wrong direction presently. There is really little incentive, for example, for lenders to not foreclose on property because they are going to get paid back in full and I think that what you have got to do is redirect the whole insurance effort so that you are keeping, you are trying to make the effort to keep people in those houses and I think that if you do that, you not only are going to cut down on your foreclosures, it is probably going to be less expensive in the long run for the Federal Government to institute this kind of insurance program.

In addition if you keep people in those houses, even if it is costing a lot of money, it is going to cost you a lot less to keep people in these houses than to have the houses vacated, vandalized and again creating this abandonment problem that you have got.

So I think you could also include some kind of relief for emergency repairs if that is what is necessary but it should be relatively flexible so if there is a loss of job, someone gets ill, this insurance will kind of take care of at least a portion of those payments and maybe even be able to set it up like a 235 program or something coming in after the family already purchased the house, already paid off part of that mortgage, you know, and you could just subsidize part of the payments for a time.

I think it makes a lot more sense than simply insuring lenders and finding houses vacated.

I think that's basically what I have to say.

Senator CRANSTON. Thank you very much for your very forceful and helpful statement.

Mr. Saladin.

STATEMENT OF BARD SALADIN, REGIONAL MANAGER, GREAT WESTERN SAVINGS AND LOAN ASSOCIATION, EAST OAKLAND HOUSING TASK FORCE

Mr. SALADIN. Mr. Chairman, my name is Bard Saladin and I am vice president of Great Western Savings and Loan—

Senator CRANSTON. Speak directly into the microphone.

Mr. SALADIN. We are a State chartered institution with 90 branch offices throughout California.

I am here to comment on S. 1988 which proposes certain actions on behalf of the United States and local public bodies concerning abandoned housing.

Senator CRANSTON. A little louder, please.

Mr. SALADIN. Great Western Savings has long been interested in the phenomenon of abandoned housing, both because we have substantial investment in neighborhoods throughout California where housing has been abandoned or is in danger of being abandoned and because we are concerned with the health and living standards of all the communities where we do business.

We support and urge adoption of S. 1988 as an experiment or test to determine the efficacy of Government assistance in alleviating the blight of deteriorating and abandoned housing.

We urge that one test city be chosen which has an aggressive and viable program to handle rehabilitation of abandoned as well as occupied premises. The Corporation's program to purchase abandoned properties could then be integrated with the local community's active, ongoing rehabilitation program and the efficacy of the combined effort could be compared with the results obtained in a city which does not have an aggressive rehabilitation program.

We think there are some aspects of the proposed legislation which need further clarification. For example, under section 6, paragraph B, subparagraph 1, we would recommend that when the Corporation commences the initial abandonment proceeding, the act would provide that notice in writing be given the owner, lender, and other parties of interest to allow them an opportunity to be heard at such a hearing. In addition, under section 6, paragraph 3, subparagraph 3, when the Corporation makes a payoff on an abandoned property, the relationship between the first trust deed or first mortgage holder and the holders of any junior financing or other liens should be clearly expressed and the prior position of the first holder should be fully protected.

Also, under section 6, paragraph B, subparagraph 4, we do not believe that a lender should bear the burden of protecting a property until such time as it becomes the owner through a foreclosure proceeding. Nevertheless, if it is the decision of Congress to impose such a burden, it is essential that section 6(B)(4) be expanded to state the specific steps a lender or other party in interest must undertake so as not to be in violation of this act. Further, the penalties for non-compliance should be clearly specified. Attached—exhibit A—to my written statement is a more detailed analysis of the provisions of S. 1988.

While we fully support the intent of this measure as a demonstration project, we want to make it perfectly clear that we regard the only sound approach to the entire problem of low-income housing to be one which involves the entire spectrum of Government and the private sector.

Enlarging the Nation's stock of shelter units and improving its overall quality will not be successfully accomplished by devising new mortgage schemes, or new subsidies, or any other effort which fails to deal with the root cause of this problem.

The problem to be solved is not only a housing problem, it is a social problem and involves all aspects of urban life today, including employment, transportation, education, recreation, safety, sanitation and others. Certainly, housing is a part of this overall problem * * * but it is not the cause.

We commend you, Mr. Chairman, for your efforts to deal with one effect of the social deprivation to which so many of our citizens are subject, but we urge that this measure be but the first step toward a more comprehensive and integrated partnership by both Government and business to deal with the cause of the problem and not its effect.

Thank you.

[The attachment to Mr. Saladin's statement follows:]

SUPPLEMENT TO STATEMENT OF BARD SALADIN

1. Section 3, Paragraph (3), Subparagraph (b) defines "abandonment" relative to a non-owner occupied property. The terms "substantially reduced" and "adequate level" are used in such a manner as to be vague and subject to differing interpretations. Some effort should be made to expand on that definition so that mortgagors, as well as lenders, will have a better idea of the intent.

2. Section 6, Paragraph (B) Subparagraph (1), provides that the Corporation may have itself appointed receiver where it has probable cause to believe that a residential property is abandoned. There is no provision requiring that an owner or other party in interest be given notice of the Corporation's intent to have itself appointed receiver. The Act should provide that notice in writing be given to the owner as well as the lender and other parties in interest so as to alert those persons to their right to be heard at the receivership hearing.

3. Section 6, Paragraph (B), Subparagraph (3) provides that at the hearing on a forfeiture, the value of the interest of persons claiming an interest in the property will be determined. This section should provide that parties will be paid the value of their interest based upon the *priority* of their particular interest, which priority will be determined in accordance with state law and the recording statutes and laws adhered to in the particular state. Further, that same section should provide that a party with an interest in the particular property being forfeited not receive an amount less than (1) the balance of its existing encumbrance, including earned and unpaid interest, late charges, as well as accrued fees such as attorneys' fees and/or trustee's fees, if any, or (2) the value of the property as determined at the hearing on the forfeiture. Additionally, Section 6 should provide that the costs to a party in interest in appearing in the District Court, i.e., attorneys' fees and appraisal fees, may be added to the amount of the particular party's encumbrance for purposes of determining the value of their interest.

4. In order to clarify the status of a lender with regard to its relationship with the Corporation, Section 6 of the act should specifically state that when a state court appoints a receiver to manage a particular property during the pendency of the foreclosure action, the Corporation shall not seek to have itself appointed receiver and will respect the possession of the state court appointed receiver.

5. Section 6, Paragraph (b), Subparagraph (4) appears to place a duty upon a lender to protect a property; however, the scope of this duty is not adequately defined. It merely indicates that a lender will be deemed to have "failed to protect the interest of the United States if it knowingly permits the continued

deterioration of an abandoned property in which it has an interest while having the authority under law or contract to prevent such continuation". Under most deeds of trust in use in California, the beneficiary has the right to seek an injunction for waste as well as the right to seek the appointment of a state court receiver in order to gain possession of a particular property. It is very costly to take either course of action. It has certainly never been the practice of a lender to obtain the appointment of a receiver on a single-family residence or, for that matter, small multi-family residential properties, where there are insufficient rentals to be derived to make the cost justifiable. We do not believe that a lender should bear the burden of protecting a property until such time as it becomes the owner through a foreclosure proceeding. Nevertheless, if it is the decision of Congress to impose such a burden, it is essential that Section 6 (b) (4) be expanded to state the specific steps a lender or other party in interest must undertake so as not to be in violation of this act. Further, the penalties for non-compliance should be clearly specified.

Senator CRANSTON. Thank you very, very much.

Dr. Evans.

STATEMENT OF DR. MARJORIE EVANS

Dr. EVANS. Good morning. My name is Marjorie Evans. I am an attorney in Santa Clara County and I am speaking here this morning as an individual.

I am here because I have had a long interest in devising financially and socially sound methods for coping with the problem of housing, problems of this nature.

I was invited, I believe, because among other things, I am a consultant for the Bank of America in this particular role and have worked with these East Oakland housing committees and will continue to do so. However, the record should be perfectly clear that I speak for myself and in no way for Bank of America.

I believe I am the pepper in the salt in this matter today. I truly believe that the abandoned housing and associated problems are severe and must have the attention of all of us. Also I should say that I appreciate the thought and concern of our Federal legislators in trying to help us out. While thanking you however I believe that we will all be better off if we have less Federal involvement in these problems than is proposed and perhaps less than we already have, and I will try to explain why, then go on to say what I think is a better way to do it.

The general thrust of this bill, of course, is to permit the shortening of the foreclosure and the taking possession procedures.

It seems to me from a lawyer's point of view that it is inappropriate for the Federal Government to be a residence owner or residence landlord. It tramples on the police power which in the constitution is reserved to the States. It is a matter of health and welfare.

Of course we know that for many years the Federal Government has been involved in that to some extent but in my opinion each instance ought to be examined very carefully and should not just be lightly jumped into.

Local control and decisionmaking is absolutely necessary. Many Federal experiments in this field have been unsuccessful. Maybe sometimes one can use the word "distrust". Why is not for us to discuss today but the fact of the matter is that those people agree

that local control, local judgment is vital, absolutely vital. Moreover, in my opinion, local responsibility has got to come if we are to solve these problems and the debilitating intrusion of the Federal Government into so many aspects of this has in my opinion debilitated local, State and city governments.

There are too many Federal agents already. They are overlapping, wasteful, interfere by regulation and last of all they are indestructible. There seems to be no way to self-destruct or have Congress destroy one. I would far prefer instead of this agency, which is proposed in the bill, to have Congress to suggest rather strongly to the present Federal agencies that they get with it, start cooperating as they already are, of course, but I am trying to be very strong, start cooperating, cooperate better, let's say, more firmly with an assurance of congressional urging with the cities, with the State and with the citizens' organizations of which the East Oakland housing committee is a marvelous example and with the private lenders.

I should comment just in passing that the bill seems to extend the condemnation power and what we are calling checkerboard condemnation. Of course that is the power of government but it is one that should be lightly wielded and if it is not necessary, I don't think we should engage in it.

Finally, and my objections, it interferes with the historical State control, the State control of debtor and creditor relationships.

If we must have, and perhaps we must have some way of foreshortening the foreclosure proceedings, getting people in houses, I would prefer to see this come out from the State legislation rather than Federal legislation.

Well, that is all very well to say but what to do is another matter entirely, of course.

First of all I would like to associate myself with the analysis, though not necessarily with the recommendations, of Mr. Ilgin who obviously knows what he is talking about. He's clearly been in there fighting the good fight.

I think it is time to urge you, all of us, to face the facts, however unpalatable they may be, about how this housing business works in Oakland.

I will limit myself to that.

In the first place it is clear that houses have got to be protected when they become vacant and preferably we should prevent them from becoming vacant.

A couple of good suggestions have been made here. Mayor Reading asked for an early warning system. Someone, I think, on this panel suggested the caretaker concept which has good things to be said for it in many ways. It gives housing to people and protects the area.

I might say this reminds me to some extent of the so-called squatters' licenses in London where the Bureau Council gives licenses to people who formerly were called squatters and now called licensed squatters to get in the house and occupy it and use it as housing until it is ready to be taken over by the city for whatever purpose there may be.

Lenders should watch the payment performance closely to determine abandonment early.

This, of course, is easier said than done but for the federally controlled lenders, perhaps a little urging from those Federal agencies to do the job right would help.

The city should put more muscle into policing sensitive areas. If there are no policemen on the streets, if there's no way for people to report to some local place in the city government and the house looks as though it is being abandoned, the lenders don't know. They can't be out there walking the streets all the time.

I think that the suggestion that HUD and VA should provide caretakers is a good one and I'd like to suggest that consideration also of their making temporary grants and I emphasize "temporary". I don't want the cities becoming dependent on the Federal Government for police protection but simply grants to the cities to help in this area by way of redress.

The second item is how to take care of them once they are in the hands of let us say the person who repossesses.

I think that we should give a little bit more careful attention to selling these houses. Either renovated or under firm arrangements that they will be renovated, sell them to cities, to public groups, to private groups, to these nonprofit organizations that someone earlier mentioned.

I don't see why HUD and VA can't use good judgment. In fact I think they already are. I suspect there is not too much of a problem in East Oakland on that score but expanding it to the rest of the country. Why didn't they use good judgment in putting these houses at very modest prices into the hands of people who will renovate and resell?

The price that HUD and VA should sell should be low enough to make these houses saleable under good market prices when they are renovated. It is very costly to renovate and there have been a number of examples I think in East Oakland where the prices of houses have been run up and somebody ultimately, as they say, takes a bath on that.

We have got to somehow get around that.

Third, on selling arrangements, now here comes the banker's viewpoint out loud and clear but we really should face this. On the sale they must be sold to good credit principals under State law. No one mentioned here the antideficiency judgment aspect of California law which forbid a lender to acquire anything more than the property. He can't go against the individual with \$40,000. That aside from sound credit principals are necessary or we are going to get back in the same old problem again, if you lend to people who cannot keep up the payments and cannot maintain it, we are going to have abandoned houses. That's another matter to find out what are the credit arrangements and certainly it does involve such good things as Federal insurance.

Speaking of Federal insurance, of course if you have 100 percent insurance, there is no incentive, very little except from the part of view of their interest and the public good, there is little incentive on the part of the lender to watch that loan closely and to counsel and to get in there in a hurry before the house is abandoned or before the default grows serious.

Why not consider, as has been proposed now and then, co-insurance between FHA, VA on the one hand and the lender on the other hand. That gives the lender a little bit of incentive and in my opinion the lender would be willing to consider such a thing.

The Government insurance, of course, is necessary, as we all know, in order to try to push the interest rate down to a considerable extent.

Now, I want to point out to you, if you haven't already perceived it, that what I have suggested does not envision selling to those who can't pay and there are lots and lots of people in East Oakland according to the data that I have heard today and seen before who cannot afford under what I am calling sound credit principles, to take out a loan for a house. Moreover they can't maintain it once they have obtained it.

That says I fear that there are many people in this country of ours that cannot afford to buy houses.

I propose to you we make a mistake if we encourage them to own.

I know homeownership is a good thing but you are going to cause more trouble in the end. Maybe it's a bad thing.

All right. What to do with that. Certainly it is one thing to believe, and I believe it in the 1970's that we should see that people have a place to live, good housing.

I suggest to you that again we refer ourselves to Great Britain which is certainly no model of a country which has its books in the black, but it has had a lot of experience on owning housing and leasing and renting to people who are not able to find housing or not able to buy it.

I think in the end the State or city is going to have to own apartments, own single family houses, are going to have to maintain them and are going to have to carefully oversee the rental and lease to people who cannot qualify for home loans.

Finally the suggestions that I have heard today about the working of the private lenders with the local citizen organizations and with the cities and Federal agencies strike me as being very good. I suspect there is shortly down the road a way, if you will, nonprofit corporations become involved with this, with the lenders' money in it to get these homes back in the hands of people who can buy them and who can maintain them.

Thank you very much for your attention and this opportunity to talk to you.

[The complete statement of Dr. Evans follows:]

STATEMENT OF MARJORIE W. EVANS, DANAHER, GUNN & KLYNN, PALO ALTO, CALIF.

Thank you for your invitation to appear before this Senate subcommittee at its hearing on S. 1988, the Abandonment Disaster Relief Act.

My name is Marjorie W. Evans. I practice law in Palo Alto, California. I am before you because of my long-standing interest in finding ways which are both financially and socially sound to revitalize the old cities and downtowns of California. I have served as adviser in this area to businesses and to citizens, and have helped design programs to this end. I was the representative of the Bank of America on the California Land Use Task Force sponsored by the Planning and Conservation Foundation, which group has recently published its report called *The California Land: Planning for People*.¹ I commend that

¹ Obtainable from Planning and Conservation Foundation, 1225 8th St., Suite 310, Sacramento, Calif.

report to your attention in your attempt to deal with the problem of declining cities.

I. A SERIOUS PROBLEM EXISTS

I agree with S. 1988 and the remarks of Mr. Hart inserted in the Congressional Record of March 6, 1974 to the effect that the problem of abandoned houses which have been repossessed by the federal Department of Housing and Urban Development (HUD) and the Veterans' Administration (VA) is an extremely serious one. I agree that federal agencies bear heavy responsibility as creators of the problem. And I agree on the necessity for the renovation of these buildings and their restoration to our housing stock, because they contribute heavily to the deterioration of the communities they stand in, because they represent a shocking waste of material resources, and because they are needed to house people.

II. I OPPOSE S. 1988

Despite my agreement as outlined above, and my appreciation both of the good will and desire to help of the authors, and of the great benefit of holding these hearings, I oppose S. 1988 for the following reasons:

A. *The creation of a new Federal agency is inadvisable*

1. *The Federal Government Should Not Be a Residence Landlord or Owner.*—S. 1988 puts the federal government into the housing business as a landlord and owner, a constitutionally inappropriate role. Under the U.S. Constitution health and welfare are part of the Police Power which is reserved to the states. This separation of roles has been broken down from time to time, but such breaking down should always be suspect and inspected with a very critical eye before it is indulged in. The situation under scrutiny at this hearing is not one in which it is necessary or wise to permit federal intervention in the Police Power area.

The statement in §2(a)(1) that the abandonment brings the situation under the shelter of the Interstate Commerce Clause artificially inflates that venerable clause, a practice which is rampant and which I deplore. If this keeps up, the Interstate Commerce Clause will swallow the Constitution whole.

2. *Local Control and Decision Making are Necessary.*—Local control and decision making is much to be preferred over paternalistic direction and control from Washington. Federally financed urban restoration and renewal programs have not been unqualified successes. See, for example, p. 33 et seq. *Cities*, of *The California Land* referenced above. The imposition of inappropriate and unwanted plans upon the people of a city has the effect of alienating them from their communities. It drains them of energy to act upon their own. It weakens the sense of responsibility, for one's own destiny and for other's welfare, of citizens, city officials, and state officials. Therein lies much of our trouble.

3. *There Is Now a Superfluity of Federal Agencies.*—S. 1988 would create one more federal agency in a dense rank mat of federal agencies which overlays and smothers the country. Each new agency seems to be created to cure the failures of a predecessor. Each becomes a permanent barnacle which Congress cannot bring itself to destroy long after its usefulness has been outlived. Each adds to the strain and confusion of citizens and officials who try to deal with the federal government. Each interferes through pointless and obstructive regulations with the ability of localities and citizens to solve their own problems. This bill leaves intact, unchanged, and unchastened departments and agencies (and people) which (as set forth in the Congressional Record) have not been doing their job right. If, as is there asserted, the agencies do not have the confidence of the people they serve, it is the worst kind of answer to create yet another agency. The answer is for HUD and VA to conduct themselves henceforth in such a way as to rebuild that confidence.

4. *The Bill Unwisely Extends the Condemnation Power.*—S. 1988 seriously extends the condemnation power, a power which should be used with great caution, beyond the boundaries which we have become accustomed to under earlier redevelopment legislation, and which frequently had disastrous results. In effect, it authorizes checkerboard condemnation.

5. *The States' Authority in Debtor-Creditor Arrangements Should Not Be Undermined.*—This bill circumvents and undermines the states' historical and constitutional authority to control the rights of debtor and creditor, and to erect safeguards for the protection of both.

B. A better solution is for Congress and existing local, State and Federal agencies to do their jobs properly

1. *HUD and VA Should Promptly Dispose of the Homes to Responsible Private and Public Groups.*—Congress should direct the people in the agencies already created by it and being supported by taxes paid by people living in these cities, specifically HUD and VA, to promptly get these repossessed abandoned homes into the hands of private or public local groups who can in a financially sound way rehabilitate, sell, and rent the dwellings. HUD and VA should do that under their existing authority and within existing state laws. If the houses were originally or have become overpriced such that HUD and VA will take a loss, such loss should be accepted. I see no disadvantage and possible advantage to disposing at a nominal price if sales are to responsible groups and if HUD and VA monitor the results.

2. *HUD and VA Should Help Finance on a Temporary Basis Neighborhood Protection and Maintenance Services.*—Congress should direct HUD and VA to start working immediately with existing agencies, cities, and communities to help solve the problem of inadequate policing which exposes empty houses to vandalism, and of poorly maintained city services. Direct contribution of HUD and VA funds to cities for these purposes is appropriate on a temporary basis by way of redress. *It should not become a permanent arrangement*, such that cities become dependent upon federal funds for police and other city services.

3. *HUD and VA Should Insure Home Loans on Renovated Houses but Under Rules of Sound Credit Practice.*—Congress should direct HUD and VA henceforth to insure mortgages on the rehabilitated homes but to insure only soundly financed properties. The possibility should be squarely faced that such sound financing will make it impossible under present economic conditions for many persons of low and moderate income to become owners of these homes. Nothing but harm is done by refusing to face this problem directly and by indulging in unsound financing to gloss over the problem. Other sensible ways of assuring that these people are well-housed must be found. It is not appropriate for the federal government to be landlord, but it may very well be appropriate for state or local agencies to be landlord, i.e. to own housing and to rent and maintain the properties. Such an arrangement would doubtless necessitate subsidies, and it is time to give thought as to whether these subsidies should come from federal or state tax revenues.

People who have the means to finance the home purchases should be welcomed and encouraged to become home owners in the affected areas. Their re-entry will improve the neighborhoods' stability and forestall a repetition of the foreclosure/abandonment cycle.

4. *Congress Must Reduce the Federal Tax Bite so that Cities Can Tax to Maintain Themselves.*—Congress should begin drastically paring down federal government activities which drain tax dollars to Washington. This must be done for citizens to be able to pay the local taxes needed to maintain the state and city services which give vitality to cities and make them pleasant to live in.

This hearing is not the arena for setting up a list of wasteful, duplicative, unnecessary, and just plain harmful activities being carried out by legislative and executive branches of the federal government. It extends far beyond the agencies of concern to us today. Nevertheless, bloated federal spending is a major cause of the weakened condition of cities, and it is time Washington faced the fact.

5. *Cities Must Once Again Assume Responsibility For Their Own Vitality.*—Cities must recognize that they must take old-fashioned responsibility for the health and welfare of their citizens, and must not remain in a demeaning dependency on the federal government. Police services, maintenance, improvement, addition of trees, parks, and pleasant public places need attention now—by the cities. If the cities feel they are understaffed they must (a) re-order priorities, (b) find good ways to use volunteer help, (c) pressure the federal government into reducing its spending so that the cities can realistically hope to tax their own citizens more. Finally they must work with other public agencies and with interested private industry in such a willing and active way that they contribute their share to the work to turn around these blighted neighborhoods.

III, SUMMARY

There are five steps to returning these abandoned houses to the housing stock and to beginning restoration of the neighborhoods blighted by them. They are: (a) Protect the houses from vandalism; (b) place possession and ownership in

appropriate hands; (c) renovate; (d) rent or sell wisely to home occupiers; (e) continue to maintain, protect, and nourish the neighborhoods, houses, and people after occupation.

The proposed bill S. 1988 takes into consideration only steps B and C. Each is vital. Each is best done by the city with help from the state as the state finds appropriate, and with willing and helpful cooperation of HUD and VA. The role of the federal government should be to cooperate with existing agencies and groups, to provide temporary grant funds for purposes of housing and neighborhood protection and services, and to guarantee soundly based loans.

Thank you for this opportunity to appear before you.

Senator CRANSTON. Thank you very much, Marjorie.

While you have your concerns about the Federal Government getting mixed up further in this, do you feel there is a need for some Federal financial backing in one way or another, either by coinsurance or underwriting?

Dr. EVANS. I think the insurance—I think that's a good place for the Federal Government to be. I think the FHA and VA insurance program and others of this nature are fine. I think also that when I spoke of people who have less than a certain income having to live in city- or State-owned housing, someone is going to have to subsidize that, of course, and I think a national debate should begin on whether it should be the Federal Government or State and cities.

I don't have any terrible objection to the Federal Government subsidizing it. I think that might be an appropriate place.

Senator CRANSTON. HUD already has launched a coinsurance program.

Dr. EVANS. I had that in mind when I spoke of that.

Senator CRANSTON. Can you tell us a wee bit more about this squatter's license procedure in London?

Dr. EVANS. Yes. It is said—I was there about 3 weeks ago and it was told me by people in the housing bureaus in some of the bureaus of London that there is a 10-to-1 ratio of vacant housing to people who need housing in Great Britain. That sounds extraordinarily high to me but it was said to me.

There is also a crying need for housing. People are screaming over there. They are breaking into houses that are locked up for a month. They can't be dispossessed by the sheriff because they wire the bedsteads with electricity. It is a problem. London has an innovative and good way to handle this. The people who come in and say they haven't got housing, all right, we will give you a license to stay in house X on Y Street until we are ready to take it over to renovate it and put it into our council stock or until we are ready to level it for redevelopment.

It seems to work all right. There have also been licensed squatters who just move in.

Senator CRANSTON. Pete, do you have any questions at this time?

Congressman STARK. Senator, I would just like to commend these panelists who I have worked with in the past; Dr. Evans, for her work really on behalf of the Bank of America, whether or not she is representing them or not now in this area; and Oak Center Better Housing, who I rather suspect some time ago made one of the very first loans in this area. It is an excellent group of people who have struggled through a lot of learning processes. To my knowledge there

are very few people who have tried to specialize in that unique enterprise of taking abandoned houses and rebuilding them in a way that they are suitable to the neighborhoods they are in for people who can afford to live there. That is a very delicate enterprise and I really don't know of many people who do it as well and they are to be commended along with the East Oakland Housing Committee which has been growing all these many years.

I want to thank you all for taking the time—all of you—to be here because with just a few more jobs and a little more money and a little more cooperation we could probably solve these problems in East Oakland. Thank you all.

Senator CRANSTON. Dr. Evans or Mr. Saladin, do you have further thoughts on how we induce private enterprise and financial institutions to get back into this field really effectively?

Mr. SALADIN. When we say "back into this field" I think we have been there but maybe not to the greatest extent possible.

One thing I would like to mention on insurance, and I am speaking for Great Western Savings now, we have not left private mortgage insurers alone. The loans we have been making in East Oakland, 90 percent we have been able to get profit mortgage insurers to go along with us on those loans. So I can't leave that sector out and I am sure they continue to go with us.

In ways to induce people, to repeat what I said earlier, I think inducement is knowing now that we have the support and we have a group that we can, as private lenders, people that we can really work with. The present inspection sale requirement is going to help us as lenders, if that is approved. There are things relative to the certificate of occupancy that we require now in certain areas that is going to be enhanced by developing, hopefully, a special department within the city and all of these things we feel now that we have some support and we can make loans with reasonable assurance.

We have the counseling center, Henrietta Scott, we are working with her. We have now a letter that the lenders can mail with their notices, their late notices, notices of default, referring that particular individual to the counseling agency. All these things help support us.

Senator CRANSTON. Do you feel the assigned-risk approach that was suggested by Councilman Sutter could be made to work?

Mr. SALADIN. Yes, I think it is the same type of thing that is coming up as part of the proposal. Richard Ilgin's group, their part of the funding will be for an insurance for the private lenders.

As I say I don't think that is going—as we get into it I think the private mortgage insurers are going to go along with us to the extent those funds aren't going to be used to the extent other people think will be used.

I don't know if I am clear on that but I think the private mortgagors, they are going to go.

Dr. EVANS. Yes, I think those are good suggestions, particularly the absolute necessity of having the city cooperate so willingly in the things that are absolutely important that the city do and that banks can do, cooperation of building departments or whatever it is they may be called.

Senator CRANSTON. Do either of you have any figures on the amount of non-Federal-Government-owned property, not FHA, VA, that has been foreclosed in Oakland?

Dr. EVANS. I am glad you brought that up. I was running over my time and I had a note. I suspect if we could figure some way to get data on that, we'd all be better off.

I know in my work I have on several occasions attempted to find out this datum without going to the trouble myself of checking it which is difficult to do and it isn't available as far as I know and I think we all need it.

Mr. SALADIN. I can only give you Great Western and we have on our list of foreclosed properties in a general confines, not exactly what you would call East Oakland, but basically East Oakland, 24 properties and we have approximately 1,200 loans in East Oakland, existing loans on our books.

So it is a very low percentage.

Senator CRANSTON. Dr. Evans, you have been involved with that Federal Home Loan Bank mortgage program run by Mary Wagner.

Dr. EVANS. I am familiar with it. I am not involved in it but I have heard of it.

Senator CRANSTON. How is that working?

Dr. EVANS. Let's see. How shall I answer that? I think Oakland is much the better because of that program and other cities, too, which were utilizing it.

I think one of my concerns goes back to what I said a minute ago. I fear that there is simply not enough money in the hands of a lot of people to finance the loans.

If you make loans to people who cannot repay, that is just another word for subsidy. I don't say I am against it, I just say we ought to be clear with what we are doing and I think that may be one of the problems there. But they are excellent on counseling and they know their banking business.

Senator CRANSTON. Do either of you have comments on that?

Mr. ILGIN. I did have a comment on the inventory of abandoned houses.

The city of Oakland, since we have had the task force going, at least, and possibly some before then, has been keeping a running inventory of those houses. It comes out about once a month and they do research who are the parties in interest in the abandoned house as well as who the owner is who is defaulting. Also as far as Mary Wagner's program, we have talked to her recently also and, of course, she has an excellent program, works, generally speaking, with owner-occupant and not with abandoned houses and when we consulted with her recently, she was asking us about the abandoned housing in her area, which, of course, is also a very limited-size area because of her limited funds. And she is now going to try to contact private owners of abandoned houses in that area because she finds the same problem, that people who she is trying to help to keep their homes up are concerned because they will put so much money into their own home and they do not want to do that. Next door they may have one that's abandoned, boarded up, and something like we saw today.

Miss MATARRESE. I wanted to add a little something on this issue of homeownership versus renting.

In our dealing with the 235 program, we found that in almost every situation the families that we were putting in those houses had been paying more in rent for smaller units, for extremely dilapidated units than they were paying under the 235 program and the 235 program sets their housing payments at approximately 25 percent of their income so they are obviously paying too much to begin with. There are an awful lot of people out there who can cut the bucket so to speak in homeownership and simply don't have the opportunities and people who are presently paying an awful lot more in a far worse condition than they could in some kind—It might not have to be 235 program but some way of getting homeownership opportunities. It could even be some kind of cooperative, scattered-site program for single-family houses but unless you are really committed to making homeowners out of more people in communities like East Oakland, I think you are going to have a far greater recurrence of the kind of problems we have now.

Senator CRANSTON. I want to ask this of each of you or any of you who feel like responding but what do you feel about the preauction system? How does that work out?

Mr. ILGIN. The present what, auction system?

Senator CRANSTON. Yes.

Mr. ILGIN. What we had here with HUD in the past was that the auction would be on a Monday morning but first choice would go to speculators and investors and they would be able to bid on the house. This is HUD houses and I think if the house doesn't get sold the first week—Mr. Price will be able to explain it better than I can but if it didn't get sold the first week, then the 235 certificate holder would have his chance.

I believe that that has very recently been changed due to our urging so that 235 certificate holders and all others have an equal opportunity to bid on the first time the house is put up for sale.

Our position remains as it has been, that the 235 certificate holder should have prime choice.

Senator CRANSTON. What seems to happen to a property that is picked up by an investor or so-called speculator?

Mr. ILGIN. Past experience, and there have been abuses, and I am talking about abuses that have been such abuses in the past, that while the speculator was supposed to have come in and rehabilitate the house before it was put on the market or occupied, subsequent to inspection by someone from HUD, would reveal that someone had indeed moved into the house before anything was done to it.

I think Mr. Price could probably give you a much better picture of that.

Senator CRANSTON. Do you think HUD programs or disposition of these properties leads to abandonment?

Mr. ILGIN. If HUD properties are left for long periods of time, I am certain that abandonment is the final result and I think you address yourself to that problem, time element in the bill, and of course any kind of abuses of any program will lead to further abandonment.

There was one other concern that we have regarding the bill and was that the question is does it amount to something similar to 100 percent financing? Does it tend to bail out the city? That's our concern.

Miss MATARRESE. I was just going to say I think it is a measure of the way the HUD is using the 235 program to sell their own property, but not allowing it to be used for any of the other abandoned properties. In many areas there simply is not the market for the properties.

In terms of bidding procedure itself, we have purchased a number of properties from the bidding procedure and I think there are probably more efficient ways of dealing with these properties. For example in the past there was a nonprofit organization used to be able to go into HUD and obtain these properties prior to going through the bidding procedure with the understanding that these were to be rehabilitated and resold to owner-occupants.

In some ways it is a more efficient procedure than having it go through HUD bureaucracy.

Senator CRANSTON. Does the present system where investors or so-called speculators get a hold of a piece of property, lead to more or less abandonment in the course of time?

Mr. ILGIN. That would be difficult for me to say but our past experience would indicate the presence of an overabundant—an overabundance of rentals which generally means speculators in your area is not good for a neighborhood where the residents are primarily interested in their single-family dwellings.

Senator CRANSTON. Thank you very, very much.

It has been very helpful of you to be with us. Thank you.

Our final panel now will consist of James Price, Area Director, San Francisco Area Office, U.S. Department of Housing and Urban Development and Fred Craig, Loan Guaranty Officer of the Veterans Administration.

If you could first of all lead off by commenting, Mr. Price, on the various statements that have been made by people that refer to you in your operation.

Mr. PRICE. Thank you, Senator. I was going to say rather than reading the statement you already have, I would be glad to respond to those and only use a little of the material in the statement.

Senator CRANSTON. Fine. That would be very good.

STATEMENT OF JAMES PRICE, AREA DIRECTOR, SAN FRANCISCO AREA OFFICE, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. PRICE. As a general opening remark, however, I would like to say that we are very pleased with the attention that is being received now on these kinds of programs. We can hardly underestimate or perhaps I should put it more positively, we can hardly expect enough attention to the problem and this type of hearing will help achieve that type of result.

We also are very pleased with the East Oakland Housing Committee and other organizations because they have focus on the problem. I am firmly convinced that to get action on these problems will take local community effort, that no agency of the Federal system or State system will actually solve these problems.

I would like to comment on the house that we visited this morning because I think it is a significant example of the kinds of problems that exist.

At 6226 Bromley, a house that was built in about 1922 was most recently purchased by the immediate occupant in April of 1974. Foreclosure was started by the lender in February of 1975 and we received it on August 6 verifying that approximately 6 months' foreclosure process.

By that time, of course, it had been abandoned and had been seriously damaged. However, another key point to this is that during the period from April of 1974 to the time of foreclosure, no payment was ever made on that property. The downpayment for the purchase price of about \$19,000 was around \$600 including closing costs.

The net effect was that the party who abandoned that home occupied it at a rate of less than \$50 a month during that period of occupancy then left it without ever paying a nickel toward the mortgage.

Now, one problem is we have no way—we do not know now where that party is—so we have no way of discovering what the circumstances were, and I will not make any judgment about why this happened.

Congressman STARK. Was there any indication how long the person lived in the house?

Mr. PRICE. There is no evidence as to the date that they actually moved out if that is what you mean.

Congressman STARK. What was the purchase price? Do you have any idea what the purchase price was?

Mr. PRICE. The purchase price was \$19,000; the HUD loan, \$18,600, is what HUD paid off to the lender. Our estimated repair cost on that property is \$8,000 which is a little higher than average. You saw it was stripped of plumbing.

Congressman STARK. One of the things that occurs to me is that the real estate commission on selling that house had to be \$1,140, with a \$600 downpayment, if that wasn't in cash or was just a note, it just opens the way for a whole lot of chicanery to put in a dummy purchase with a \$600 note, if that can be done by our underwritings, where the unscrupulous real estate broker puts \$500 in his pocket and nobody lives there at all.

Mr. PRICE. We believe this is an act of practice, and it is difficult to track as you are aware.

We are very well aware of the practice of a speculator buying a property, maybe one of ours or maybe another property on which we will put a mortgage and they will say in writing they will be the owner-occupant and, therefore, they get the very low downpayment but, in fact, they never do occupy it.

Congressman STARK. Do you prosecute those cases when they come to your attention?

Mr. PRICE. We give that information to the U.S. Justice Department which rarely prosecutes because they claim you cannot prove that the party didn't really mean to live there then just changed their mind.

It is a ripoff, Congressman, and we have expressed strong concern about this to our central office.

To continue on that house bill, we estimate, \$8,000 repair. Our holding operation during this will cost about \$1,000 when we sell it.

When you add to that what we will pay by way of commission, closing costs after the rehabilitation, we will have in the house—by “we” I am talking about the people of this country—\$29,150.

We estimate that house will sell on the market for \$18,150 leaving a net loss to the insurance fund of \$11,000.

Now, this was insured under the inner-city program which is funded by Congress in a special risk fund so it is that fund which will lose the \$11,000. Now since we got it on August 6, the city has inspected it per our agreement with the city. There is a long list of repair items, termite inspection and so forth and a sale recommendation has been prepared by our area manager, and we received that today. We are prepared now to proceed with that house. The recommendation is to repair it. Our option is to sell it as is, and I understand that is of interest to the committee and I do have some other things we wanted mentioned but if you want to get into the as-is comment, I will be glad to get into that.

A comment was made by Mrs. Matarrese regarding our sales. I would like to exchange with her a correction and an apology. She referred to a press release which I sent out about the 518 repair program and said it included a statement 235 would be included in that program.

She is correct. My press release did say that. I was wrong. It is not included. That is a legislative matter and as much as I am interested in the Federal system, I seldom want to take on the burden of being a legislator so that is not in the legislature and I apologize, Fran. I apologize. That was a serious error on that press release. On the other hand, Mrs. Matarrese—

Senator CRANSTON. Could we interrupt. Let counsel read one portion of the law on this point so there is no misunderstanding.

Mr. PRICE. If you are going to tell me what I just said is not true, that's extremely interesting because I am repeating what my central office has told me and I would be very happy to put 235, if you can tell me—

Mr. BUCKLEY. I shall read to you the language of section 518(b) that was enacted as the part of the House Development Act of 1974. It says:

“The Secretary is authorized to make expenditures to correct, or reimburse the owner for the correction of, structural or other major defects which so seriously affect use and liveability as to create a serious danger to the life or safety of the inhabitants of any one or two family dwellings which is covered

by a mortgage insured under Section 235 of this Act or which is located in an older, declining urban area and is covered by a mortgage insured under Section 203 or 221 . . . " et cetera.

It seems from what I have read that the legislation does include section 235.

Mr. PRICE. We have just accomplished something. I have already invited the East Oakland Housing Committee to send me cases where they feel the 235 buyer should receive this assistance so I can in turn go to our central office and advocate the program be expanded.

I would guess the Department's position is related to the fact that the 518 was acted for 235, we feel we adequately serviced that in this area. However it would certainly not be fair for me to say that we covered everybody who should have gotten it by the deadline and I would be glad to expand it.

Another comment was made by Mrs. Matarrese that I think should be responded to.

When we saw our property at the Monday morning auction, our first priority is to a proposed owner-occupant and that is stated in our ad.

Our second priority is to a proposed owner-occupant with 235. However that program is now suspended or terminated by somebody in Washington.

Now, I wouldn't try to say who but at any rate we are no longer offering 235's at this time but when we were, they did have priority.

The speculator, so called, was the third priority and only received the property if we were not able to sell it to the first two priorities.

One of the comments that I make in my statement is that because of our strong concern about the whole insuring program the rehabilitation program, we have sent this week to Mayor Reading a formal invitation to participate with us in a greenlining program. We are prepared to make an agreement with the city and community organizations and lenders which will be backed up with an agreement that we will provide mortgage insurance in so-called marginal areas. At the same time the city will take on certain programs to help further insure the safety and the benefit of that neighborhood and we, of course, will ask the lender to cooperate.

Because of the activities of the east Oakland housing committee, we believe that that may be successful.

Another concern that we have is the cost of buying a home. This has already been referred to but I would like to give you a specific figure based on a fairly typical sales price in east Oakland of \$17,500.

The FHA formula on income would require an \$11,000 annual income whereas the Oakland average income is well under that. So that a present of a home in east Oakland on an average would not be eligible for an FHA loan on their own house at this time at the present interest rate.

Another subject that has come up a number of times is the number of homes that are actually foreclosed, and so forth. There is a statement released by your office, Senator, which inadvertently contains a misstatement to the number of homes that are owned by HUD.

Fortunately our inventory has been decreasing. We have decreased the number of defaults for a number of reasons and the number of foreclosures is down. Our sale program is very successful at this time.

Today in Oakland we have 181 properties in the inventory and about 40 of those have been sold and are awaiting closing. Each month we receive about 20 properties and we sell about 30 properties. Therefore the curve would indicate relatively modest inventory in the future if circumstances remain as they are.

The reason I point this out, I have already mentioned to your staff, is because some of the press here may pick this up here and repeat it. It does say 1,880 HUD-owned properties in Oakland. The figure is 10 percent of that at this time.

Another reference has been made to the time of acquisition and I think this is one of the more serious problems we have. It is true that it takes 6 months to a year to foreclose and it is very likely that the property has already been abandoned by the time that process is completed.

There are very few evictions. People leave. The HUD process has taken far too long in the past and it has been as many as 15 months.

We are now down to an average of 7½ months. We are attempting to bring that down to 3 or 4 months total ownership as an average. This would average the short-term ownership on an as-is sale, with long-term ownership on rehab, but we are extremely aware of this time factor and are very anxious not only for our own inventory benefit but for the communities affected to decrease that.

The default rate in this area has dropped substantially for reasons that are a little hard to pin down. We now have a default rate which is 1.65 percent. That is that percentage of our total inventory of about 240,000 single family mortgage insurance cases are in default.

Now, in Oakland all default notices are sent to the city of Oakland for the counseling service and that has had a favorable impact in either arrangements with the lender or actually moving the property from default and therefore, as I told you, the foreclosure rate now in Oakland is now around 20 properties per month for FHA purposes.

There is no need, Senator, for me to read further on the statements that you have. I would be pleased to respond to questions. Perhaps I should further comment on as-is sales. We have consulted with our communities about this and I have seen the statement that Mayor Reading read a while ago from the League of Cities. I would suggest that the genesis of that statement was from the neighboring area over which I am delighted not to have jurisdiction called southern California where there is a substantial number of properties and where the as-is program is the principal method of selling. We are now selling about 20 percent of our properties as is. It is departmental policy that we should be selling more than that.

I personally have not advocated this because I feel it has problems in the community. However it is true that it expedites the sale. I am aware of the comments that are made that it just opens itself to speculators and so forth. We are trying to watch that.

As Mrs. Matarrese said, in the city of Oakland we are now dealing directly with the city and they are helping to monitor it. Somewhere I am sure instances can be cited in the past where speculation has been adverse to the community. We believe we now have a system in operation which would minimize that potential.

Senator CRANSTON. Thank you very much. Very helpful of you to respond to some of these matters. Could you submit for the record the instructions you received from the central office excluding 235B.

[The complete statement of Mr. Price, with attachments, follows:]

STATEMENT OF JAMES H. PRICE, AREA DIRECTOR, SAN FRANCISCO AREA
OFFICE, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The Department of Housing and Urban Development is seriously concerned over housing abandonment and the neighborhood deterioration which may result. It is a multifaceted problem which cannot be solved without the close and intense cooperation of Federal, State and local authorities as well as local lending institutions and the community. HUD has supported and encouraged local government efforts at neighborhood preservation and we are pleased to note that many block grant cities have elected to undertake rehab programs. The attached letter to Mayor John Reading of Oakland is a formal invitation to begin a "greenlining" program which we have been discussing and contemplating for some time. It is a positive step in the direction of improving specific neighborhoods in Oakland using the combined benefits of the City talent, HUD mortgage insurance and cooperation of local lenders. We look forward to achieving positive results through this cooperation, especially in view of community involvement.

The East Oakland Housing Committee is to be commended for generating attention and provoking action on the problems of foreclosure and abandonment in general and as they relate specifically to the City of Oakland. This office has been represented at the community meetings they have sponsored on the subject of neighborhood preservation, rejuvenation and housing conservation. We have discussed with them and city officials the information we have at hand about housing conservation and preservation of neighborhoods.

We have explained our operations with respect to HUD acquired properties, the repair programs in connection with their eventual resale and other repair programs currently available as well as HUD's criteria for mortgage insurance. HUD will not insure where there is serious blight, adjacent industrial or adverse commercial use, or where deterioration is a real trend. This last qualification can be overcome where local government and community interests are implementing improvement plans. Adequate buyer income is also very important. Some of our data indicate that under our current requirements, many present East Oakland residents would not qualify to buy the home they already have with HUD/FHA mortgage insurance. Based on a hypothetical sales price of \$17,500, an annual income of almost \$11,000 is needed to support an FHA-insured mortgage. Median income in East Oakland is approximately \$8,900.

I would like to share the San Francisco Area Office's information on its inventory of acquired properties, our efforts to repair and resell them and our attempts to prevent homes from becoming part of this inventory through foreclosure in the first place. At the present time, this Department owns 600 single family homes in the San Francisco Bay Area (about 200 of these are sold, but the transactions are not yet completed). Approximately 170 of the homes are located within Oakland city limits. The total inventory has been reduced nearly every month from the January 1974 high of 1,577 properties. This reduction can be attributed both to a downward trend in property acquisitions and efforts on the part of the Department to accelerate its resale transactions of the homes. Our office set up and accomplished a series of goals aimed at reducing the amount of time that the properties are unoccupied and thus subject to vandalism, with minimum disruption to the neighborhood. Since January 1974, the turnover rate (acquisition to sales closing) has been lowered from 15 months to less than 7½ months—still too long. We have attempted to

minimize loss of Federal dollars in the repair and resale of the acquired houses, however our figures show an average loss of \$8,550 per property. To the average cost of paying off the mortgage (\$18,450) we add repairs running approximately \$6,500 for a total investment of \$24,950. Resale of the homes generally brings in \$16,400; the \$8,550 balance represents the net financial loss on each home. Selling "as is" does not significantly affect this loss since the property brings a sale price still well under the paid off mortgage.

The outlook for sustaining the current low inventory level is good—the default and foreclosure rates are back to the level recorded during the mid-1960's. Currently, the SFAO is experiencing a 1.65% default rate in the mortgages in force in its jurisdiction, some 230,000. The rate represents a slight improvement over the previous quarter's record. This can be attributed partly to the stepped up mortgage servicing practices employed by HUD and mortgage lenders. Please note the attached letter sent to all mortgages encouraging forbearance when practical and possible when servicing a delinquent mortgage.

In the event this positive trend is reversed, the Department stands ready to implement provisions of the Emergency Housing Act passed this summer to use co-insurance or mortgage relief payments to preclude a sharp rise in mortgage foreclosures.

We cannot afford to be complacent about the statistics as they are now, no matter how encouraging. Proposals favoring neighborhood preservation and conservation have our wholehearted support. The SFAO will cooperate with local governments and citizen groups to help achieve their housing goals.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
SAN FRANCISCO AREA OFFICE,
San Francisco, Calif., August 22, 1975.

MAYOR JOHN READING,
*City Hall,
Oakland, Calif.*
Subject: East Oakland.

DEAR MAYOR READING: The San Francisco HUD Office often is charged with "red-lining" certain areas in Oakland. While we do not blank out large areas, we do reject numerous individual properties in portions of declining neighborhoods where extremely high risk conditions exist. It is understandable that affected parties perceive this as red-lining.

In more marginal situations where we do accept applications, it has been our experience that our programs are ineffective in assisting to improve and stabilize neighborhood conditions.

We would propose to work with the City in "green-lining" some selected project areas where HUD can have significant impact through full and unrestricted mortgage insurance approval. This can be accomplished by joint agreement on neighborhood rehabilitation project areas and then developing standards and programs for systematic code inspections, dwelling rehabilitation, open space, street and drainage improvements, landscaping including tree planting, and neighborhood utilities and services.

It appears that this would be a most opportune time to accomplish these objectives in view of the Community Development Block Grant Program under which you have set aside a substantial amount for residential rehabilitation, plus the possibility of additional funding from the State through their recently enacted Housing Program. It could also be tied in to the City's proposed Urban Homesteading application.

We would be happy to participate in a preliminary discussion meeting on this subject at your earliest convenience.

Sincerely,

JAMES H. PRICE,
Area Director.

[HM Mortgagee Letter 74-14]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
OFFICE OF THE ASSISTANT SECRETARY FOR HOUSING MANAGEMENT,
Washington, D.C., December 13, 1974.

To: All approved mortgagees.

Subject: Forbearance relief—hardship and temporary loss of income resulting from current economic conditions.

Many mortgagors are experiencing serious problems in making timely mortgage payments due to the nationwide increase in unemployment and the temporary lay-offs occasioned in some industries. This curtailment of income and reduction in working hours has affected many mortgagors with HUD-insured mortgages.

In an effort to assist those families who are experiencing temporary hardship, the Department of Housing and Urban Development is again strongly encouraging mortgagees to render whatever assistance is possible to help these mortgagors.

Procedures contained in HUD Handbook 4191.1 "Administration of Insured Home Mortgages", Chapter 2, paragraphs 121-128, fully describe relief measures available to mortgagors under these circumstances. These include:

1. *Voluntary withholding of foreclosure by the mortgagee.*—The mortgagee may wait as long as one year from the date of default before starting action to acquire the property. During this period, the mortgagee can assist the mortgagor by accepting reduced payments or by carrying the account in a default status. All funds remitted by the mortgagor during this period shall be applied in accordance with the terms of the mortgage. Since, by definition, the date of the default is thirty days after the mortgagor's failure to meet a requirement of the mortgage, the account can be carried in default indefinitely if the mortgagor makes payments during the period of default. Thus, partial payments, when applied, will advance the date of the default.

2. *Special forbearance relief.*—The mortgagee may enter into a formal forbearance agreement with the mortgagor. When this is done, the mortgagee will receive, as part of its insurance settlement, unpaid mortgage interest, including all amounts accrued prior to the execution of the forbearance agreement, computed to the earliest of the applicable dates described in HUD Handbook 4110.2, The Mortgagee's Guide, Home Mortgage Insurance, Fiscal Instructions, Chapter 12, paragraph 12-5a.

A formal forbearance agreement cannot extend beyond 18 months without prior HUD approval.

3. *Recasting of mortgages in default.*—A mortgage in default may be recast to: (1) increase the unpaid principal balance of the mortgage to include all sums due and payable except late charges; and (2) extend the term of the mortgage for not more than ten years. While it is recognized that recasting generally is not used by mortgagees, in this period of national concern HUD hopes mortgagees will be willing to extend this form of relief to a greater degree than has been customary. Recasting of a mortgage could prove of greater benefit to a mortgagor than the granting of special forbearance. On the other hand, use of special forbearance together with the recasting procedure might be more beneficial to some mortgagors.

Mortgagees should ascertain that their employees are fully familiar with all available forbearance procedures and that they make appropriate use of these procedures. Local HUD Area and Insuring Offices should be contacted for further information on these matters.

Sincerely,

H. R. CRAWFORD,
Assistant Secretary for Housing Management.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
OFFICE OF THE AREA DIRECTOR,
San Francisco, Calif., September 16, 1975.

Mr. JERRY BUCKLEY,
Minority Counsel,
U.S. Senate Subcommittee on Housing,
Washington, D.C.

DEAR MR. BUCKLEY: Enclosed is the San Francisco Area Office's response to the questions raised at the Subcommittee hearings in Oakland August 28. We have also included for your information an excerpt from current 518(b) instructions indicating that homes insured under the Sec. 235 program longer than one year ago are not eligible for assistance. (Note: HUD acquired properties sold with Sec. 235 subsidy are covered by HUD's one year warranty rather than 518(b)).

Sincerely,

JAMES H. PRICE,
Area Director.

Attachment.

Question 1. How many single family homes has the area office insured since 1968 in the San Francisco area? How many multifamily?

Answer.

A. SINGLE FAMILY

Total number single family homes insured

Year:	Number insured
1968.....	20, 857
1969.....	20, 841
1970.....	20, 225
1971.....	24, 717
1972.....	23, 322
1973.....	10, 720
1974.....	8, 330
1975 thru August.....	12, 346
Total.....	141, 358

This total includes 7,878 properties insured under the Sec. 235 program—Homeownership for Low and Moderate Income Families.

B. MULTIFAMILY

Since 1968, this Office has insured 419 projects containing 45,011 units.

Question 2. What is the present inventory of acquired properties in (Oakland) area?

Question 3. What HUD programs were most of these abandoned homes insured under? i.e. 221 (d) (2), 223(e), 235, 236. Do you have figures on percentages under each program for this area?

Answer. As of September 2, 1975, the inventory of acquired properties in the City of Oakland consisted of 171 properties. 96 (56%) were insured under Sec. 203(b); 6 homes (638%) under Sec. 221(d) (2); 10 (6%) under Sec. 235.

Question 4. What has been the impact of these special risk programs (i.e. 221(d) (2), 223(e), 235) in this area? Have they contributed primarily to the abandonment problem?

Answer. The special risk programs have had no favorable impact on Oakland in general. They are attempts to enable low and moderate income families to attain homeownership which they could not afford in the private mortgage market.

Properties designated to be insured pursuant to Sec. 223(e) at the time of appraisal are located in declining urban areas. This section of the housing act waives economic soundness and economic life requirements with respect to location and mortgage term.

The default rate for mortgages insured pursuant to this section is higher than the Sec. 203(b) program: the overall default rate is about 1.65%; the 223(e) rate is about 4%.

Question 5. What is the average cost of maintenance between acquisition and resale of a property (i.e. holding cost and repairs)?

Answer. As of May 1975, holding costs on our acquired properties averaged \$3,330 per unit; repairs averaged \$3,250.

Question 6. What is the average length of time a property is held by HUD?

Answer. HUD holds properties an average of 6.8 months.

Question 7. What programs has HUD initiated to decrease its inventory of properties? Do you feel that these programs are effective in dealing with this problem?

Answer. The number of HUD acquired properties in the Oakland area has declined steadily from 359 in October 1973 to 171 in September 1975. This has been accomplished by increased use of private area managers to oversee and expedite the repair and/or sale of properties in their localities, some modest use of as-is sales, local broker incentive programs, coordination with the City of Oakland, streamlining of office procedures and increased advertising.

Question 8. The "as-is sales" program, where HUD urges the sale of all acquired properties on a high bid basis without repairs and without further mortgage insurance, may offer immediate relief to HUD's bulging inventories. However, this program raises the question of whether as-is sales merely recycle the abandonment process by allowing deteriorated housing to be occupied without repair. What precaution has HUD taken to prevent this from happening? (I.e. is there cooperation with city officials as to the impact of these sales? Is there counseling of new owners so that they may be able to get financing for these kinds of properties?)

Answer. Although local considerations are the overriding factors in individual neighborhoods, generally, this office feels that as-is sales are compatible with (or will not have an adverse effect on) stable neighborhoods, upward transitional neighborhoods, or already blighted neighborhoods. Conversely, caution is used in utilizing as-is sales in downward transitional neighborhoods where the threshold for tipping into blighted condition may be exceeded.

Of the 171 properties in Oakland now owned by HUD, only 17 are scheduled to be sold on an as-is basis.

The Oakland Building Department is notified of all as-is sales prior to the sale and provides HUD with a list of code deficiencies which are passed on to the purchaser. The City then contacts the new owner concerning repairs needed prior to authorizing connection of utilities. The City of Oakland also maintains a counseling agency to help new and potential homeowners, particularly those who have acquired Sec. 235 homes. There is a prerequisite that those purchasing with Sec. 235 assistance complete a counseling course. Counseling is not mandatory for purchasers of as-is properties.

Question 9. What measures has HUD used to deter the foreclosure rate of HUD insured properties?

Answer. Our single-family mortgage servicing section is in constant telephone contact with mortgages and mortgagees trying to work out reinstatement programs for delinquent owners.

In addition they are making mortgagee reviews where forbearance relief for delinquent mortgagors is stressed.

In the last two months seven mortgagee reviews have been made. Mortgagees are also encouraged to work with HUD Certified Counseling Agencies. Copies of default notices on Oakland properties are sent to the City of Oakland Housing Advisory and Appeals Board and the Oakland Counseling Agency for inspection of the property and direct contact with the owners to offer counseling assistance in an attempt to arrange workouts with the lender whenever possible.

Question 10. Does HUD have any comprehensive program that addresses the revitalization of abandoned neighborhoods? Do you feel that a comprehensive rather than a spot approach is needed? What would you recommend that a comprehensive approach include?

Answer. This office believes that the revitalization of abandoned neighborhoods must come about through the cooperation of Federal, State and local authorities as well as lending institutions and the community. Many local grant cities have elected to undertake rehab programs.

In the specific case of Oakland, we have invited the City to begin a "green-lining" program which would be a joint agreement on neighborhood rehabilitation project areas and then develop standards and programs for systematic

code inspections, dwelling rehabilitation, open space, street and drainage improvements, landscaping, including tree planting and neighborhood utilities and services.

[HUD—Washington, D.C., 4070.1 Rev. p 3-2]

b. *Dwelling.* The dwelling may consist of a one or two family unit and shall have been more than one year old on the date the conditional commitment was issued.

c. *Application.* In the case of a Section 235 mortgage, the application for assistance must have been submitted within one year after insurance of the mortgage as evidenced by the date of insurance endorsement. In the case of mortgages in older, declining urban areas insured under Section 203(b) or 221(d)(2) on or after August 1, 1968, and prior to January 1, 1973, the application for assistance must be submitted not later than August 22, 1975, one year after the date of enactment of the Housing and Community Development Act of 1974.

d. *Extent of Defect.* The defect must be a structural or other major defect which so seriously affects the use and livability of the property as to create a serious danger to the life or safety of the inhabitants. To meet this test, the defect must not be speculative or of limited likelihood of becoming an actual danger. A defect which has become a serious danger to the life or safety of the inhabitants, but which was not so at the time of the original appraisal inspection, is not eligible. For those claims involving reimbursement for repairs previously made, the defect must have been such that a judgment can be made that it constituted a serious danger to life or safety at the time of the original appraisal inspection.

e. *Determination of Existing Defect.* The defect must be determined by HUD-FHA to have existed on the date the conditional commitment covering the property was issued and must be one that a proper appraisal inspection of the property could reasonably have been expected to reveal.

3-3. *Defective Conditions Eligible for 518(b) Assistance.* The file must be retrieved and reviewed by the field office upon receipt of a claim which appears eligible on its face. Examination of the conditional commitment conditions may determine if the defective

STATEMENT OF FREDERICK CRAIG, LOAN GUARANTY OFFICER, VETERANS ADMINISTRATION REGIONAL OFFICE, SAN FRANCISCO

Mr. CRAIG. Fred Craig, I am Loan Guaranty Officer, Veterans Administration, San Francisco, and I brought these gentlemen with me and I am delighted to introduce them. On my far right is Bill Beven, who is property management representative from our office who works in Oakland. Next to me is Henry Cohen, who is an attorney from the General Counsel's Office in Washington, D.C. On the far left of the table is George Howard, a loan guaranty attorney in San Francisco.

Senator CRANSTON. Thank you very much, Mr. Craig. I have to ask you to summarize in not more than 5 minutes.

Mr. CRAIG. I am going to be very brief.

Senator CRANSTON. We have got to quit at 12:30.

Mr. CRAIG. I understand. I just want to say we do not object to the intent of the bill. We believe some fiscal and technical matters need to be clarified and we are primarily concerned with the marketability of the long-term obligations that are mentioned in the bill.

As you know our loan guaranty revolving funds are replenished from the sale of our foreclosed homes and this is our primary concern and I think that can be clarified and probably settled.

Other than that I wanted to talk about the city of Oakland and northern California. We own 235 properties in northern California

and Nevada. Fifty-eight of them are in Oakland and 19 of those we have owned more than 6 months.

So we do not have a large inventory here and we do repair the houses before we sell them.

Anything else that I might testify to is already in the supplement that was submitted.

[The complete statement of Mr. Craig follows:]

STATEMENT OF FREDERICK CRAIG, LOAN GUARANTY OFFICER, VA REGIONAL OFFICE, SAN FRANCISCO

Mr. Chairman and Honorable Members of the Subcommittee, as the Loan Guaranty Officer of the VA's San Francisco office, I am pleased to have the opportunity to appear before this subcommittee today and present the views of the VA on S.1988.

This bill, entitled the "Abandonment, Disaster, Demonstration Relief Act" is designed to prevent deterioration and destruction of neighborhoods and communities and to hold and assemble parcels of land for orderly development and redevelopment. This being based upon a general finding that the cause of the destruction and deterioration of neighborhoods is to a large extent due to abandonment of properties.

The VA is well aware of the problems with abandoned properties. Unfortunately, we believe this complex bill, as currently drafted, contains many provisions which are ambiguous and subject to varying interpretations, leaves many areas unresolved, and will create many problems. For these reasons, the VA opposes S. 1988.

Our objections to the bill are not to its intent but rather to potential problems that could result from the vagueness and technical insufficiencies of certain provisions of the bill. These technical problems make it extremely difficult for the VA to take a firm position on the substance of certain of these provisions as we cannot forecast with any degree of certainty the effect that passage of this bill would have upon existing programs.

While not intended to be all-inclusive, the following are some of the specific areas we find objectionable:

Within the three metropolitan housing markets, to be determined in accordance with Section 5 of the bill, the Neighborhood Protection Corporation, set up to carry out the functions of S.1988, is given authority in subsections (a) and (b) of Section 6 of the bill to take action to declare abandoned residential property forfeited and to seize and take possession of such property. Paragraph 3 of subsection 6(b) of the bill provides such seizure shall be subject to the payment by the corporation of "just compensation" to any person claiming an interest in the seized property. This paragraph further provides that where the person or agency having an interest is a federal agency, payment by the corporation shall be in the form of obligations issued by such corporation. The bill does not specify, however, how payment shall be made to persons or other entities that are not federal agencies. Conceivably, the corporation could make such payment in the form of the same obligations it would issue to federal agencies. Since the bill provides in Section 8(b) (page 20, lines 8 through 14) that such obligations are not guaranteed by the United States and do not constitute a debt obligation of the United States, the marketability of such obligations is at best uncertain. If it is determined that a holder of a mortgage on property deemed to be abandoned is to be paid in long-term debt obligations of the corporation, which may have limited marketability, great reluctance can be foreseen upon the part of the mortgage industry towards making loans on properties in the demonstration areas. If this should occur, potential sellers of residential property would find themselves unable to secure buyers with mortgage financing available to them. As a result, those parties required to relocate might be left with no option other than to abandon their homes. Thus, potentially, the effect of this bill could well lead to greater abandonment rather than less.

At the present time the VA Loan Guaranty program is funded by a revolving fund established by section 1824 of Title 38 United States Code. Claims made upon the VA, based on guaranteed loans, are paid from this source. Properties acquired are usually rehabilitated and then sold by the VA. The proceeds of

these sales are deposited into the same fund. If the VA is to receive long-term debt obligations of the corporation in exchange for its acquired properties conveyed to the corporation, a serious impact upon the liquidity of the fund can be seen. The lack of an adequate cash flow might well leave the VA with no alternative but to seek additional appropriations in order that it might meet its obligations on outstanding guarantees.

In those instances where the mortgage covering the abandoned property is insured or guaranteed by an agency of the United States there is provision, as previously indicated, for the seizing and forfeiture of the property with payment of just compensation to the parties in interest. If such payment is to be made to the holder of a mortgage at or shortly after the forfeiture of the property to the corporation, it leaves unclear the position of the guaranty issued by the VA to the lender. Normally the claim under the guaranty would be presented to the VA subsequent to the liquidation of the security and application of the proceeds of the sale to the outstanding indebtedness. Obviously if the holder of the mortgage has been paid in full by the corporation, insofar as the mortgagee is concerned, there no longer is any outstanding indebtedness unless the corporation becomes the holder of the mortgage by assignment. In this event it appears the corporation would then be in a position to file the claim under the guaranty with the VA. Since the corporation would retain title to the property the VA would be in no position to recoup its payment by means of resale of the property, thus further endangering the revolving fund.

It is our feeling that the bill should specifically clarify the potential liability of other federal agencies that have guaranteed or insured mortgages in the demonstration areas.

Section 6(d) provides for the corporation to acquire from the Administrator of Veterans Affairs properties to which he holds title, the consideration for the conveyance of the property to be its fair market value. However, the fair market value may not exceed the unpaid balance of the mortgage. Properties held by the Administrator are not usually subject to a mortgage obligation. Therefore, a strict interpretation of this section could result in a requirement that the Administrator convey the properties to the corporation without compensation.

Additionally, the VA may sell a property on an installment contract. Technically, an installment contract is not a mortgage and until such contract is paid in full title remains in the Administrator. It is unclear whether the term "mortgage" at the end of said subsection (d) is intended to be applied in the narrow technical sense. If it is, once again there would be no unpaid balance on the "mortgage." Additionally, this section makes no allowance for the payment of management and foreclosure expenses or for the reimbursement to the VA of monies expended in improving such property prior to its acquisition by the corporation.

As a final note, Section 3(1) of the bill narrowly defines the term "residential property" for the purpose of S. 1988 to include only those properties which are subject to mortgages which are insured or guaranteed by an agency of the United States or which are subject to mortgages held by a "federally related financial institution." In addition to guaranteeing and insuring loans, the VA also makes direct loans under certain circumstances. When VA acquires a property, we often resell it on credit (i.e. on an installment contract, or for a note and deed of trust or note and mortgage). The definition in Section 3(1) would not apply to these latter cases. This distinction is especially important in Section 6(d) which refers to "residential properties to which title is held by . . . the Administrator of Veterans Affairs." Where the Administrator holds title, as noted above, there may be no outstanding mortgage or other debt, or, if there is, the loan would have been made, but not insured or guaranteed, by the Administrator.

I have attempted to point out some specific objections without attempting to be all-inclusive.

The Department of Housing and Urban Development has prepared a report to the Committee on S. 1988 strongly opposing enactment of the bill and noting a number of major difficulties that the bill would create. Briefly summarized, the major difficulties include:

The bill would duplicate what can already be accomplished by local governments with Federal assistance under title 1 of the Housing and Community Development Act of 1974, and would duplicate HUD's property disposition function.

The bill would create a new Federal Neighborhood Protection Corporation as an agency of the United States, and inject it into problems better solved by local governments and local citizens.

The bill would impose a major burden on the Federal courts.

The corporation's losses would have to be subsidized by the Federal Government. Furthermore, the bill would provide for backdoor financing which is inconsistent with the Congressional Budget Act, and would provide an exemption from budget control.

The corporation's authority to apply properties on a mandatory basis from FHA and other Government agencies would operate to deprive the insurance fund of cash flow that would be realized in property dispositions, and would, in some cases, preclude recoveries that might have been obtained covering full losses.

We urge the Committee to carefully consider the Department of Housing and Urban Development's strong objection to S. 1988.

I thank you for this opportunity to testify and will be glad to answer any questions that you may have.

Senator CRANSTON. Thank you very very much. I appreciate that. In light of the criticisms that have been voiced and I think they are pretty widely recognized that the as-is sales program, should that be modified, can it be made into a workable program, should it be abandoned or what, do you have any view on that?

Mr. CRAIG. Senator it would be my feeling that the way we are now doing the as-is program in Oakland is probably workable and safe. We have been doing this now for about 4 months and some experience will help us answer the question more precisely.

The interesting thing is there used to be community pressure to sell them rapidly and sell them as is because it did permit someone, presumably with a very small investment, to buy a property.

It is true that resulted in homes being occupied on various sub-standard basis. Hopefully now we have stopped that.

Senator CRANSTON. What percentage of as-is sales are to brokers and absentee landlords?

Mr. CRAIG. Most of them.

Senator CRANSTON. Most of them are?

Mr. CRAIG. When you say "brokers," I would enlarge that. Small contractors are heavy investors in the program because they have a small work force that they can put to work on it so it would be brokers plus contractors.

Senator CRANSTON. What programs or procedures do you have to monitor abandoned, boarded up homes to try to reduce the vandalism and destruction that occurs?

Mr. CRAIG. Senator, first the vandalism has taken place generally before HUD has title to the property. The renter is supposed to board the property up as soon as they are aware that it has been abandoned and they are supposed to supervise that property until the day it comes into our ownership.

When we receive notice of the foreclosure, it is immediately turned over to an area manager. Mr. Hicks is in the audience today and is an area manager in Oakland. His office secures the property, makes sure that the boards are on or if they aren't that they are put on and we also have a full-time, round-the-clock watchman's service which rotates around Oakland. This has reduced vandalism on our properties though it doesn't totally prevent it.

Senator CRANSTON. Is it often the case the family just moves out and nobody is aware of it?

Mr. CRAIG. More likely for most before somebody is aware of it. The procedures for payment on a house, particularly such as in most cases since they are recognized do not recognize the vacancy until sometime after a payment was due because there is a routine followup notice sent.

Some lenders inspect their properties on a fairly regular basis in an area like this and they probably would spot abandonment sooner.

Senator CRANSTON. Couldn't the system be worked out where perhaps the neighbors themselves in a block would advise HUD of a empty home?

Mr. CRAIG. Surprisingly one of our more serious abandonment problems is in some new construction in Santa Clara County. The planned unit development where the cost was so low to get in that when people have an option to go elsewhere for employment, they find they can't resell their house and pay a commission and come out on it so they just stop payments.

We have made arrangements with the homeowners' associations in those areas to watch the property and in exchange for that we do not put the boards up, which of course announces its availability for vandalism.

We would like to work something like that in Oakland if there were a cohesive neighborhood arrangement to do it.

Senator CRANSTON. Fran, would that be something your organization could do or have you attempted to have any warning system where people on the block notify you or HUD when there is a home that is suddenly empty?

Miss MATARRESE. I think we would like to discuss that.

Senator CRANSTON. Why don't you do that. It seems to me that might be one fruitful step.

Mr. CRAIG. It would seem to me, Senator, that it would need to be a citywide agreement since our inventory represents a fraction of the total abandonment problem in Oakland. Obviously we would be anxious to cooperate with them.

Senator CRANSTON. Do you have to start everything so big you can't ever start yet or can you start in one given area and see how it works and when you have an organization like the effective one in East Oakland, I should think you might try something there and see if it could be tried some places.

Mr. CRAIG. Our green-lining proposal to Mayor Reading is we pick out a target area and do everything possible to reserve that area.

Senator CRANSTON. What about the proposals or the suggestions of a caretaker program or the variation of London licensed squatters?

Mr. CRAIG. There is nothing in our regulation that would prevent that from being done now. The lender does have to deliver the property to us unoccupied but they could occupy it during the vacant period and actually we could make arrangements to accept continued occupancy on a short-term rental basis. However if there has been a period of time when it has been abandoned between that occupancy and the time that it is abandoned, the vandalism itself brings the house lower than healthful occupancy standards.

We have weighed the idea of an interim tenant at very small cost

or no cost but, in fact, when we have the house inspected it is not habitable and wouldn't work.

Senator CRANSTON. Is the acquisition rate for houses insured under the various programs still climbing?

Mr. CRAIG. No. It has been reduced for the last year in our area and we are now at the lowest we have been in many years.

Senator CRANSTON. Did the 1974 moratorium on HUD foreclosures artificially decrease the foreclosure rate?

Mr. CRAIG. The——

Senator CRANSTON. Wasn't there a moratorium——

Mr. CRAIG. On multifamily?

Senator CRANSTON. Yes. Only on multifamily.

Mr. CRAIG. Yes.

Senator CRANSTON. Did that affect your rate, the rate you just referred to that is down?

Mr. CRAIG. When I referred to that rate I was talking about single family and there was no moratorium on single families.

We have urged lenders to forebear on foreclosure and most of the lenders in connection with the FHA in fact are cooperating with that.

We have a serious multifamily default in northern California. However in Oakland at this time there is only one multifamily project in HUD ownership.

Senator CRANSTON. Fran, do you have any people in your organization or the community that might fit into a caretaker type program? Do you think your organization could help work with HUD to work out such a procedure?

Miss MATARRESE. I think we would prefer to discuss that in committee before I make a statement here but we could bring that up and also discussing——

Senator CRANSTON. I have some other questions that I would like to submit for written answers from you, some requiring some statistics. You may not have it at your fingertips.

I thank you very, very much for your presence.

Pete, do you have any questions?

Congressman STARK. I just wanted to comment, Senator, to Mr. Price and to a less extent to Mr. Craig. They have been extremely most helpful to my office and I know the other offices in the bay area for all kinds of constituent assistance, not just foreclosed homes, and Jim has a unique feature, among those in government service, of being able to make a mistake every once in a while and do something about correcting it. That's very refreshing.

Senator CRANSTON. That's incredible.

Mr. PRICE. I would add my thanks to an agency with which we deal so often and happily and which works very well together with us.

Senator CRANSTON. You have been most cooperative with us also and we deeply appreciate it.

I thank you for your presence here and your concern. This hearing will now recess. We are going to have another hearing like this in Los Angeles tomorrow on the same topic and then we are going to get to work on the bill, program in Washington.

Thank you very much.

[Whereupon, the subcommittee recessed, to reconvene on Friday, August 29, 1975.]

[Additional material submitted for the record follows:]

[From Bank of America News]

UNIQUE BANK PROGRAM TO AID BLIGHTED AREAS OF THREE CITIES

SAN FRANCISCO, February 17, 1976.—Bank of America today announced it has signed contracts with the cities of San Diego, Torrance and Menlo Park as the first participants in a key element of its unique City Improvement and Restoration Program.

Conceived by the bank's Social Policy Department in late 1973, the program is designed to pull together and coordinate the bank's efforts to improve the quality of California housing and older downtown commercial property. It provides for low-interest loans, bond purchases and financial expertise. Loans or bond purchases may be made for the rehabilitation of residences or commercial buildings, purchase of older homes, construction of low-cost and senior citizen housing, physical improvement of downtown areas and acquisition of park and recreation facilities.

A bank-wide committee spent much of 1974 researching the needs of California's cities by analyzing eight communities to determine their needs and explore ways which the bank could help to meet them. That committee's report near the end of 1974 resulted in the design of the City Improvement and Restoration Program. The program is aimed at four obvious problem areas in California cities: rehabilitation needed to preserve existing housing, the need for additional low-cost and senior citizen housing, the need to revive older downtown neighborhoods and the needs of city administrators in the areas of financial expertise that the bank's staff can offer.

Following study and contact work throughout 1975, the bank committee began to approve individual projects generated largely at the community level. Each project demands a carefully tailored program, one taking full advantage of available state and federal assistance so that the best possible terms can be created for the borrower.

Kyhl S. Smeby, a Bank of America senior vice president in Los Angeles, chairs the City Improvement committee. Commenting on the contract signings, Smeby pointed out that the 1974 Housing and Community Development Block Grant Act essentially casts cities in the role of lenders dispersing federal revenue sharing funds for housing rehabilitation. "We realize that cities are not usually in a position to act in that capacity, and are offering California communities our expertise to expedite the channeling of those funds," he said.

Smeby noted that the bank has an obligation to aid California cities in this rehabilitation effort. "In response," he said, "we have developed a proposal which allows those funds to be loaned, at below-market rates, to qualified residents designated by the city." To make this proposal available state-wide, the bank committed a staff which has made the presentations to more than 80 California cities and counties.

San Diego, Torrance and Menlo Park are the first cities to sign contracts as participants in the program. Many other cities and counties have indicated that they are seriously considering the bank's program as a means of implementing their housing rehabilitation projects.

"We feel that this program has great potential and fills a need which has been largely unmet in recent years," Smeby said. "Its flexible guidelines will support a number of useful projects and will have the effect of revitalizing older areas of California's cities and providing additional housing for its citizens."

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HISTORIC PRESERVATION LEGISLATION IN THE 94TH CONGRESS

(By Gary Messinger, Office of Intergovernmental Programs and Planning)

The National Historic Preservation Act of 1966 instructs the Advisory Council on Historic Preservation to advise the President and the Congress on historic

¹ The Council is an independent unit of the Executive Branch of the Federal Government charged by the Act of October 15, 1966, to advise the President and Congress in the field of Historic Preservation.

preservation matters and, in particular, to conduct studies in the areas of legislative and administrative statutes and regulations. In accord with this mandate, the Council monitors preservation activity at the Federal level and regularly compiles the information gathered in reports to the preservation community. The present report, outlining the activities of the Ninety-fourth Congress, First Session, is intended to provide up-to-date information on the variety of legislative proposals affecting preservation that are now pending before the Congress and to relate these proposals to the current philosophy and direction of the national historic preservation movement.

The year under review, from the convening of the First Session on January 14, 1975, until adjournment on December 19, 1975, provides evidence of a growing congressional awareness that preservation, creatively applied, can coexist with, and often bring new vitality to, efforts to deal with pressing national problems. The many proposals introduced not only call for continued commitment to preserving the national patrimony but also encourage contemporary use of cultural resources to help achieve broader objectives of economic development, employment opportunity, resource conservation, and community improvement.

INTRODUCTION

Historic preservation has traditionally been viewed in "monumental" perspective as the saving of isolated sites and structures, such as battlefields, mansions of the wealthy, and imposing public buildings that have been enshrined as museums or parks. Hence, the public has regarded the preservation movement as outside the mainstream of national life: to preserve a Gettysburg, an Alamo, or a Hyde Park might be worthwhile, but such activities were rarely assigned the same importance as issues of war and peace, the economy, and urgent social problems. As a result, preservation assumed a relatively low national priority.

During the last decade, however, historic preservation has come to be viewed more broadly, and now infuses many areas of national life in which it previously played little or no role. The basis for this change has been the broadening by preservationists of their concept of properties worth saving, as the result of a more sophisticated perception of our past and the advent of new ideas about why and how old buildings may be saved.

Attention is still paid to monumental sites and structures. But the movement now emphasizes attention to a variety of properties reflecting all aspects of our heritage: a working class residential district in an old mill town; an area associated with a particular ethnic group, such as San Francisco's Chinatown, or the Greek fishing villages around Tampa Bay in Florida. Likewise, sites important to newer fields of historical inquiry, such as medicine, technology, and urban planning, may be regarded as legitimate objects of preservation concern: the launching pad from which originated man's first flight to the moon, or the unique town plan of 18th-century Savannah. The saving of groups of properties has also become important. Historic districts—which may encompass the buildings and archeological sites of a sprawling farm community that survive unspoiled from an earlier time or the early skyscrapers in Chicago's famous loop—are now given the same attention as that previously reserved for the single landmark property. The relations of sites and structures, their esthetic harmony, or the way they all perform complementary roles in some overall function, are now seen to be important aspects of our physical heritage, which in turn has been recognized as playing a major role in the overall quality of life in America. Thus, for example, preservation now pays greater attention to neighborhoods where architectural unity or strong cultural patterns give an area rare character, and where the intangibles that stamp the area make the value of the whole greater than the sum of its parts.

Modern preservation philosophy has also been marked by growing awareness of the importance of historic properties as resources that can be turned to practical use. One of the more exciting discoveries, for example, has been that of the economic potential of such properties. Throughout the United States, it is now common to find historic areas, once declining as tastes and living patterns shifted, revived as shopping complexes, tourist attractions, and innovative office or residential centers. In these instances, preservation has created jobs, revitalized downtown areas, attracted out-of-town investment, and brought extra tax dollars to the local treasury. In many cases there has also been a saving of energy and raw materials. The public has discovered that rehabilitation of existing buildings can meet our nation's growing need for additional housing units and commercial structures, and can lessen the need and the costs of constructing anew. Frequently, old buildings use less heat and electricity. Retaining

old structures also avoids the waste of energy and raw materials that would result from demolition. Similarly, reuse of neighborhoods makes it possible to take advantage of existing utilities and services already in place.

Economic benefits and savings of energy have not been the only practical results of historic preservation. Another recent development has been growing recognition of the role preservation can play in creating more orderly, more harmonious communities, an idea which reflects the growing awareness among planners of the social benefits to be gained by structures and communities that exhibit a human scale and sense of continuity with the past. Preservation now plays a role in land-use planning, an increasingly important activity as the population grows and our activities as a people require more orderly use of available space. Thus, it is not unusual to find localities preserving and rejuvenating their Victorian commercial or residential cores or their old courthouses to bring a sense of place and visual amenity to their growing communities.

Given these new opportunities to wed historic preservation to broader social and economic objectives, it is not surprising that more and more Americans have been attracted to the field. Where active support for preservation was once limited to a concerned few, today one finds broad community support for local preservation projects. Urban conservationists, residents concerned with neighborhood property values, high school students, ethnic groups, businessmen of Main Street, mayors, city councilmen, and even real estate developers may become involved.

Increased public participation and recognition of preservation benefits has led, in turn, to increased sophistication in techniques for achieving preservation objectives. These include legal tools, such as easements and zoning regulations, and financial tools, such as tax incentives and revolving loan funds. Together, such techniques have made preservation a growing force in the professional community and in the marketplace.

The broadening philosophy of historic preservation has been reflected in Congress, where earlier conceptions of preservation as a rather esoteric specialty have been replaced increasingly by an awareness of the relevance of preservation to all aspects of national life.

Congress committed itself to the cause of preservation as early as 1906, when it passed the Antiquities Act, which extended protection over antiquities, mostly prehistoric and Indian sites on Federal property, and empowered the President to set aside portions of the public domain as National Monuments. Further commitment to historic preservation came with the creation of the National Park Service in 1916 and passage of the Historic Sites Act of 1935, which authorized a comprehensive program for identifying, preserving, and enhancing nationally important historic sites. The importance of Federal stimulus to the private sector was affirmed in 1949, when Congress chartered the National Trust for Historic Preservation, which today has over 75,000 members.

Then, in the National Historic Preservation Act of 1966, Congress took an important affirmative step to strengthen the preservation movement. Enacted in response to the accelerated pace of historic site destruction brought about by rapid social and technological change, the measure expanded the historic sites survey authorized in 1935 into a National Register of Historic Places. The act also established the President's Advisory Council on Historic Preservation, and for the first time provided a degree of Federal protection and grant assistance for historic sites other than the nationally significant. In effect, the act extended the policy of historic preservation to every Federal agency and acknowledged Federal concern for historical values of State and local, as well as national significance.

Throughout the 1960's and 1970's, this broader view of preservation has been expressed by Congress. Through other grants programs, such as that of the National Endowment for the Arts, also inaugurated in the mid-1960's, Congress further encouraged historic preservation by including preservation-related endeavors among the activities eligible for funding. The National Environmental Policy Act of 1969 requires Federal agencies to evaluate and disclose project impact upon historical resources as part of their assessment of environmental consequences of Federal actions. The Archeological and Historic Preservation Act of 1974 permits the use of project funds to mitigate adverse effects upon historic and prehistoric sites. Expressing the new and growing emphasis upon preservation through renovation and reuse and upon preservation as a vital factor in the quality of American neighborhood life, the Emergency Home Purchase Assistance Act of 1974 allows use of low interest loans to rehabilitate historic structures. The Housing and Community Development Act of 1974 lists historic preservation as one of the activities for which localities may earmark

their share of Federal community development funds. The dominant trend in all of these acts has been an ever widening congressional awareness of the applicability of historic preservation to many areas of national life, beyond the isolated enshrinement of a building or site as a memorial to the past.

This trend continues in the activities of the First Session of the Ninety-fourth Congress. One theme running through all the bills described in this report is a commitment to continuation and expansion of existing programs, such as those of the National Park Service, and the grants programs of the National Endowment for the Arts and the National Endowment for the Humanities, both of which assist historic preservation. Another theme in the legislation of the Ninety-fourth Congress is the desire to continue to stimulate private preservation activity, as evidenced by the matching requirements of most preservation grants legislation and by those bills that would give more planning grants to localities to stimulate survey of historic resources and increase citizen awareness of their possible uses. Some bills reflect the broader definitions of cultural resources that are currently espoused in the preservation movement. An example is the effort to establish a national program for preserving American folklife.

Several pending bills reflect the pragmatic application of new preservation concepts to current problems, both to enrich our surroundings and to achieve definable socioeconomic gains. One pending bill, for example, would stimulate reuse of historically or architecturally significant buildings for Federal office space. Besides saving the buildings, the measure offers a number of important fringe benefits: savings of energy and raw materials, use of job producing construction methods, an infusion of workers into economically declining inner city areas, and a firm, visible commitment to stem the decay of many urban centers. Likewise, pending bills proposing reuse of America's ubiquitous railroad stations offer an imaginative range of possibilities. Under the provisions of these bills, old railroad stations could become offices, commercial centers, or cultural centers—hubs of local activity prompting conservation of existing structures and economic renewal of the surrounding area. In a similar approach, abandoned railroad rights-of-way could become parks and recreational areas, bringing needed recreation facilities to communities while serving as a reminder of the impact of the railroad on the growth of America.

The proposals to recycle historic resources are indicative of growing congressional awareness of preservation as a means for attaining the objective of other national programs. Perhaps this idea is most readily accepted in the area of housing and community development. "Neighborhood conservation"—using the existing social and physical fabric to maintain a viable community—has been reflected in a number of legislative items. Similarly, the House Committee on Banking, Currency and Housing has recognized that historic preservation has become sufficiently important as an aspect of national housing and urban development policy to justify a subcommittee, the Subcommittee on Historic Preservation and Coinage.

The Ninety-fourth Congress, then, has before it a number of important legislative initiatives that promote historic preservation objectives. Following are brief summaries of these proposals along with notations of their status at the opening of the Second Session.

RECENT CONGRESSIONAL ACTIVITY

Proposed creation of National Historic Preservation Fund

On January 23, 1975, S. 327 was introduced by Senator Henry M. Jackson (D-Wash.). Title II of S. 327 would amend the Land and Water Conservation Fund Act of 1965, as amended, and the National Historic Preservation Act of 1966, as amended, to establish a National Historic Preservation Fund with revenues obtained from Outer Continental Shelf oil and gas leases.

A similar bill, H.R. 2763, was introduced in the House on February 4, 1975, by Representative Roy Taylor (D-N.C.), with 24 cosponsors. Like Title II of the Senate bill, Title II of H.R. 2763 would amend the Land and Water Conservation Fund Act and the National Historic Preservation Act to establish a National Historic Preservation Fund with revenues obtained from Outer Continental Shelf oil and gas leases. The basic concept of the two bills is identical; they differ primarily in the size of the fund. Where S. 327 would immediately authorize \$150 million annually for a grants program to continue until June 30, 1979, H.R. 2763 would authorize a \$75 million grants program for Fiscal Year 1976, \$75 million for Fiscal Year 1977, and \$100 million for each fiscal year thereafter until 1989. During the Ninety-third Congress, legislation to create a National Historic Preservation Fund was passed by the Senate (S. 3839) but not by the House (H.R. 17346).

Having already passed the Senate in the Ninety-third Congress, the Senate bill moved ahead quickly. Hearings were held February 11, 1975, with testimony from a number of concerned preservation groups, including the National Park Service, the Advisory Council on Historic Preservation, the National Trust for Historic Preservation, and Preservation Action, a private citizens' organization formed to lobby on behalf of historic preservation. At its meeting of August 8, 1974, the Advisory Council had formally endorsed the concepts embodied in Title II of S. 327. On September 10, 1975, the Senate Interior Committee voted that S. 327, with amendments, be reported favorably to the floor of the Senate. Discussion on the floor of the Senate took place on October 29, 1975, and on the same date, the Senate passed the bill by voice vote.

Hearings on H.R. 2763 were held July 28 and 29 before the Subcommittee on Parks and Recreation of the House Committee on Interior and Insular Affairs. Organizations and agencies represented at the hearings included the National Park Service and the Advisory Council on Historic Preservation. Further meetings of the subcommittee were held October 21 and 28, 1975, for markup to incorporate concepts emerging from testimony of the July 28-29 meeting.

At present, the policy of the Office of Management and Budget is to withhold support of S. 327 and H.R. 2763 on the grounds that the bills might be inflationary.

Bills containing historic preservation provisions identical to H.R. 2763 are H.R. 10570 and H.R. 11241, both pending in committee.

Reauthorization of the National Historic Preservation Act of 1966

It is expected that S. 327 and H.R. 2763, discussed above, will be the subjects of lengthy debate, since they propose substantial increases in the Federal historic preservation grants program, which currently operates with an authorization ceiling of \$24.4 million. To assure continued operation of the program at this authorization level, the Administration asked that appropriate legislation be introduced. Accordingly, S. 1921, to reauthorize funding provisions of the National Historic Preservation Act of 1966, was introduced on June 11, 1975, by Senator Henry M. Jackson (D-Wash.), at the request of the Secretary of the Interior. The bill would continue the present historic preservation grants program for fiscal years 1976, 1977, and 1978 at the current \$24.4 million authorization, rather than the larger amounts of S. 327 and H.R. 2763 (see above). No hearing date has been scheduled.

Tax incentives for historic preservation

S. 667, the Historic Structures Tax Act, was introduced by Senator J. Glenn Beall (R-Md.), with eleven cosponsors, on February 12, 1975. An identical bill, H.R. 8224, was introduced in the House by Representative Gladys Spellman (D-Md.), on June 25, 1975, with eighteen cosponsors. Both S. 667 and H.R. 8224 contain the historic preservation provisions of the Environmental Protection Tax Act that was introduced in the Senate in both the Ninety-second and Ninety-third Congresses. H. R. 6225, introduced by Representative Barber Conable (R-N.Y.) on April 22, 1975, is a complete reintroduction, with only slight changes in wording of the Environmental Protection Tax Act. H.R. 6225 contains all the provisions of S. 667 and H.R. 8224, but adds natural resources provisions making coastal wetlands eligible for the tax incentives as historic structures. The bills would amend the Internal Revenue Code of 1964 to encourage preservation and rehabilitation of historic buildings and structures used for the production of income (stores, residence rentals, office buildings and the like). Under the provisions of both bills, the owner of a historic property would be provided favorable tax treatment on rehabilitation expenses, through accelerated depreciation or short term amortization, while tax deductions presently granted for demolition of a historic structure and accelerated depreciation for new construction on the site would be denied. Changes are also proposed for tax treatment of donations and bequests of interests in historic properties, such as easements. The provisions specifically define historic properties as those included in the National Register of Historic Places or located in a National Register district.

During the Ninety-third Congress, a number of agencies, including the Advisory Council on Historic Preservation, were asked to provide analyses of the Environmental Protection Tax Act. These analyses were reprinted in the *Congressional Record* (Vol. 121, No. 20, February 12, 1975). The Advisory Council will provide its analysis on request.

S. 2021, introduced by Senator Robert Taft, Jr., (R-Ohio), on June 26, 1975, would allow a Federal income tax credit for the costs of maintaining or restoring the exterior or structural soundness of historic buildings and structures.

The bill has specifically been described by Senator Taft as a companion measure to S. 667. Where S. 667 would provide incentives to preserve rather than demolish historic commercial structures, especially those in urban areas, S. 2021 is aimed at providing tax deductions for costs of restoring, rehabilitating, or maintaining all kinds of historic structures. S. 2021 not only benefits commercial structures, but also nonbusiness buildings, such as private homes.

H.R. 432, introduced on January 16, 1975, by Representative Hamilton Fish (R-N.Y.), and a companion bill, S. 80, introduced on January 15, 1975, by Senator Charles McC. Mathias (R-Md.), would permit an alternate valuation of historic properties for Federal estate tax purposes. The bills are aimed at protecting areas on the edges of rapidly expanding cities, where development pressures cause rising land values, which make it difficult to preserve historic sites and structures. Because current estate tax laws require valuation based on potential for development, the resulting tax bill frequently forces sales of the property just to meet this inflated tax burden. The pending legislation would allow a lower valuation for historic property, based on current use if the building or property is preserved. Similar bills are: H.R. 536, H.R. 935, H.R. 1349, H.R. 3091, H.R. 3831, H.R. 4441, H.R. 5131, H.R. 5286, H.R. 5596, H.R. 6955, H.R. 6965, H.R. 7134, H.R. 7440, H.R. 7768, H.R. 7776, H.R. 8420, H.R. 8482, and H.R. 8625.

Tax measures introduced in the Senate are referred to the Committee on Finance; those introduced in the House to the Committee on Ways and Means. All of the tax bills described above are presently pending in committee, and no hearing dates have been scheduled.

Reusing old railroad stations and rights-of-way

S. 2056, to amend the Rail Passenger Service Act of 1970 to clarify programs for promoting re-use of railroad passenger terminals, was introduced by Senator Vance Hartke (D-Ind.), on July 8, 1975. S. 2056 would authorize the National Endowment for the Arts to make and administer grants for planning cultural projects taking place in railroad stations of historic or architectural significance. Authority for such a grant program is now placed in the Federal Railroad Administration of the Department of Transportation, as called for by the AMTRAK Improvement Act of 1975 (P.L. 93-496), which amended the original Rail Passenger Service Act of 1970. Supporters of S. 2056 feel that the present program for reusing old railroad stations would be implemented more effectively if its cultural aspects were transferred to the National Endowment for the Arts.

The AMTRAK Improvement Act of 1974 declared a policy of giving preference to using railroad stations of historical and architectural significance and establishing a program to convert railroad stations into intermodal terminals and to use the stations adaptively for nontransportation purposes. The act authorized a demonstration program in which no less than three stations on the National Register of Historic Places would be adapted as transportation centers. Funding is authorized at \$15 million on a 60-40 matching basis. An additional \$10 million is authorized to fund the preservation of threatened stations pending the development of re-use plans and to stimulate States, localities, and private parties to adapt railroad stations for intermodal terminals and/or civic and cultural centers. The Department of Transportation's supplemental appropriations bill, recently enacted into law as P.L. 94-134, provides \$5 million for the program.

Hearings on S. 2056 were held July 10, 1975, before the Subcommittee on Surface Transportation of the Senate Committee on Commerce. Agencies and organizations represented included the National Endowment for the Arts, the Department of Transportation, AMTRAK, the National Park Service, the Greyhound Corporation, and representatives of the city governments of Baltimore and Cincinnati. No date has been set for further hearings or markups.

H.R. 1118, introduced by Representative Thompson (D-N.J.), on January 16, 1975, and a companion bill, S. 251, introduced by Senator Scott (R-Pa.), on January 21, 1975, would provide funds for making unused rail passenger depots available as cultural centers. Unlike the existing program, these bills would place the entire program under the direction of the National Endowment for the Arts. The bills are aimed at cultural activities that would relate to the Bicentennial. H.R. 1118 was the subject of hearings held October 31, 1975, by the Subcommittee on Select Education of the House Committee on Education and Labor. No hearing date has been set for S. 251, which is pending before the Senate Committee on Labor and Public Welfare.

While the above measures are addressed to re-use of old railroad stations, a related measure is addressed to re-use of routes of railway travel. S. 1879, the "Conversion of Abandoned Railroad Rights-of-Way Act," was introduced on June 5, 1975, by Senator Vance Hartke (D-Ind.), and referred jointly to the Committee on Commerce and the Committee on Interior and Insular Affairs by unanimous consent. The bill notes the increasing use of bicycles as a means of transport by Americans, the simultaneous need for reductions of energy consumption, and the need of Americans for more opportunities for health and recreation. The bill proposes that the Interstate Commerce Act be amended to allow the Federal Government to establish a program through the Department of Transportation to acquire and develop abandoned railroad rights-of-way as bicycle paths, through such devices as inclusion in the National Trails System, transfer to State or local governments for upkeep, and additions to Federal historic sites, parks, greenbelts, and wildlife refuges. The bill would authorize a program of grants to State governments for the above purposes. S. 1879 is now pending before committees. No hearing date has been set.

Federal office space in historic buildings

S. 865, the Public Buildings Cooperative Use Act of 1975, was introduced by Senator James Buckley (R-N.Y.), on February 27, 1975. The bill would provide enabling legislation for the General Services Administration to lease or purchase and rejuvenate older buildings and to convert those buildings into Federal office space. The bill directs that GSA seek the assistance of the Advisory Council on Historic Preservation in making an inventory of possible local renovation alternatives whenever GSA initiates a survey of building needs. The bill would also permit multiuse or cooperative use of any Federal buildings, old or new, for commercial, cultural, educational, recreational, or residential uses, in a way that encourage a more lively pedestrian setting in and around Federal buildings.

On May 19, 1975, hearings on S. 865 were held before the Subcommittee on Buildings and Grounds of the Senate Committee on Public Works. Federal agencies represented in testimony at the hearings included the Advisory Council on Historic Preservation, the General Services Administration, the National Park Service, and the National Endowment for the Arts. Private organizations represented included the National Trust for Historic Preservation and the American Institute of Architects. On July 31, 1975, S. 865 was favorably reported out of Committee with amendments growing out of suggestions made by witnesses at the May 19 hearings. The bill as amended was sent to the floor of the Senate, where it passed on August 1, 1975, and was then referred on September 3, 1975, to the House Committee on Public Works and Transportation. On the same date, Representative Bella Abzug (D-N.Y.), introduced H. R. 9187, the House counterpart to S. 865. An identical bill, H.R. 11158, was introduced on December 15, 1975, by Representative Hamilton Fish, Jr., (R-N.Y.). Both bills are pending before the Committee on Public Works and Transportation. No date has been scheduled for House hearings.

U.S. Military authority for preservation

S. 1707, introduced by Senator Hugh Scott (R-Pa.), on May 12, 1975, would authorize the Secretary of the Army to preserve, restore, interpret, and maintain properties listed in the National Register located on federally owned lands at any water resources development project under the Secretary's control, jurisdiction, and management. It is questionable whether the National Historic Preservation Act of 1966 or any other statute provides the necessary authority for agencies such as the U.S. Army Corps of Engineers to expend funds to insure that historic resources are preserved and maintained, even though such agencies have been given responsibilities for historic and cultural resources on lands under their jurisdiction. S. 1707 is intended to insure that Federal agencies have the necessary authority to advance these objectives. S. 1707 has been referred to the Senate Committee on Interior and Insular Affairs. No hearing date has been set.

Land use planning

Several important land use planning measures are now pending before Congress. All the bills require inventory of important land resources, such as coastal areas, lands rich in raw materials, and key agricultural regions. Cultural and historic areas are specifically included with the aim of preventing inadvertent loss or unnecessary adverse effect. The bills also require that new

planning agencies be set up to anticipate future land use needs and that the proposals of these agencies be discussed in public forums at local, State, and Federal levels. Consideration of historic preservation factors is explicitly required of all these agencies. The two bills being given greatest attention are H.R. 3510, and its alternate version, H.R. 5633, introduced by Representative Morris Udall (D-Ariz.), and S. 984, introduced by Senator Henry M. Jackson (D-Wash.). Though basically similar, the bills have some important differences.

H.R. 3510, the Land Use and Resource Conservation Act of 1975, authorizes a grants program of \$500 million to be paid to State governments over six years for the purpose of developing State land use programs. Grants would be made on a 75 percent Federal, 25 percent State matching basis. Funds would be passed on to localities. States would not be required to participate in the grants program. Even for States choosing to participate, wide discretion in use of funds would be allowed. The grants program would be administered by the Secretary of the Interior through a new agency of the Department of Interior, to be called the Office of Land Use Administration. A key function of this office would be creation of a national Land Use Information Center, providing data which could be used by all States and localities. States would receive Federal grants upon submission and approval of any viable State land use plan, providing that plan conformed to purposely broad Federal guidelines.

S. 984, the Land Resource Planning Assistance Act, authorizes a grants program of \$800 million to be paid to State governments over 8 years for the purpose of developing State land use programs. Grants would be made on a 2/3 Federal, 1/3 State matching basis. Funds could be passed to localities. States would not be required to participate in the grants program. States choosing to participate in the program would be allowed wide discretion in use of funds, except that detailed guidelines would be laid down for energy facility planning, and States would be specifically required to set up State land use planning agencies in addition to having a viable land use plan. The grants program would be administered by the Secretary of the Interior through an Office of Land Use Planning Assistance. In addition, an Interagency Advisory Board of representatives from Federal departments and agencies would advise in implementation of the grants program.

H.R. 3510, the Land Use and Resource Conservation Act of 1975, introduced by Representative Morris Udall on February 20, 1975, was defeated on July 15, 1975, when, after markup, the House Committee on Interior and Insular Affairs voted not to report the bill to the floor. Still pending in committee is H.R. 5633, an alternate version of H.R. 3510, which Representative Udall introduced on March 26, 1975, in anticipation of criticisms that led to defeat of H.R. 3510. No hearing date has been set for H.R. 5633.

S. 984, the Land Resource Planning Assistance Act, introduced by Senator Henry M. Jackson (D-Wash.), on March 6, 1975, was the subject of hearings held April 22-24, 1975, by the Subcommittee on Environment and Land Resources of the Senate Committee on Interior and Insular Affairs. No date has been set for further hearings or markups.

In both H.R. 3510 and S. 984, State participation would be voluntary. Another bill now pending, H.R. 634, introduced by Representative Meeds (D-Wash.), would enact the basic provisions of the Udall bill, but would establish sanctions as well. States not participating in the program would be declared ineligible to receive monies from the Federal Highway Trust Fund.

Less broad in scope, but also important for historic preservation, are several measures now before Congress to set up planning guidelines for lands administered by the Department of the Interior through the Bureau of Land Management (BLM). BLM lands have traditionally been the "castoff" lands in Federal ownership, such as deserts and marginal grazing areas not included in any management system. However, they comprise 20 percent of America's land base and 60 percent of all federally owned lands. As land use in America becomes more intensive, the demands upon these areas have become more complex, and need has been felt for a "BLM Organic Act," which would provide the agency with clearer legal authority. This is the purpose of S. 507 and a similar bill, S. 1292, both introduced by Senator Haskell (D-Colo.), and of H.R. 5622, introduced by Representative Seiberling (D-Ohio). All three bills specifically require inventory and protection of historic resources. Hearings on S. 1292 and S. 507 were held March 21 and May 15, 1975, before the Senate Committee on Interior and Insular Affairs. After further hearings on December 18, 1975, S. 507 was ordered favorably reported with amendments and submitted to the full Senate.

No date for floor discussion has been set. A copy of Senate Report No. 94-583, which accompanied S. 507, can be obtained by writing to the Senate Document Room. No hearing date has been set for H.R. 5622, which is pending before the House Committee on Interior and Insular Affairs.

Historic preservation and strip mining

Several bills now pendings in the House and Senate address the problem of strip mining in National Parks. Recent public outcry against exploitative mining by private firms in Death Valley, California, has been the chief stimulus for this legislation. Death Valley is one of five National Parks that currently have no prohibition against mining.

The major House bill addressing this problem is H.R. 9799, introduced September 23, 1975, by Representative John Seiberling (D-Ohio), which was the subject of hearings held October 6, 1975, before the Subcommittee on National Parks and Recreation of the House Committee on Interior and Insular Affairs. The bill would prohibit all mining activities in all National Parks by imposing a moratorium on further mining activities in affected parks and by repealing earlier mining laws that allow mining in parks. While the bill does not specifically mention historic resources, it gives the Secretary of the Interior broad management authority to protect all types of resources within National Park boundaries from adverse effects of mining. H.R. 9799 is pending in committee, subject to further hearings.

The Senate response to the strip mining problem, S. 2371, was introduced September 18, 1975, by Senator Lee Metcalf (D-Mont.), with five cosponsors. Like H.R. 9799, S. 2371 imposes a moratorium on mining and repeals certain previously existing statutes affecting mining in National Parks. After hearings held December 16, 1975, before the Senate Committee on Interior and Insular Affairs, S. 2371 was favorably reported with amendments and sent to the floor. An important amendment to S. 2371 extends Federal concern for the effects of strip mining on historic and natural areas to those privately owned properties designated as National Historic Landmarks and natural landmarks. While no strict control is provided, the amendment requires the Secretary of the Interior to request the Advisory Council on Historic Preservation to advise on alternate steps that can be taken by the Federal Government to mitigate or abate such mining activity. No date has been set for consideration of S. 2371 by the full Senate. Copies of Senate Report No. 94-567, which accompanied the bill, can be obtained from the Senate Document Room.

Increased Federal support for cultural activities

The President has signed into law an important measure of the Ninety-fourth Congress having the aim of reviving American folk art.

The "American Folklife Preservation Act" was introduced in the House as H.R. 41 on January 14, 1975, by Representative Frank Thompson, Jr. (D-N.J.), and in the Senate as S. 1618 by Senator James Abourezk (D-S.D.), on May 1, 1975. After hearings in both houses, a revised version was passed and sent to the President as H.R. 6673. As enacted, the bill is Public Law 94-201, approved January 2, 1976. Copies may be obtained from the office of the *Federal Register*, National Archives and Records Service, General Services Administration, Washington, D.C. 20408.

The measure establishes an American Folklife Center in the Library of Congress. The Center will provide resources, produce educational materials, and award grants to those working in or studying American folklore and crafts. The Center will be geared to those who create art as well as to scholars. Funds also will be available to those producing and preserving folklife, such as promoters of folklike festivals and demonstrations. The act authorizes \$777,500 over a three-year period to the Center. While the act is not oriented exclusively to historic preservation, it could presumably be used to assist such preservation activities as documentary recording of historic structures, performances and festivals at historic sites, and programs to stimulate old crafts and preservation technologies in fields such as woodworking, metalworking, and glassmaking. The reports which accompanied the American Folklife Preservation Act (Senate Report No. 94-527; House Report No. 94-273) can be obtained from the Senate and House Document Rooms.

The "Arts, Humanities, and Cultural Affairs Act of 1975" was introduced to Congress in May 1975. The act was introduced in the Senate as S. 1800 by Senators Claiborne Pell (R-R.I.), and Jacob Javits (R-N.Y.) and in the House as H.R. 7216 by Representatives John Brademas (D-Ind.), and Alonzo Bell (R-Calif.). As originally introduced, the act proposed three broad actions: reauthorize and increase funding for the National Endowment for the Arts and

the National Endowment for the Humanities; provide for improvement of museum services through Federal matching grants; and authorize Federal indemnification of international cultural exhibitions. Senators Pell and Javits also introduced a second bill, S. 1809, for the Administration. It reauthorizes the Endowment but maintains the present funding level for the next three fiscal years—1977, 1978, and 1979.

Historic preservation is only one of many cultural activities that would be affected by the Arts, Humanities, and Cultural Affairs Act. Nevertheless, cultural projects and museum activities have often proven to be important complements to preservation. For example, National Endowment for the Humanities grants have supported seminars to teach the skill of interpreting the meaning of historic sites, and National Endowment for the Arts grants programs have been established to improve community awareness of the architectural heritage and urban ambience.

After hearings and revisions in both houses, the indemnification portion of the Arts, Humanities, and Cultural Affairs Act was passed by Congress as H.R. 9657 and signed into law (P.L. 94-158) by the President on December 20, 1975. Remaining portions of the original proposal dealing with funding reauthorization and museum grants are still pending for further hearings and continue to be referred to under the numbers of the bills in which they first appeared (S. 1800, S. 1809; H.R. 7216).

S. 1800 and S. 1809 are pending before the Special Subcommittee on Arts and Humanities of the Senate Committee on Labor and Public Welfare. H.R. 7216 is pending before the Subcommittee on Select Education of the House Committee on Education and Labor.

Copies of P.L. 94-158 are available from the office of the *Federal Register*, National Archives and Records Service, General Services Administration, Washington, D.C. 20408. Conference Report No. 94-680, which accompanied H.R. 9657, is available from the House and Senate Document Rooms.

Preserving older neighborhoods

In recent years, Congress has witnessed a growing volume of legislation addressed to the problem of providing decent residential conditions for city dwellers. Increasingly, such bills bring together historic preservation in the more traditional sense and modern concepts of rehabilitation of existing housing stock and living areas. An example is H.R. 9233, introduced August 1, 1975, by Representative John LaFalce (D-N.Y.), and referred to the House Committee on Banking, Currency, and Housing. Although H.R. 9233 does not specifically use the term "historic preservation," the bill is entitled the "Neighborhood Preservation and Rehabilitation Amendments of 1975," and is intended to "preserve older urban neighborhoods by assisting units of general local government in carrying out neighborhood preservation and rehabilitation programs which . . . give reasonable promise that a suitable and stable living environment will be restored or maintained." To carry out these preservation objectives, H.R. 9233 would amend the Housing and Community Development Act of 1974 to authorize additional grants to local governments for projects targeted at neighborhood improvement. The bill would also amend the Housing and Urban Development Act of 1970 to provide for an expanded program of Federal mortgage insurance in neighborhoods worthy of preservation. The bill is now pending in committee, and no hearing date has been set.

Miscellaneous bills

S. 647, introduced by Senator Robert Taft, Jr. (R-Ohio), on February 11, 1975, would establish a national program to provide for certification of historic barns and for tax credit for their maintenance. The bill has been referred to the Senate Committee on Finance. No hearing date has been set.

S. 228, introduced by Senator Edward Kennedy (D-Mass.), on January 17, 1975, would establish a National Trust for the Preservation of Historic Ships. The bill has been referred to the Senate Committee on Interior and Insular Affairs. No hearing date has been set. In the House a similar bill, H.R. 8722, was introduced by Representative John Murphy (D-N.Y.), on July 17, 1975. The bill has been referred to the House Committee on Interior and Insular Affairs. No hearing date has been set.

H.R. 11001, introduced by Representative Fernand S. Germain (D-R.I.), on December 4, 1975, would provide grants for restoration of historic cemeteries or burial plots to States or political subdivisions of States and to private owners of such sites. The bill has been referred to the House Committee on Interior and Insular Affairs. No hearing date has been set.

House Subcommittee on Historic Preservation and coinage

During the Ninety-third Congress, a number of committees of the House of Representatives were reorganized. One product of this reorganization, in effect since the start of the Ninety-fourth Congress, is the new Subcommittee on Historic Preservation and Coinage of the House Committee on Banking, Currency, and Housing. Chairman of the new subcommittee is Representative Robert Stephens, Jr. (D-Ga.). Other members of the subcommittee are Representative Gladys Spellman (D-Md.), Representative Frank Annunzio (D-Ill.), Representative Philip Hayes (D-Ind.), Representative Mark Hannaford (D-Calif.), Representative Richard Schulze (R-Pa.), and Representative Albert Johnson (R-Pa.).

The jurisdiction of the Subcommittee on Historic Preservation and Coinage is still being defined. This task is difficult, since many activities related to historic preservation already fall under other committees. It is anticipated that the jurisdiction of the Subcommittee on Historic Preservation and Coinage will concentrate upon urban aspects of preservation, including such matters as Federal Housing Administration property improvement loans under Title I of the National Housing Act, which can be used to finance the preservation of historic structures; community development block grant funds authorized under Title I of the Housing and Community Development Act of 1974, which can be used to finance acquisition and preservation of historic properties; Section 701 comprehensive planning grants to public bodies, which can be used to finance surveys of historic sites and structures; and other programs relating to the preservation of historic houses, buildings, and other structures not generally within the jurisdiction of the National Park Service.

Sources of additional information

For those wishing more information on historic preservation legislation and its status, there are a number of useful sources. A regularly updated listing, in chart form, of Federal legislation in the field of historic preservation is published by the Advisory Council in *Preservation News*, the monthly newspaper of the National Trust for Historic Preservation, 740-748 Jackson Place, N.W., Washington, D.C., 20006. Membership in the Trust, which includes a subscription to *Preservation News*, is \$15.00 per year.

Congressional activity is monitored regularly by the Advisory Council on Historic Preservation, 1522 K Street, N.W., Suite 1030, Washington, D.C. 20005. The Council keeps up-to-date on the status of historic preservation legislation and prepares analyses of particular legislative proposals. Copies of these analyses are available on request.

Copies of individual bills and reports accompanying bills usually can be obtained from the office of the Senator or Representative who introduced the bill, or from the appropriate document room: Senate Document Room, U.S. Capitol, Washington, D.C. 20510; and House Document Room, U.S. Capitol, Washington, D.C. 20510.

Requests should include the number of the desired bill and the number of the desired report. Requests by mail need not include postage, but should include return-address labels. Telephone orders are not accepted. Reprints of hearings on individual bills can be obtained from the staff of the committee before which the hearing was held or from the Senate and House Document Rooms. Dates and subject matters of hearings should accompany requests whenever possible. Committee names should be given when writing the document rooms.

Copies of Public Laws can be obtained from the office of the *Federal Register*, National Archives and Records Service, General Services Administration, Washington, D.C. 20408.

PRELIMINARY REPORT: "HOUSING FORECLOSURES AND ABANDONMENT IN CALIFORNIA"

(Prepared by: Michael L. Grigoni, housing study director and Steve Young, research assistant in charge)

INSTITUTE FOR LOCAL SELF GOVERNMENT

Introduction

On Monday, March 10, 1975, the Community Development Committee of the League of California Cities, Los Angeles Division met to consider the problem of abandoned/foreclosed houses in Southern California and to discuss HUD's As-Is property disposition program. Committee and LA-LCC staff decided to

embark upon a study of this problem. The Committee requested the staff investigate four major elements of the problem: 1) The process of foreclosure and abandonment in terms of actors, time frame, etc., 2) the extent of the abandonment problem in Southern California; 3) the underlying causes of default and foreclosure; and 4) programs and policies available to cities in response to the abandonment problem.

Because the Institute for Local Self Government (ILSG) was already involved in a statewide study of housing for the LCC, entitled "The Role of California Cities in Housing", ILSG staff offered their assistance to the League's LA office. Research Assistant Steve Young, co-operating with LCC staffer Mike Scott and Pasadena Assistant City Manager Don Pollard, allocated the various assignments between them. This report represents that portion assigned to ILSG including: (1) The foreclosure and abandonment process; (2) the extent of FHA-acquired housing in Southern California; (3) theoretical discussion of possible underlying causes of FHA program failure.

Mike Scott was to prepare program and policy options for cities while Don Pollard was appointed chairman of a sub-committee looking at underlying causes of abandonment.

Data sources

The extent of the abandonment problem researched thus far concentrates solely on FHA-acquisitions. There are other agencies which have information on the extent of the abandonment problem in the conventional financing sector, and they will be contacted in the next phase of our research. These other actors include savings and loans, banks, the Veteran's Administration (VA) and the Cal-Vet program. It should be pointed out that not all foreclosed properties are necessarily abandoned, but abandoned units will be eventually foreclosed.

The ILSG staff would like to thank the Department of Housing and Urban Development (HUD) for providing access to their property inventories in their Los Angeles, Santa Ana, San Diego, Sacramento and San Francisco Area Offices.

The data for Southern California (statewide totals are also being accumulated and will be available in the near future) was obtained from the FHA Insuring Offices in Los Angeles and Santa Ana. The data shows the number of units in FHA's inventory as of March 12, 1975.

FHA market mortgage insurance and subsidized housing program¹

In order to make sense of the table, it is necessary to understand the various FHA programs under which foreclosed and abandoned units were originally constructed, rehabilitated, and acquired. These include market housing (non-subsidized) e.g. 203, special risk e.g. 221 and subsidized e.g. 235.

The National Housing Act of 1934 as amended provides for in insurance of a wide variety of mortgage loans by the Secretary of HUD.

(a) *Section 203* of the 1934 Act is the oldest of the FHA mortgage insurance programs. It provides insurance of mortgage loans to finance the purchase of one to four family new or existing homes. It was enacted as a depression-recovery device designed to restore the confidence of mortgage lenders by insuring them against losses from default. With the government insuring the mortgage, developers found it easier to get interim financing, the buyer could purchase with a smaller down payment and over a longer maturity period, and the interest rate charged was below the conventional rate by $\frac{1}{2}$ to one point. Mortgage limits for a 203 loan have been increased periodically as home prices have inflated over the years and presently stand at \$45,000 for single family homes.

Section 203 was largely responsible for the building of suburbia and was designed for the middle class buyer. It now accounts for 50-60% of all FHA-insured mortgages. The key section of the 203 program states that "no mortgage should be accepted for insurance under this section unless the Secretary finds that the project to which the mortgage is executed is *economically sound*." This "economic soundness" criterion is said to preclude the availability of the 203 program for low-income mortgagors or declining inner-city neighborhoods.

(b) *Section 221* added in 1954, was designed to assist low and moderate income families and displaced families. The 221 program permitted home purchases with a \$200 minimum down payment and had a 40 year mortgage

¹ Source: "A Mortgage Foreclosure Primer," By David Madway, *Clearinghouse Review*; July, August, November, 1974.

maturity, compared to 30 years for 203 mortgages. Most important, there was no "economic soundness" criterion. The mortgage limit on single-family homes under this program was \$18,000 (\$21,000 in high-cost areas). This was to ensure that low-moderate income families bought homes priced within their ability to pay.

(c) *Section 235* was added in 1968. This was an attempt to help low and moderate income families purchase new, rehabilitated, or existing homes by providing both mortgage insurance and subsidies which would reduce the going market interest rates.

The subsidies were in the form of periodic payments to the mortgagee in behalf of the homeowner in an amount necessary to make up the difference between 25% of the family's income and the required monthly payments under the mortgage. This subsidy had the effect of reducing the interest rate to as low as 1%, depending upon family income levels.

Section 234 was added to the Act in 1961 and provided mortgage insurance to purchasers of condominiums. Individuals were allowed to own up to four FHA-insured condominiums as long as they lived in one of them. In certain cases (e.g. see data on Fontana Village below) condominium projects were constructed under 234 commitments, and then sold to low-moderate income people under 203 or 235 financing. This technique ("piggy-backing") must be kept in mind while analyzing the data displayed below under 234 (market rate). *Summary and Analysis of L.A. Area Data* (See Tables I, II & III, p. 6, 11-17)

As of March 12, 1975, the Los Angeles Area Insuring Office of HUD had 3,874 foreclosed single family homes in their inventory. Of this total, 100 were in Ventura County; the remainder (3,774 units) were in Los Angeles county. The City of Los Angeles accounted for 1,395 of these units (37%). Compton had 759 HUD-owned units (20%), and Pomona had 462 units (12%). Seventy-three other cities within the county accounted for the remaining 1,162 units. The heaviest concentration of units was in the south-central section of Los Angeles, where 1,084 units accounted for 78% of that city's total.

In Ventura County, there were 100 abandoned units, 62 in Simi Valley, 22 in Oxnard and 16 in Thousand Oaks. Kern County had 132 total units in inventory, with the City of Bakersfield containing 98 of the total. Orange County had only 53 abandoned units with 34 in Santa Ana and 14 in Huntington Beach.

Riverside County, with 406 units, had most of the units contained in the City of Riverside (241) with scatterings in Banning (33), Coachella (25), Indio (32), and Perris (20). San Bernadino County had a sizable inventory (1,172 units) contained in four major cities; San Bernadino (498), Fontana (206), Rialto (114) and Bloomington (104).

There was a marked contrast between the "urban" and "rural" counties as to the FHA program under which foreclosed units originally were insured. In Los Angeles city and county, the vast majority of HUD-acquired units originated from the 221 program: seventy-six percent of the units in south-central L.A., 71% of the city total, and 66% of the county total. The 203 program accounted for 21% of the county total and the 235 program accounted for 7% of the total. In Orange County, the figures were 20% (203), 54% (221) and 24% (235).

The outlying counties of Southern California experienced a different phenomenon. Whereas L.A., and to a lesser degree, Orange County, were dominated by Section 221 foreclosures and FHA acquisitions, the bulk in Kern, Riverside and San Bernadino counties were from Section 235 mortgage subsidy program, followed by the Section 203 "market" program.

The following table shows the percentage distribution of HUD-acquired properties in the Los Angeles area.

TABLE 1.—HUD ACQUISITIONS BY FHA-INSURING PROGRAM

County	Percent of county total (percent) program		
	203	221	235
Los Angeles.....	24	61	10
Orange.....	20	54	26
Ventura.....	27	60	13
Kern.....	26	6	68
Riverside.....	26	21	53
San Bernadino.....	34	15	51

Special Mention should be made of a few unique situations in certain cities that account for a significant number of HUD-acquired properties;

Lancaster.—has 70 acquired units from the 235 program. These are from two subdivisions which consisted *entirely* of 235 units (Trend and Pine Tree tracts). In part, buyers were tempted both by attractive 235 financing and also predictions that the Lancaster subdivision was about to "boom" with the nearby construction of a large airport and introduction and expansion of Lockheed Aircraft Corporation facilities.

Newbury Park.—A condominium project (234) failed with HUD acquiring nine units.

Fontana Village.—A Planned Unit Development (PUD) project consisting of 80 condominiums built in 1971 was entirely 235 financed and failed soon after construction. The failure of the project is attributed to both an unscrupulous realty company and an inexperienced homeowners association. The result is that 77 of the 80 units went into default and are now owned by HUD.

Age of structure

In South Central Los Angeles, the age of HUD-acquired properties varies greatly. In a random sample taken of the inventory in that area (N-60), 55% were estimated to be built before 1935. Another 28% were built prior to 1952, with the remainder built since then. The range of building age was from 1914 to 1972.

The remainder of the HUD-owned units in Los Angeles county were substantially newer than South Central Los Angeles. Most of the units sampled in Pomona and Baldwin Park were built in the mid-1950's, while those in Long Beach are slightly older. Those houses which HUD owns in Compton are older still, reflecting their more central locations; 26% of the Compton sample were built prior to 1940, with the vast majority being constructed in the late 40's and early 50's.

Those houses which make up the inventory of the Santa Ana Insuring Office are substantially newer than their counterparts in Los Angeles. For the most part, this is because the San Bernadino-Riverside-Fontana area was developed much later than Los Angeles. Although the range in San Bernadino is nearly as great as L.A. (1925-1972), only 5% of the sample of HUD-owned units were built prior to 1935; 17% were built between 1935 and 1952, 48% between 1952 and 1965. Fully 30% of the acquired units in San Bernadino were built after 1965. The Delman Heights subdivision in San Bernadino was built between 1951 and 1957. In neighboring Bloomington, the proportion of acquired houses less than 10 years old approaches 70%.

In Fontana, the age of acquired structures varies between 1950 and 1972. Forty percent of the sample was built between 1950 and 1965, the remainder since 1965. Riverside returns show some similarity with San Bernadino's; 16% of the acquired units in the sample were built prior to 1952, 48% between 1952 and 1970, and 36% since 1970.

Repair

There are a few units on which HUD is doing substantial rehabilitation. More often than not, the only "repairs" done on any unit sold as-is are security measures—boarding up windows, emergency maintenance, and resecuring. Such minor work is liable to cost HUD \$4,000 a unit. Where there is substantial rehabilitation undertaken, it usually includes total remodeling of the plumbing and electrical systems, roof repair and termite work in addition to security and maintenance costs. These extra works usually adds on \$5-7,000. It should be noted that most abandoned units have to be resecured several times, since vandals invariably find a way to break into abandoned houses. Each time a house has to be resecured, it costs at least \$500 (twice as much if screens are used).

TABLE II.—*Cities with over 25 HUD-acquired properties, as of Mar. 12, 1975*

Azusa.....	30	Simi Valley.....	62
Carson.....	28	Bakersfield.....	98
Compton.....	759	Santa Ana.....	34
Duarte.....	63	Banning.....	33
Inglewood.....	38	Coachella.....	25
La Puente.....	88	Indio.....	32
Lancaster.....	93	Riverside.....	241
Long Beach.....	88	Bloomington.....	104
Los Angeles.....	1,395	Colton.....	24
Lynwood.....	82	Fontana.....	206
Pacoima.....	91	Highland.....	38
Palmdale.....	32	Ontario.....	45
Pasadena.....	88	Rialto.....	114
Pomona.....	462	San Bernadino.....	498
Saugus.....	31		

TABLE III.—NUMBER OF HUD-OWNED PROPERTIES, LOS ANGELES AREA OFFICE, BY CITY, BY PROGRAM

FHA insurance program						
City/county	Market-rate			High risk	Subsidized	Total
	203	234	222	221	235	
Los Angeles County:						
City of Los Angeles:						
South Central Los Angeles						
90001.....	15			61	6	82
90002.....	26			110	13	149
90003.....	36			144	10	190
90011.....	23			117	7	147
90037.....	11			73	6	90
90044.....	39			239	8	286
90047.....	49			85	3	140
Subtotal.....	199			832	53	1,084
Southwest Los Angeles.....	17			51	1	69
Highland Park.....	6			31		37
Hollywood.....	2			4		6
Culver City.....				2		2
Remainder:						
90007.....	2			17		19
90008.....	4	1		2		7
90016.....	8	88		31	3	130
90043.....	14			25	1	40
90091.....				1		1
Totals.....	248	89		1,010	58	1,395
City of Pomona:						
91765.....	2			2		4
91766.....	41			114	11	166
91767.....	43		1	88	17	149
91768.....	44		1	88	8	149
Totals.....	128		2	292	36	458
City of Compton:						
90220.....	60			172	10	242
00221.....	61	50		234	12	365
90222.....	27			109	14	150
Totals.....	156	50		515	36	757
Remaining cities:						
Altadena.....	7			11	1	19
Artesia.....	2			5		7
Azusa.....	10			19	1	30
Baldwin Park.....	9			10		19
Bell.....				4		4
Bell Gardens.....	1			1		2
Burbank.....				1		1
Canoga Park.....	1					1
Carson.....	12			16		28
Cerritos.....		1		1		2
Commerce.....				3	1	4
Covina.....	6			10	1	17

TABLE III.—NUMBER OF HUD-OWNED PROPERTIES, LOS ANGELES AREA OFFICE, BY CITY, BY PROGRAM—Con.

FHA insurance program						
City/county	Market-rate			High risk	Subsidized	Total
	203	234	222	221	235	
Los Angeles County—Continued						
Remaining cities—Continued						
Cudahy.....				1		1
Downey.....	2			7		9
Duarte.....	23			33	7	63
El Monte.....	3			9	1	13
Encino.....				1		1
Gardena.....	6			5		11
Glendale.....	1					1
Glendora.....	2			2		4
Granada Hills.....	1					1
Hacienda Heights.....	1			7		8
Hawaiian Gardens.....	1			4		5
Hawthorne.....				1		1
Huntington Park.....				3		3
Inglewood.....	11			27		38
La Crescenta.....				1		1
La Mirada.....	4			4		8
La Puente.....	23	1		59	5	88
La Verne.....	1	3		3	2	9
Lakeview Terrace.....	6			2		8
Lakewood.....	3			2		5
Lancaster.....	10			13	70	93
Lawndale.....	1			1		2
Lennox.....	2			5		7
Long Beach.....	8			79	1	88
Lynwood.....	14			67	1	82
Maywood.....				4	1	5
Mission Hills.....	2			4		6
Monrovia.....	4			17	1	22
Monterey Park.....	1					1
Newbury Park.....		9				9
North Hollywood.....	2			4		6
Northridge.....	1			1		2
Norwalk.....	3			19	1	23
Pacoima.....	39			42	10	91
Palmdale.....	7			16	9	32
Panorama City.....	2					2
Paramount.....	3			13		16
Pasadena.....	16			65	7	88
Pico Rivera.....	1			11		12
Port Hueneme.....				2		2
Reseda.....				1	1	2
Rosemead.....				1		1
Rowland Heights.....	1	2		2	1	6
Saugus.....	6			11	14	31
San Dimas.....	2			1	1	4
San Fernando.....	6			10	2	18
San Gabriel.....	2			2		4
Santa Fe Springs.....				3		3
Santa Susana.....	1			1		2
South Gate.....				13		13
Sun Valley.....	4			1	1	6
Sunland.....				2	1	3
Sylmar.....	10	1		7	1	19
Temple City.....	1					1
Tujunga.....				5	1	6
Valinda.....	4			9		13
Van Nuys.....	1			4		5
Walnut.....				1		1
Walnut Park.....	2					2
Whittier.....	4			5		9
Wilmington.....				2		2
Total.....	296	17		696	143	1,152
Ventura County:						
Oxnard.....	4	1		12	5	22
Simi Valley.....	18			39	5	62
Thousand Oaks.....	5			9	2	16
Total.....	27	1		60	12	100

TABLE III.—NUMBER OF HUD-OWNED PROPERTIES, LOS ANGELES AREA OFFICE, BY CITY, BY PROGRAM—Con.

FHA insurance program						
City/county	Market-rate		High risk	Subsidized	Total	
	203	234	222	221		235
Kern County:						
Atascadero					2	2
Arvin	1				6	7
Bakersfield	24			5	69	98
Boron	1					1
California City	2			2		4
Delano	1			1	6	8
Lamont					1	1
Lompoc					1	1
McFarland					1	1
Mojave	1				1	2
Santa Maria	4					4
Shafter					2	2
Taft	1					1
Total	35			8	89	132
Orange County:						
Garden Grove	1			3		4
Huntington Beach	3			4	7	14
La Habra				1		1
Santa Ana	7			21	6	34
Total	11			29	13	53
Riverside County:						
Banning	11			9	13	33
Beaumont	1				2	3
Coachella	8			2	15	25
Corona	3			1	4	8
Desert Hot Springs	1				1	2
Hemet	2			1	1	4
Indio	1			2	29	32
Joshua Tree					6	6
Palm Desert	1			3		4
Palm Springs	7			4	3	14
Perris	3			2	15	20
Riverside	66	7		57	111	241
San Jacinto	1			1	6	8
Twentynine Palms				2	1	3
Yucca Valley					3	3
Total	105	7		84	210	406
San Bernardino County:						
Adelanto				1		1
Apple Valley	5			1	4	10
Barstow	4			1	12	17
Bloomington	18			10	76	104
Cabazon	1					1
Cherry Valley	2					2
Chino	1			2		3
Colton	6		1	6	11	24
Crestline	1					1
Cucamonga	1			3	6	10
Edgemont	3			1		4
Fontana	32	1		37	62	206
Fontana Village				1	73	74
Glen Avon						2
Grand Terrace					4	4
Hesperia	3				12	15
Highgrove	1				2	3
Highland	12	3		16	7	38
Los Serranos	1					1
Mammoth Lakes	3					3
Midway City				1		1
Mira Loma				3		3
Ontario	7	2		24	12	45
Pedley					1	1
Redlands	1			1	20	22
Rialto	23			25	61	114
Running Springs	1					1
San Bernardino	118	15	1	91	127	498
Delman Heights	112		1	33		146
Sunnymead	4			2	33	39
Total	365	21	3	257	526	1,172

The following section outlines the foreclosure process on home mortgages and the actions whereby HUD acquires and disposes of properties.

FORECLOSURE PROCESS IN CALIFORNIA

1. General

Unlike many states, California housing sales are completed primarily under deeds of trust rather than mortgages. Deeds of trust differ from mortgages with respect to (a) the parties involved, (b) title document, (c) application of the statute of limitation, (d) remedy for non-payment, and (e) redemption.

In a mortgage sale there are two parties—the mortgagor, who borrows the money, and the mortgagee, who lends the money. In a deed of trust, there are three parties; the trustor who borrows the money (buyer), the beneficiary who lends the money (banker), and the trustee who holds the title as a security for the obligation owed the lender. (Trustees are usually Title Insurance and Trust companies or subsidiaries of Commercial banks or Savings and Loans). Under California law, the trustee can sell the property for the benefit of the beneficiary (lender) if the trustor (buyer) should default. This is termed the "power of private sale."

If a payment is missed under a mortgage, the only recourse a mortgagee has is foreclosure by lengthy court action. But with a deed of trust, the beneficiary has the option of either foreclosing by court action, or having the trustee sell the property, a much shorter, lender-oriented process. In a mortgage sale, the mortgagee (buyer) has one year after foreclosure in which to redeem the mortgage and property. Under a trust deed, the trustee's sale is final and irrevocable. Trustees need wait only a minimum of four months after the time a notice of default is filed to sell the property.

2. Foreclosure process (see chart 1)

When a borrower fails to make two or three payments on a deed of trust, the beneficiary (lending bank) notifies the trustee, and the sale of property begins. Upon receiving notification of a trustor's default, the trustee obtains from the beneficiary a statement showing the following: (1) The unpaid balance on the obligation; (2) the amounts of periodic payments, if any; (3) the date on which it is due in whole or part; (4) the date to which real estate taxes and special assessments have been paid; (5) the amount of insurance in effect, in terms and premium; and (6) the amount in an account, if any, maintained to accumulate funds with which to pay taxes and insurance premiums.

The trustee then files a notice of default with the county recorder or clerk in the county where the property is located (Section 2924 of California Civil Code). This notice must be filed at least three months (90 days) before notice of sale is given. The notice of default contains: (1) Names of trustor, trustee, and beneficiary; (2) identification of property involved; (3) statement that breach of obligation has occurred; and (4) Statement that trustee has elected to proceed under his power of sale.

Within ten days of the filing of the notice of default, all persons who have so requested must be notified by mail that the notice has been filed. If no request has been filed, then the notice of default must be published once a week for four weeks in a newspaper of general circulation in the area.

At any time during this 90 period, the trustee can stop the foreclosure proceedings by paying to the beneficiary all the money due up to that date plus half a point (.5%) on the unpaid balance and any costs incurred by the beneficiary. After the 90 day period, the trustor (buyer) must pay off the entire loan plus costs in order to avert the sale of the property.

Assuming that the trustor (buyer) does not make the necessary payments and the three months has expired, the trustee then publishes a notice of sale once a week for 20 days in a general circulation newspaper. The notice is also posted on the property and in one public place (either city hall or the title insurance company). The sale can be postponed by the beneficiary if he feels the trustor may come up with the payments.

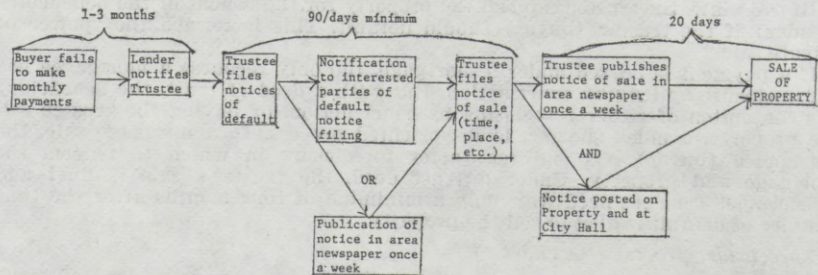
At the time and place of sale specified in the notice of sale, the property is then let to bidding. The beneficiary usually enters the first bid, of the amount due him. There is a distinct bias towards the beneficiary repurchasing the property for the amount outstanding plus interest and sale costs. All others must bid in cash; the beneficiary may bid the outstanding deed of trust. Bidding then continues by all those in attendance until a high bid is declared and accepted by the trustee.

3. FHA property acquisitions

If the loan is insured by FHA, FHA is obligated to pay off the unpaid balance to the trustee, who pays off the lender. Title is then passed from the beneficiary to the trustee to HUD. This happens in the majority of FHA cases, especially those properties in poor condition or "risky" neighborhoods. If the FHA insured property is particularly desirable, the trustee is liable to pay off the beneficiary itself and take title, and then turn around and resell it.

(It should be noted that in a rising real estate market there are significant incentives to foreclosure, the most significant being that the property is refinanced at higher interest rates.)

CHART I
FORECLOSURE PROCESS UNDER DEED OF TRUST*



* It should be noted that it takes a minimum of four months from the time the lender decides to foreclose before the property is actually sold. This minimum time period is built into California law and is designed to allow the home-owner a chance to avoid foreclosure.

HUD'S PROPERTY DISPOSITION PROGRAM

1. General

After HUD has acquired title, the next phase (property disposition) is begun. The first thing HUD does is to see that the property is secure. Supposedly, it is the duty of the beneficiary or his agent, the trustee, to secure the property after title is acquired. In HUD parlance, "secure" means that the unit is vacated, cleaned up, and fortified against vandals. (Typically, HUD uses plywood to board up all entrances into a unit and, just as typically, vandals find a way in. Because of this and because of boarded-up windows are an irritating eyesore, HUD is considering shifting to more expensive security screens.)

In most FHA-acquisition cases, the responsibility of securing properties is assumed by HUD, since title is likely to pass from the trustee to HUD rather quickly. No measures can be taken to secure a property until title is acquired. Some mortgagees have secured in advance of foreclosure, but this is considered legally risky.

If HUD receives a property that is secure, it will reimburse the trustee. If the unit is not secure, it becomes the responsibility of HUD's Area Managers for property disposition to do so. An Area Manager is an individual who contracts their services to HUD, and whose main job consists of securing and maintaining and repairing HUD-acquired properties. (The precise duties differ between HUD Area Offices.)

HUD has several options that may be pursued in achieving its goal of fast disposition at high rates of return. HUD has basically two options they may pursue: They can sell repaired units, or they can sell them as-is (without repair).

These options can be further delineated as follows:

A. HUD Repair and Sale

1. Substantial rehab by HUD under contract with the Area Manager and sale with guarantee of mortgage insurance and one year warranty. This can be done on either an individual or bulk basis.

2. Repair by buyer, with commitment from HUD that a warranty and mortgage insurance will be provided as long as the unit is brought up to code in six months.

3. Limited repair by HUD with no commitment of mortgage insurance or warranty. This is usually done after a property fails to sell as-is.

4. Direct purchase money mortgage—HUD would finance purchase by second owner, who would finance repairs. Mortgages would be paid when house is sold. The unit would be eligible for mortgage insurance on proof of adequate repair. The second owner would be required to put 10% down.

B. As-Is Sale

1. Property sold as-is, straight cash, on a high bid basis. No mortgage insurance is provided, and no warranty is offered.

2. As-is bulk sale of property with conditional guarantee that mortgage insurance would be available if repaired to local code and HUD standards. Rehabilitation and resale would be by a second party.

In September of 1974, citing increasing losses to the FHA Mortgage Insurance funds, HUD shifted their policy vis-a-vis acquired properties. Whereas HUD had traditionally repaired and sold acquired properties, the Crawford memo (HM 74-57 attached) outlined the switch to as-is sales as the chief property disposition technique.

Detailed Explanation of As-Is Program

For the vast majority of properties, HUD is trying to sell them on an as-is basis with no repairs, no warranty, and no mortgage insurance. The calculations used in deciding which option will be used in property disposition is presented in the following table.

(When offering units for bulk sale, HUD decides on the fair market rate by means of a formula that subtracts from the total value of the repaired unit the cost of repairs, cost of management, holding costs, and vandalism costs.) Once HUD acquires the title and secures the property, they estimate its repaired value on the open market and the cost of the repairs. Unless the value of the repaired house exceeds that of the as-is house by a substantial margin (enough to cover costs of rehab and holding costs), HUD will not repair it, but try to sell it as-is.

After HUD acquires title, a decision is made as to which program will be utilized in the disposition of the unit. "Where neighborhood characteristics or other pertinent factors do not rule out as-is sales, maximum use will be made of such sales based on the greatest comparative dollar return to the mortgage insurance funds. Where the estimated net dollar return from an as-is sale is equal to or greater than that estimated from an insured sale, or from razing of the property and sale of the lot, the property will be programmed for as-is sale". (See Appendix 1, Section 1, Paragraph 3B.)

The following formulae will be utilized in estimating the greatest net dollar return for as-is sales, insured sales, and sale of vacant lots after razing of properties. Where razing of the property and sale of the vacant lot indicates the greatest net recovery, the property will first be listed for sale as-is as set forth in this notice.

CALCULATIONS TO DETERMINE GREATEST NET DOLLAR RETURN FOR PROGRAMMING CONSIDERATIONS

As-is sales	Insured sales	Razing for vacant lot sales
1. Market value based on comparable sales (allow for purchaser razing of properties or removal of lead-based paint hazards if applicable).	1. Market value based on comparable sales.	1. Market value of vacant lot.
2. Minus estimated cost of any special repairs by HUD, such as the cost of limited repairs, if applicable, etc. ¹	2. Minus estimated cost of appropriate minimum essential repairs.	2. Minus estimated cost of razing of the dwelling and conditioning of the lot.
3. Minus sales commission based on as-is minimum price.	3. Minus sales commissions based on repaired price.	3. Minus sales commission based on minimum lot price.
4. Equals estimated net recovery for programing determination.	4. Minus closing costs and currently authorized maximum allowable discount points.	4. Equals estimated net recovery for programing determination.
	5. Minus \$500 representing increased costs from holding time during repairs.	
	6. Equals estimated net recovery for programing determination.	

¹ Cost of lead-based paint hazard removal will not be deducted if condition of sale will require purchaser to remove such hazard; such cost will be deducted if HUD is to remove the lead-based paint hazard prior to sales closing.

The intent is clear that the primary disposition technique is to be as-is sales. Even "where razing of the property and sale of 'the vacant lot' indicates the greatest net recovery (to HUD), the property will first be listed for sale as-is as set forth in this notice." (See p. 9 of Appendix I)

Acceptance of as-is sales offers are based on the highest offered price above a stated minimum acceptable price. These offers are on a sealed-bid basis. Purchase offers are made first to owner-occupants for a period of 10 days. After the 10 days of listing for owner-occupants, and if no acceptable bid has been received, HUD then offers the units to investors, primarily real estate brokers, for a second 10 day period. The second set of bids are then opened and the property is sold to the highest bidder.

Between 80 and 90% of as-is sales go to brokers, who are then free to re-sell them or rent them. Some are sold to so-called owner-occupants. A recent California Court decision ruled that a house could be sold to an owner-occupant who would sleep in the house for one night, then move out and dispose of it anyway he deems fit. Although this is permissible, HUD is likely to become aware of such manipulations and decide not to deal with these people again.

According to an internal HUD memorandum, the priorities for techniques of property disposition are:

1. For the majority of properties sale as-is with no warranty and no FHA mortgage insurance. HUD will sell properties individually on a bid basis with first offering to homeowner occupants and then to any purchaser. The local building department will be notified upon sales closing.

2. For a small percentage of properties bulk sale of properties in groups of more than one on an as-is bid basis. HUD will provide a conditional commitment that, in general, if the property is repaired in compliance with state and local codes within six months HUD will insure a new mortgage loan. This method will be used primarily on properties that do not sell individually as-is.

3. For a small percentage of properties auction of properties individually as-is to the highest bidder. This method will be used primarily for hard-to-sell properties such as lots and multiple units previously offered for sale.

4. For a small percentage of properties repairs of the properties by HUD directly letting contracts (i.e., bulk rehab). Repaired properties are sold individually with FHA mortgage insurance (guaranteed and warranty).

5. Special programs on a limited basis (Property Release Option Program, Direct Sale to Local Government on a Negotiated Basis, etc.).

If the units do not sell under either the as-is or bulk rehab options, HUD will, out of necessity, offer them as an insured sale. Chief Property Officers must provide data showing that the return from an insured sale is significantly higher than an as-is or limited repair sale, high enough to cover costs of repair, holding costs, vandalism costs and underwriting and assessment costs.

A fourth approach is the razing of a structure and sale of the vacant lot. Again, the property must be offered first to owner occupants and investors. HUD acknowledges some of the problems cities might face in having vacant lots in neighborhoods (blight, loss of tax revenue, etc.), and calls for coordination with local governments, in the hopes that local governments will offer to purchase the properties on a negotiated sale basis. "However, timely disposition of properties must not be delayed pending development or implementation of state or local community planning." (Appendix I, Section 11d)

Another HUD program for disposing of properties is the Property Release Option Program (PROP) by which certain properties are offered to local governments for \$1.00. These properties must be of minimum or negative value. (Negative value units are those whose cumulative holding costs, security costs, etc. exceed any potential sales revenue.) The new regulations set a \$2,000 limit on minimum value. By and large, these properties were those that were so badly deteriorated, HUD could not sell them on the open market. HUD believed that the PROP program offered unique opportunities for urban home-steading, mini-parks, land banking—virtually anything cities wanted to use the land and/or units for. The basic problem was that once cities accepted the properties, they also accepted the expense of repairs, lost revenue from property taxes, and security costs. Because of these problems, cities have been reluctant to pick up these "bargains". In all of Region IX of HUD (California, Nevada, Arizona, and Hawaii), less than five units and/or lots have been transferred under the PROP program.

Section 3 of the Crawford memo (Appendix I) lays out the as-is sales policy with regards to neighborhood characteristics. "Although local considerations will be the overriding factors in individual neighborhoods, generally, as-is sales are compatible with (or will not have an adverse effect on) stable neighborhoods, upward transitional neighborhoods, or already blighted neighborhoods. Conversely, caution should be used in utilizing as-is sales in downward transitional neighborhoods where the threshold for tipping into a blighted condition may be exceeded." Region IX of HUD takes a stronger stance, saying that as-is sales are not allowed in deteriorating neighborhoods. The following is HUD's definition of these different kinds of neighborhoods:

NEIGHBORHOOD CHARACTERISTIC DEFINITIONS FOR ACQUIRED PROPERTY
DISPOSITION PROGRAMMING

1. *Stable neighborhoods.*—This category includes both new and older neighborhoods which are maintaining their original residential use, desirability, viability and relative property value levels. Thus, older stable neighborhoods, although of less desirability and level of value than when new, are maintaining these elements relative to the age of the neighborhood. Visible manifestations are: low or nonexistent vacancies; good general overall maintenance of property; good markets for property sales; and a willingness of investors (including owner-occupant purchasers) and lenders to deal with properties in the neighborhood.

2. *Upward transitional neighborhoods.*—This category includes: (a) neighborhoods previously classified as stable which are improving their desirability, viability, and relative property values; and (b) neighborhoods which have previously suffered declines in desirability, viability and relative property values, but which are improving these features. Visible manifestations include improvements over recent periods of time in: the maintenance of property conditions, including repair and rehabilitation; the firmness of the sales market; and the willingness of investors (including owner-occupant purchasers) and lenders to deal with properties in the area. May also include trends toward return to residential uses where such uses have declined.

3. *Downward transitional neighborhoods.*—This category includes neighborhoods, both new and old, where factors bearing on the area are resulting in a lessening or decline of desirability, viability, and relative property values. Visible manifestations may include several of the following: an evidence of decline in property maintenance; increasing vacancies and/or conversion to nonresidential uses; some boarding up of properties; increasing housing code violations, including overcrowding; decline of public services; and a noticeable tendency toward economic disinvestment by investors (including owner-occupant purchasers) and lenders.

4. *Blighted neighborhoods.*—This category includes neighborhoods which have suffered near total economic disinvestment by investors (including owner-occupant purchasers) and lenders, and have lost continued viability as a residential area by virtue of: substantial encroachment of commercial or industrial use; general neglect of property maintenance and resultant severe property deterioration; increased vacancies and/or overcrowding of occupied residential dwellings; widespread violations of dwelling codes; inadequate public services; a substantial declining of the general level of property values; and a soft or reduced market demand. Other symptoms may include building abandonment; razed properties; fires and other serious property damage which has not been repaired; and high rates of vandalism and crime.

As-is sales of acquired units in either of the first two neighborhood categories (mostly Section 203 acquisitions in the suburbs) do not pose any threat. As our data shows, most HUD/FHA acquisitions, however, fall into the latter two categories, deteriorating neighborhoods in the "inner" city.

The line that HUD has drawn between "blighted" neighborhoods (where "caution" is to be used in making use of as-is sales) and "downward transitional" neighborhoods, is both vague and unclear. Discretion is left to the individual Area Offices to appropriately define the various neighborhoods.

In most cases, HUD has decided that most neighborhoods with sizable numbers of HUD-acquired units are already "blighted" (virtually beyond salvation) rather than merely "downward transitional". Further, cities don't always agree with the HUD definition. This is evidenced by the fact that Oakland

requested a 90 day moratorium on as-is sales (Oakland Tribune, 2/21/75), and Compton is considering a similar proposal. Additionally, the cities with the greatest number of HUD-acquired properties (south-central Los Angeles, Compton, San Bernadino, Oakland, Pacoima, Pomona, and East Palo Alto) also are experiencing the bulk of HUD's as-is sales effort.

Underlying Causes

Finally, a theoretical view of reasons for FHA program failures is offered, based on data analysis and discussions with various HUD/FHA official.

Some Preliminary Comments on Causes of Foreclosure in FHA-Insured Homes

This summarizes a few possible explanations of reasons for default in FHA-insured mortgages. It deals primarily with properties insured under the Section 221(d)2 and Section 235 mortgage insurance programs. These two programs make up the majority of FHA acquisitions, with annual default rates in California running at around 6% for 221's and 5% for 235's in 1972, compared to .43% for Section 203. By 1972, fully 10.4% of all 221 mortgages that were insured nationally ended in default. For Section 235, the figure is 6.3%. Default rates have increased in all categories since 1972. (Data cumulative to 1975 is not yet available)

The 221(d)2 program, aimed at low-moderate income families offers low down payments to families who can (supposedly) make monthly payments. The mortgages are FHA market rate. With a \$200 investment as a down payment, families could buy a house. But with this small an investment, equity is built up very slowly. As a result, people may tend to see their houses as less of a personal investment than they really are, and the incentive to hang on and make house payments through difficult times is lessened.

The 235 program, like the 221(d)2 program, was aimed at low and moderate income families, but with the important exception that the government subsidized the buyer by paying to the lender the difference of 25% of the family's monthly income and the monthly mortgage payment. This in itself does not seem to add or detract from abandonment causes.

Some of the more obvious reasons for 235 failure is the manner in which it was administered. In too many instances, developers would obtain FHA commitment of Section 235 financing for entire developments. Usually these were new subdivision tracts were on the edges of a city, far removed from civic amenities. This caused what is known as "economic compression", and entire subdivision with a very narrow income strata. And with FHA limits set on the cost/value ratio of the homes, they would not appreciate as fast as other homes in the city. In some cases, FHA corruption may have been at fault through the sale of substandard units without FHA inspection to low income people. But there is little evidence of this kind of problem in California.

Section 235 financing was also used for condominium projects. The low monthly payments often did not cover increased operating and maintenance costs.

By and large, it can be argued that both Section 221(d)2 and 235 may have been based on faulty assumptions; i.e. the desirability of homeownership for low and moderate income people. In many cases, families were not provided with adequate counseling on the complexities and financial responsibilities of home ownership. Such basic issues as tax assessments, insurance, bonding, zoning, and monthly mortgage payments were foreign to many new homeowners and FHA counseling programs, intended to be a vital part of both programs, were often non-existent.

Since the intent of Congress was clearly to support low-income home ownership, there was substantial pressure from Congress and Legal Aid Societies to insure such a result. But the economic realities of home ownership destined the programs to be of use primarily to the middle class. It has been argued that many low income people who did buy homes under 221 or 235 financing were simply too poor to afford them. Data to support such a claim is not available. Experiments by the San Francisco Development Fund, however, seem to indicate that an intensive home-ownership counseling program is a crucial element in effective low-moderate income home ownership.

Obviously, the factors discussed above offer only a limited explanation of the abandonment problem. Further analysis of this issue will be provided in the Institute's final report and in the work of the League's Community Development Committee in Los Angeles.

Appendix I

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
HOUSING MANAGEMENT,

September 11, 1974.

To: Region: Regional administrator; assistant regional administrator for housing management; regional real property officer. Area: Director; director, housing management division; CPO. Insuring: Director; director, housing management division; CPO.

Subject: Property disposition primary objective.

1. *Purpose.*—To provide all Regional, Area, and Insuring Offices with a redefined statement of the primary objective of the Property Disposition program and to provide guidelines for immediate implementation of that objective.

2. *Objective.*—The primary objective of the Property Disposition program is:

REDUCE THE INVENTORY OF ACQUIRED PROPERTIES IN SUCH A MANNER AS TO
ENSURE THE MAXIMUM RETURN TO THE MORTGAGE INSURANCE FUNDS

In order to achieve this objective in the disposition of acquired home properties, the following criteria will be utilized:

a. *Maximize sales on an as-is, without warranty, all cash, without mortgage insurance basis (referred to hereafter as "as-is" sales) as the primary technique.* It is HUD's general experience that this method of sale is the best approach to achieving this objective. The more prompt closings in connection with as-is sales will result in immediate cash flow to the mortgage insurance funds and decreased dollar outlays from reductions in holding time, vandalism, and deterioration of the properties. Such sales facilitate the return of HUD-owned properties to private ownership, and the more rapid repair and occupancy of the properties. This has a beneficial result of encouraging neighborhood stabilization and revitalization.

b. *Give priority to the highest prices offered which are above the stated minimum and are submitted by qualified purchasers.*

c. *Make minimal use of insured mortgage financing (referred to hereafter as "insured" sales).* The criteria for determination of appropriate sales approach are discussed in the following paragraphs and are summarized in Appendix 1.

d. *Make only minimum essential repairs to properties offered for sale with insured financing.* FHA underwriting standards must be met in all insured sales. (See paragraph 9.c.)

SECTION I. AS-IS SALE

3. *As-is sales policy.*—One of the most cost effective methods of achieving the primary PD objective of reducing the acquired home property inventory is the as-is sales method. Therefore, as-is sales shall be used to the maximum possible extent in the disposition of acquired properties. In utilizing this sales method, the Chief Property Officer (CPO) should give due cognizance to the possible effects of as-is sales on individual neighborhoods. Although local considerations will be the overriding factors in individual neighborhoods, generally, as-is sales are compatible with (or will not have an adverse effect on) stable neighborhoods, upward transitional neighborhoods, or already blighted neighborhoods. Conversely, caution should be used in utilizing as-is sales in downward transitional neighborhoods where the threshold for tipping into a blighted condition may be exceeded. (See Appendix 2 for definitions of neighborhood classifications.)

a. *It must be recognized* that generally it is the responsibility of property purchasers to make necessary repairs to bring properties into compliance with local codes. Further, it is the responsibility of the applicable local government entity to enforce and police code compliance. However, where local ordinances require all sellers to bring properties up to code prior to sale, or place certain other restrictions on sale, local HUD offices will comply with such ordinances or restrictions. Additionally, based on the merits of individual situations, local HUD offices may enter into agreements with communities regarding property conditions prerequisite to sale.

b. *Where neighborhood characteristics* or other pertinent factors do not rule out as-is sales, maximum use will be made of such sales based on the greatest

comparative dollar return to the mortgage insurance funds. Where the estimated net dollar return from an as-is sale is equal to or greater than that estimated from an insured sale, or from razing of the property and sale of the lot, the property will be programmed for as-is sale. (See Appendix 1 for computation of comparative net dollar return.)

c. *All properties sold as-is*, except those sold for razing, are subject to removal of lead-based paint hazards in accordance with HUD Regulations 24 CFR 35 and outstanding instructions.

4. *As-is sales procedures*.—Acceptance of as-is sales offers will be based on the highest offered price above a stated minimum acceptable price. Offers from prospective purchasers shall be accepted only on a sealed-bid basis and will be appropriately safeguarded until the specified public bid opening dates.

a. *Minimum acceptable prices* to be stated in property listings will be the estimated market value of comparable properties in equivalent conditions.

b. *Title policies* are to be purchased locally without limitation to length of time since acquisition. Prior approval from the Office of the General Counsel prior to purchasing such title policies is not required.

c. *Purchase offers* are to be accepted from prospective owner-occupants *only* during a ten-calendar-day period following the date of listing. The listing notice shall specify the last of the ten-day period for receipt of offers, after which the properties are removed from the market. The sealed-bid offers shall be opened during the first workday following the designated ten-day period and appropriate notification made to offerors regarding acceptance or nonacceptance of offers to purchase. A listing of properties for which offers were accepted shall be included in a deletion notice to the Public Information Release (PIR).

d. *Properties for which no acceptable offers were received during the ten-day period* will be relisted for sale for an additional ten-calendar-day period. During this second ten-day period, offers may be accepted from both prospective owner-occupant and nonoccupant purchasers (investors). The listing notice shall specify the last day of the ten-day period for receipt of offers, after which time the properties may be available on a first-come, first-sold basis. The sealed-bid offers shall be opened the first working day following the stated ten-day period and appropriate notification made to offerors regarding acceptance or nonacceptance of offers to purchase. A listing of properties for which offers were accepted shall be included in a deletion notice to the PIR.

e. *Properties for which no offers were received during the second ten-day period* shall continue to be available for sale in an as-is condition, except as follows:

(1) Properties that were listed as-is, as a result of programming for razing and offering for sale of the vacant lot, shall be programmed for such razing. (See Section V.)

(2) Properties where the as-is sale would be enhanced by certain limited repairs may be so repaired and relisted for as-is sale in accordance with paragraph 7 of this notice.

(3) Properties where sales can only be effective by repair for insured mortgage financing may be so programmed and listed for insured sale in accordance with paragraph 8 of this notice.

f. *The warranty provision* of the Standard Retail Sales Contract must be deleted in all as-is sales. Further, payments or allowances will not be made for any closing and financing costs, including discount points, in as-is sales to investors. Items 11 and e on the reverse of the sales contract will be deleted by appropriate revisions in item H thereof. Similarly, the removal of lead-based paint hazards in accordance with 24 CFR 35 and outstanding instructions, when to be accomplished by the purchaser, shall be made a condition of sale. (See Appendix 4.)

SECTION II. WALK-IN AS-IS SALES

5. *Walk-in as-is sales policy*.—With the exceptions listed below, all vacant acquired properties not otherwise being made available for as-is sale shall be listed for sale on as-is basis if bona fide purchase interest is indicated from a prospective owner-occupant purchaser. Such indications of as-is owner-occupant purchaser interest (hereafter referred to as "walk-in" sales) may be oral or written.

a. *Properties shall not be programmed for walk-in sales if*: (1) As-is sales are prohibited by local ordinance or by local agreement; (2) they have been identified for special programs, or otherwise exempted, in accordance with specific central office instructions; (3) repair purchase orders or formal con-

tracts already have been awarded; or (4) they are located in areas, such as downward transitional neighborhoods, where as-is sales are determined not to be appropriate. (See Section I, paragraph 3.b.)

b. *The availability of properties on a walk-in basis* shall be disseminated to all parties participating in the acquired Property Disposition program utilizing the instructional cover sheet to the PIR.

6. *Walk-in as-is sales procedures.*—All properties potentially eligible for walk-in sales shall have posted thereon, in a conspicuous place, an As-Is For Sale Sign, Form HUD-9523. (See Appendix 3 for sample Form HUD-9523.) Eligible properties currently in inventory shall have such signs posted thereon immediately upon receipt of initial distribution of Form HUD-9523. Thereafter, properties will have such signs posted immediately after acquisition, as part of the initial taking possession duties.

a. *Upon indication of bona fide walk-in purchaser interest*, Form HUD-9503, the disposition programming to that of a walk-in sale.

b. *Minimum acceptable prices* to be stated in property listings shall be the estimated market value of comparable properties in equivalent conditions, or reasonable prices offered by prospective purchasers, whichever is greater.

c. *As-is sales procedures* prescribed in paragraph 4c of this notice will apply to walk-in sales. If an acceptable offer is not received from an owner-occupant purchaser during the ten-day listing period, the properties may be returned to the original disposition programming.

d. *Prior to initiation of the walk-in sales procedure*, the procedure must have been publicized in the PIR. Initiation of the procedure should not be delayed pending receipt of the As-Is For Sale Signs.

SECTION III. LIMITED REPAIR, AS-IS SALES

7. *Limited repair, as-is sales policy.*—In areas such as downward transitional neighborhoods, where as-is sales are determined inappropriate because of the possibility of undesirable effects on the area, consideration shall be given to repairs of a limited nature or scope which would eliminate any undesirable elements of the as-is sale (referred to hereafter as "limited repair" sales). Such limited repair sales shall also be utilized, where necessary to stimulate slow or nonexistent as-is sale activity.

a. *Limited repair sales* shall, in all respects other than the repairs, be identical to as-is sales, i.e., no warranty, all cash, without mortgage insurance.

b. *Preference shall be given* to limited repair sales over insured sales, consistent with inventory reduction and maximum returns to the mortgage insurance funds. Such sales shall be utilized where they produce a greater net dollar return to the insurance funds and maintain an adequate sales velocity in comparison to insured sales.

c. *No distinction* shall be made between as-is sales and limited repair sales in PIR listings or advertisements for sale.

8. *Limited repair sales procedures.*—Limited repair sales shall be initially programmed for properties located in downward transitional neighborhoods, where the appropriateness or necessity of such disposition can be determined in advance. Properties may also be programmed for limited repair sales after adequate listing for as-is sales without purchaser interest.

a. *As-is sales procedures* as prescribed in paragraph 4 above shall apply to limited repair sales.

SECTION IV. INSURED SALES

9. *Insured sales policy.*—Properties shall be programmed for insured sales only: (i) where such approach clearly produces the greatest net dollar return to the insurance funds (see Appendix 1); or (ii) where as-is sales or limited repair sales are prohibited by local ordinances or codes, or are not appropriate in accordance with the provisions of this notice.

a. *The establishment of an appropriate program* for disposition of properties, including determinations for insured sales, as-is sales or razing of properties, requires current and valid data to support and document final determinations. The CPO shall assure that the following categories of data are available on a current basis and are appropriately reflected in approved disposition programs:

(1) Repaired and as-is property sales price data. (See paragraph 153, Property Disposition Handbook, One- to Four-Family Properties, HM 4310.5.)

(2) Repair cost data. (See Chapter 5, paragraph 4, Property Disposition Handbook, Reconditioning Acquired Properties, HM 4325.1.)

(3) Demolition cost data.

(4) Vacant lot sales price data.

b. *FHA underwriting standards* shall be applicable to all insured sales. It is essential that FHA underwriting standards be applied consistently on a nationwide basis.

c. *Repair of properties* incident to insured sales shall be limited to minimum essential items to comply with FHA mortgage insurance criteria, or to otherwise comply with local codes in areas where such codes are being actively enforced. Additional repairs and/or upgrading may be accomplished as necessary to effect insured sales if properties offered with minimum essential repairs do not sell after reasonable sales-listing exposure.

d. *Maximum feasible use* will be made of formal contracting provisions to accomplish programmed repairs.

e. *Small business and minority contractors* will be utilized to the maximum extent feasible in the competitively-bid procurement of repairs to acquired properties.

f. *Insured sales may be financed* with any FHA-approved mortgage of the purchaser's selection provided that such financing is obtained at discount points which do not exceed those calculated in accordance with the FNMA Biweekly Free Market System (FMS) auction. Use previously furnished charts for calculation of maximum authorized discount points based on FMS auction results for average weighted yield. Advice may be given to interested parties regarding approved mortgages willing to finance insured sales at or below the maximum authorized discount points.

10. *Insured sales procedures.*—Purchase offers for insured sales will be accepted based on the highest price offered above a stated minimum acceptable price. Offers from prospective purchasers shall be accepted only on a sealed-bid basis and shall be appropriately safeguarded until the specified public bid opening dates. For insured sales, maximum mortgage amounts will be established based on the stated minimum acceptable price for each property and will be included in PIR information. Those portions of the total bid which are in excess of maximum mortgage amounts will be required as down payments. Since the sales price may exceed the value of the property for mortgage insurance purposes (minimum acceptable price), item d on the reverse of Form HUD-9548, Standard Retail Sales Contract, shall be deleted by the insertion of the following language in item H of Form HUD-9548: "The provisions of item d printed on the reverse hereof are stricken in their entirety and the purchaser agrees that the value of the property for mortgage insurance purposes is \$——, and acknowledges that he was informed of such value before execution of this Contract." (Insert the minimum acceptable price in the blank space provided.)

a. *Minimum acceptable prices* to be stated in property listings will be the estimated market value of comparable properties in equivalent conditions.

b. *Purchase offers are to be accepted* on a sealed-bid basis from prospective owner-occupants during a ten-calendar-day period following the date of listing. The listing notice shall specify the last day of the ten-day period for receipt of offers. The sealed-bid offers shall be opened during the first workday following the designated ten-day period and appropriate notification made to offerors regarding acceptance or nonacceptance of offers to purchase. A listing of properties for which offers were accepted shall be included in the PIR deletion notice.

c. *Purchase offers accepted* shall be subject to the prospective purchaser meeting minimum credit criteria.

d. *Offers to purchase* at prices above the stated minimum acceptable price shall be in increments of \$50.

e. *Properties for which no acceptable offers were received* during the ten-day period will be relisted for sale for an additional ten-calendar-day period. During this second ten-day period, offers may be accepted from both prospective owner-occupant and non-owner-occupant purchasers on a sealed-bid basis. The listing notice shall specify the last day of the ten-day period for receipt of offers, after which time the properties shall be available on a first-come, first-sold basis. The sealed-bid offers shall be opened the first working day following the stated ten-day period and appropriate notification made to offerors regarding acceptance or nonacceptance of offers to purchase. A listing of properties for which offers were accepted shall be included in a PIR deletion notice.

f. Properties for which no offers were received during the second ten-day offering period will continue to be available for sale on a first-come, first-sold basis.

SECTION V. RAZING AND SALE OF VACANT LOT

11. *Razing and sale of vacant lot policy.*—Where the estimated net dollar return is greater from razing a property and sale of the vacant lot than from either as-is sale or insured sale, the property will be programmed for razing. (See Appendix 1 for computation of greatest net dollar return.)

a. *Properties will be razed* for sale of vacant lots only after listing for sale as-is to both owner-occupant and investor purchasers, except:

(1) In downward transitional neighborhoods, or in areas where as-is sales are prohibited by local ordinance or local agreement, the properties will be listed as-is with the requirement for purchaser razing or will be razed without as-is sales offering.

(2) Properties with severe structural deficiencies must be offered for sale as-is with the requirement for razing by the purchaser. Sale for razing by the purchaser will be treated as investor purchases and such properties will not be offered for owner-occupant purchasers.

b. The *minimum acceptable price* for vacant lots offered for sale will be the estimated value of comparable property, considering the highest and best use available.

c. *The sale of properties* to be offered as-is for razing may be negotiated with local government entities, or entities authorized to act on their behalf, and to eleemosynary groups at the minimum acceptable price without public listing.

d. *Coordination shall be maintained* with local government entities to ensure adequate opportunity for negotiated sale to such entities of properties not to be sold for residential occupancy, i.e., as-is for razing or vacant lots. However, timely disposition of properties must not be delayed pending development or implementation of state or local community planning; nor is it intended that insurance funds in the disposition of acquired properties be used to subsidize local programs.

12. *Razing and sale of vacant lot procedures.*—Properties programmed for razing will initially be listed for as-is sale in accordance with procedures established in paragraph 3 above, with the following additional considerations:

a. *Where local government entities*, through ongoing coordination between such entities and the local HUD office, have indicated they are now ready to purchase certain properties, such properties shall not be listed for sale to the public pending disposition of the entities' request.

b. *Properties listed for sale as-is* for razing by the purchaser will be offered only during one ten-day period, open to all purchasers.

c. *Properties not sold during the as-is offering period* will be removed from the market and programmed for razing by HUD.

d. *Vacant lots shall be offered for sale* in accordance with outstanding procedures contained in paragraph 289-1.g-1 of the Property Disposition Handbook, One- to Four-Family Properties, HM 4310.5. Sale by negotiation with local governmental entities, or entities authorized to act on their behalf, may be accomplished at the established price without public listing.

SECTION VII. OTHER POLICY CONSIDERATION

13. The following additional policy considerations shall apply:

a. *Sale of properties* in connection with special programs authorized by the Assistant Secretary for Housing Management will be in accordance with instructions provided.

b. *The disposition of acquired properties* shall be in compliance with outstanding instructions and regulations relative to lead-based paint hazard removal, The National Environmental Policy Act, and the National Flood Insurance Program.

c. *Bona fide tenants of acquired properties* programmed for rental shall be given a 30-day right of refusal to purchase when such properties are reprogrammed for sale, provided such tenants are not in rental arrears. The sales prices shall be at fixed prices equivalent to the stated minimum acceptable price otherwise developed for sales listing. The term "bona fide tenants" shall be construed to mean tenants for a duration of four months or more.

d. *Sales to former mortgagors* shall be at an amount equivalent to 105% of the unpaid principal balance of the mortgage at date of institution of foreclosure as reflected in item 11, FHA Form 1025, Notice of Property Transfer,

(on Forms HUD 1174 and 9828 when appropriate) plus the total dollar amount of any repair expenditures made in accordance with the Approved Disposition Program, Form HUD-9503, since the time of acquisition. Generally, properties with severe structural deficiencies, serious health or safety hazards, or in need of substantial rehabilitation will not be eligible for sale to former mortgagors. Warranty provisions shall not apply in sales to former mortgagors and appropriate revision shall be made to the Standard Retail Sales Contract, Form HUD-9548, to reflect such condition of sale.

e. *Since an active sales program* is essential to achievement of the primary PD objective, due consideration must be given in the selection of appropriate disposition approaches to the sales effectiveness of selected approaches as indicated by current experience in the sales market. Approaches which do not produce adequate sales activity must be replaced by authorized approaches which do produce sales results.

f. *Formal plans* developed in accordance with outstanding instructions for the Planned Program Approach are to be reviewed, and revised where appropriate, to reflect the primary objective of the Property Disposition program and maximum feasible utilization of the as-is sales procedure.

g. *Appropriate revisions* to the Property Disposition Handbook to incorporate policy and procedural directive material contained in this notice are under development and will be issued upon completion.

H. R. CRAWFORD,
Assistant Secretary for Housing Management.

ABANDONMENT DISASTER DEMONSTRATION RELIEF ACT OF 1975

FRIDAY, AUGUST 29, 1975

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS,
SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS,
Los Angeles, Calif.

The subcommittee met at 9:20 a.m., pursuant to call at Will Rogers Memorial Park, 103d Street and Central Avenue, Los Angeles, Calif., Senator Alan Cranston, acting chairman, presiding.

Present: Congressman Mark Hannaford; Carolyn Jordan, Assistant Counsel and Jeremiah Buckley, Minority Counsel, Banking, Housing, and Urban Affairs Committee.

Senator CRANSTON. The hearing will come to order.

Last year Senators Hart, Mondale, and I introduced S. 3115, the Housing Abandonment Disaster Demonstration Relief Act, a bill to test a new mechanism for acquiring and disposing of abandoned property and to develop new financial resources for localities afflicted by the disaster of large scale housing abandonment.

Because of the urgency of this problem we have introduced this bill again this year as S. 1988.

Housing abandonment is still a major menacing housing problem in our urban cities. Housing abandonment is a problem of poor people concentrated in overcrowded, unsafe, and unsanitary housing units, of streets scarred by vandalism and fire, of neighborhoods shunned by businesses and investors, of cities with dying central cores.

Housing abandonment is creating housing, crime, health and tax crises in many of the Nation's cities.

The last national survey in 1971 completed by the Library of Congress on national levels of housing abandonment indicated the growing magnitude of this problem.

Conservative estimates on the number of non-Government owned abandoned units, for example, run around 100,000 in New York, 12,000 in Baltimore, 10,000 in St. Louis, and 5,738 in Oakland.

Recent up-to-date figures on HUD-VA owned foreclosed properties in selected cities indicate that this problem continues to haunt our cities. As of May 1975, HUD owned 69,695 single-family properties nationwide and the VA owned 11,345. The following table will illustrate the volume of units that could be turned over to the corporation by HUD and VA in selected cities:

Area	Housing and Urban Develop- ment owned	Veterans Admin- istration owned
Los Angeles.....	3,874	2,188
Detroit.....	15,905	691
Chicago.....	3,393	294
Atlanta.....	4,953	854
Newark.....	924	485
Cleveland.....	943	983
Houston.....	799	1,055
St. Louis.....	413	337

As of March 1975, the Los Angeles area insuring office of HUD had 3,874 foreclosed single-family homes in their inventory. Of this total, 100 were in Ventura County and the remainder (3,774 units) were in Los Angeles County.

The city of Los Angeles accounted for 1,395 of these units (37 percent). Compton owned 759 (20 percent) units and Pomona had 462 units (12 percent).

Seventy-three other cities within the county accounted for the remaining 1,162 units. The heaviest concentration of units was in the south-central section of Los Angeles where 1,084 units accounted for 78 percent of that city's total in south-central. The VA has 1,105 repossessed properties in the Los Angeles area, 404 in Los Angeles city wide, and 8 in Watts. Exact figures fall short of describing the full magnitude of the housing abandonment problem in terms of the destruction of the quality of life it produces.

The Department of Housing and Urban Development has implemented several programs to rid itself of its growing inventory of repossessed homes. These attempts include: (a) The urban homesteading program announced May 1974, a 1-year experimental program with a projected goal of putting 700 homes in the hands of low-income citizens. This program has been fraught with difficulties because low-income homeowners have difficulties getting financing to repair these units; (b) other HUD programs include the "sale-as-is" program to encourage rapid purchase of HUD repossessions; (c) the "policy release option" program for local governments; (d) the neighborhood housing services program that make available loan funds for inner-city areas that are deteriorating.

On the local level a few cities have implemented their own urban homesteading program. Overall, very little has been done at the Federal or State level to adequately address the abandonment issue and none of the HUD programs have the necessary elements and flexibility to deal with developing unique solutions to the abandoned housing problem. There is no specific program to stop the housing abandonment wave from gaining momentum in city after city or to repair the destruction abandonment leaves in its wake.

Many different reasons have been given for the abandonment problem but it is difficult to deny that the Federal Government is not at least partially responsible for the problem. Many persons who could not afford housing were allowed to buy units. Little or no counseling for families buying a house for the first time was provided. Kick-backs, schemes, and speculation by realtors, builders, and HUD personnel have also contributed to this problem.

Recognizing that the Federal Government had a hand in creating the abandonment disaster and also recognizing that the Federal Gov-

ernment has a strong interest in the quality of housing generally and specifically in protecting the housing which it has insured or guaranteed mortgages. The Demonstration Relief Act establishes a special Government-sponsored corporation to deal with the problem of abandoned housing units.

The agency, to be called the Neighborhood Preservation Corporation, would work in this manner: It would be empowered to seize and acquire title of abandoned housing units quickly to prevent deterioration of the unit and to stem the spread of abandonment in a neighborhood.

The corporation could renovate, rent, sell, construct, demolish units, repair, refinance, purchase property, condemn, and originate mortgages at interest rates below the going market rate.

The corporation could hold land for redevelopment and construct new housing according to a city's housing plan.

This proposal seeks to turn abandonment disaster into a "plus" by preventing deterioration of abandoned units by securing possession quickly and seeing whether a single-purpose agency in abandonment can bring together with the Federal Government, local officials, lenders, renewal and housing agencies, and community organizations, and others necessary to develop a corporative effort for the improvement of urban life.

This is an open hearing of the Senate Banking, Housing and Urban Affairs Subcommittee on Housing. I will not make any formal statement at this time. I think you're all aware that the legislation that we are considering is the Abandonment Disaster Demonstration Relief Act, S. 1988, which I've introduced in the Senate. This bill provides for creating three neighborhood corporations in three different demonstration communities to be selected by HUD that would launch a program with adequate financing that would begin to secure possession and ownership of many abandoned housing units and taking them over, renovating them, making them available for either sale or local rental to families that need housing, with counseling to insure that families don't get into responsibilities that they cannot handle. The alternative would be to tear down the homes if they were in a hopeless condition and to replace them.

I want to welcome Congressman Mark Hannaford who is going to help carry this bill through the House of Representatives. I'm not certain that the bill that we have introduced will be enacted, but I am confident that we will be able to enact something that will be along the general lines of what we are suggesting.

I want to welcome as our first witness, Gene Jarnagin, who is the loan guaranty officer of the Veterans Administration. I wish that for the record you would introduce those with you; and if you could summarize in just not more than 4 or 5 minutes whatever prepared statement you have and submit that prepared statement for the record. Thank you for being with us.

STATEMENT OF GENE JARNAGIN, LOAN GUARANTY OFFICER, VETERANS' ADMINISTRATION

Mr. JARNAGIN. Mr. Chairman, I'm pleased to have the opportunity to appear before the subcommittee today. With me on my left is Henry Cohn from the General Counsel's Office in Washington. On my

right is Mr. Gary Schmidt who is the Chief of Property Management Section, and beyond him is Mr. Gordon Wile, District Counsel in Los Angeles.

Yesterday my colleague, Mr. Frederick Craig, Loan Guaranty Officer of the VA's San Francisco Regional Office, appeared before this subcommittee and presented the views of this agency on—S. 1988 and urged the subcommittee to carefully consider the Department of Housing and Urban Development's objections to the bill.

We concur with that statement. Mr. Craig's remarks are on page 92 of the August 28, 1975, hearing in Oakland on S. 1988.

I'll be happy to answer your questions.

Mr. JARNAGIN. Mr. Chairman and honorable members of the subcommittee, as the Loan Guaranty Officer of the VA's San Francisco office, I am pleased to have the opportunity to appear before this subcommittee today and present the views of the VA on S. 1988.

This bill, entitled the "Abandonment, Disaster, Demonstration Relief Act," is designed to prevent deterioration and destruction of neighborhoods and communities and to hold and assemble parcels of land for orderly development and redevelopment. This being based upon a general finding that the cause of the destruction and deterioration of neighborhoods is to a large extent due to abandonment of properties.

The VA is well aware of the problems with abandoned properties. Unfortunately, we believe this complex bill, as currently drafted, contains many provisions which are ambiguous and subject to varying interpretations, leaves many areas unresolved, and will create many problems. For these reasons, the VA opposes S. 1988.

Our objections to the bill are not to its intent, but rather to potential problems that could result from the vagueness and technical insufficiencies of certain provisions of the bill. These technical problems make it extremely difficult for the VA to take a firm position on the substance of certain of these provisions as we cannot forecast with any degree of certainty the effect that passage of this bill would have upon existing programs.

While not intended to be all-inclusive, the following are some of the specific areas we find objectionable:

Within the three metropolitan housing sections to be determined in accordance and (b) of Section 6 of the bill to take action to declare abandoned residential property forfeited and to seize and take possession of such property. Paragraph 3 of subsection 6(b) of the bill provides such seizer shall be subject to the payment by the corporation of "just compensation" to any person claiming an interest in the seized property.

This paragraph further provides that where the person or agency having an interest is a Federal agency, payment by the corporation shall be in the form of obligations issued by such corporation. The bill does not specify, however, how payment shall be made to persons or other entities that are not Federal agencies. Conceivably, the corporation could make such payment in the form of the same obligations it would issue to Federal agencies. Since the bill provides in section 8(b) (page 20, lines 8 through 14) that such obligations are not guaranteed by the United States and do not constitute a debt

obligation of the United States, the marketability of such obligations is at best uncertain.

If it is determined that a holder of a mortgage on property deemed to be abandoned is to be paid in long-term debt obligations of the corporation, which may have limited marketability, great reluctance can be foreseen upon the part of the mortgage industry towards making loans on properties in the demonstration areas. If this should occur, potential sellers or residential property would find themselves unable to secure buyers with mortgage financing available to them. As a result, those parties required to relocate might be left with no option other than to abandon their homes. Thus, potentially, the effect of this bill could well lead to greater abandonment rather than less.

At the present time, the VA loan guaranty program is funded by a revolving fund established by section 1824 of title 38 United States Code. Claims made upon the VA, based on guaranteed loans, are paid from this course. Properties acquired are usually rehabilitated and then sold by the VA. The proceeds of these sales are deposited into the same fund. If the VA is to receive long-term debt obligations of the corporation in exchange for its acquired properties conveyed to the corporation, a serious impact upon the liquidity of the fund can be seen.

The lack of an adequate cashflow might well leave the VA with no alternative but to seek additional appropriations in order that it might meet its obligations on outstanding guarantees. In those instances where the mortgage covering the abandoned property is insured or guaranteed by an agency of the United States there is provision, as previously indicated for the seizing and forfeiture of the property with payment of just compensation to the parties in interest. If such payment is to be made to the holder of a mortgage at or shortly after the forfeiture of the property to the corporation, it leaves unclear the position of the guaranty issued by the VA to the lender.

Normally the claim under the guaranty would be presented to the VA subsequent to the liquidation of the security and application of proceeds of the sale to the outstanding indebtedness. Obviously, if the holder of the mortgage has been paid in full by the corporation, insofar as the mortgagee is concerned, there no longer is any outstanding indebtedness unless the corporation becomes the holder of the mortgage by assignment. In this event, it appears the corporation would then be in a position to file the claim under the guaranty with the VA.

Since the corporation would retain title to the property the VA would be in no position to recoup its payment by means of resale of the property, thus further endangering the revolving fund. It is our feeling that the bill should specifically clarify the potential liability of other Federal agencies that have guaranteed or insured mortgages in the demonstration areas.

Section 6(d) provides for the corporation to acquire from the Administrator of Veterans Affairs properties to which he holds title, the consideration for the conveyance of the property to be its fair market value. However, the fair market value may not exceed the unpaid balance of the mortgage. Properties held by the Adminis-

trator are not usually subject to a mortgage obligation. Therefore, a strict interpretation of this section could result in a requirement that the Administrator convey the properties to the corporation without compensation.

Additionally, the VA may sell a property on an installment contract. Technically, an installment contract is not a mortgage and until such contract is paid in full, title remains in the Administrator. It is unclear whether the term mortgage at the end of said subsection (d) is intended to be applied in the narrow technical sense. If it is, once again there would be no unpaid balance on the mortgage. Additionally, this section makes no allowance for the payment of management and foreclosure expenses or for the reimbursement to the VA of moneys expended in improving such property prior to its acquisition by the corporation.

As a final note, section 3(1) of the bill narrowly defines the term residential property for the purpose of S. 1988 to include only those properties which are subject to mortgages which are insured or guaranteed by an agency of the United States or which are subject to mortgages held by a federally related financial institution. In addition to guaranteeing and insuring loans, the VA also makes direct loans under certain circumstances. When VA acquires a property, we often resell it on credit; that is on an installment contract, or for a note and deed of trust or a note and mortgage. The definition in section 3(1) would not apply to these latter cases. The distinction is especially important in section 6(d) which refers to "residential properties to which title is held by . . . the Administrator of Veteran Affairs." Where the Administrator holds title, as noted above, there may be no outstanding mortgage or other debt; or if there is, the loan would have been made, but not insured or guaranteed, by the Administrator.

I have attempted to point out some specific objections without attempting to be all-inclusive.

The Department of Housing and Urban Development has prepared a report to the committee on S. 1988 strongly opposing enactment of the bill and noting a number of major difficulties that the bill would create. Briefly summarized, the major difficulties include:

The bill would duplicate what can already be accomplished by local governments with Federal assistance under title 1 of the Housing and Community Development Act of 1974, and would duplicate HUD's property disposition function.

The bill would create a new Federal Neighborhood Protection Corporation as an agency of the United States, and inject it into problems better solved by local governments and local citizens;

The bill would impose a major burden on the Federal courts;

The corporation's losses would have to be subsidized by the Federal Government. Furthermore, the bill would provide for backdoor financing which is inconsistent with the Congressional Budget Act, and would provide an exemption from budget control; and

The corporation's authority to apply properties on a mandatory basis from FHA and other Government agencies would operate to deprive the insurance fund of cash flow that would be realized in property dispositions, and would, in some cases, preclude recoveries that might have been obtained covering full losses.

We urge the committee to carefully consider the Department of Housing and Urban Development's strong objection to S. 1988.

I thank you for this opportunity to testify and will be glad to answer any questions that you may have.

Senator CRANSTON. Are you opposed to the bill?

Mr. JARNAGIN. Yes, sir.

Senator CRANSTON. What do you think can be done about this problem?

Mr. JARNAGIN. Well, Senator, I think we are making some progress at this time.

Senator CRANSTON. What progress can you cite that has been made so far?

Mr. JARNAGIN. In our own experience in the fiscal year just ended, we reduced our inventory about 1,000. I think that is significant progress. There are those areas of great vandalism; and we, as a veteran-oriented organization, are not equipped to cope with that. Personally, I think it involves the community—

Senator CRANSTON. If you're not equipped to cope with these problems, what should be done?

Mr. JARNAGIN. We are not letting them sit there.

Senator CRANSTON. Well, you say you're not equipped to cope with them, what do you mean by that?

Mr. JARNAGIN. I mean we are not equipped to prevent the vandalizing of the buildings. It would require constant surveillance that we are not equipped to do.

Senator CRANSTON. What is the inventory that you now have of abandoned homes?

Mr. JARNAGIN. At this time our office has a total inventory—I wouldn't say abandoned because many of those are occupied—of 1,710, 1,615 of which are in the southern California area, the balance being in the outer part of our area.

Senator CRANSTON. What other area does that cover?

Mr. JARNAGIN. Clark and Lincoln Counties of Nevada.

Senator CRANSTON. How many new abandoned homes do you pick up in the course of a year?

Mr. JARNAGIN. Well, we are acquiring over 200 a month.

Senator CRANSTON. Over 200 a month?

Mr. JARNAGIN. Over 200 a month.

Senator CRANSTON. Well, if you disposed of 1,000 in your inventory but picked up 200 a month, are you gaining or losing?

Mr. JARNAGIN. Well, we are selling in the neighborhood of 300 a month. We have sold more than we acquired for the past year, accounting for this reduction of 1,000 in our inventory.

Senator CRANSTON. What is your record in getting housing back again once you've turned it over?

Mr. JARNAGIN. I beg your pardon?

Senator CRANSTON. Do you have any ratio of how many homes come back into your possession a second time after you've turned them over?

Mr. JARNAGIN. No, I don't, sir.

Senator CRANSTON. Would you please get for the record the statistics for that and supply them?

Mr. JARNAGIN. Yes. I want to be sure that I understand that you mean when we acquire property and sell it and then reacquire it?

Senator CRANSTON. Yes.

Mr. JARNAGIN. Yes.

Senator CRANSTON. These homes, the 300 a month that you have been disposing of, are you renovating them before you dispose of them?

Mr. JARNAGIN. Not all of them.

Senator CRANSTON. What percentage of them?

Mr. JARNAGIN. I'd say all but maybe 5 to 10 percent in area.

Senator CRANSTON. What happens to those that are not renovated when you turn them over?

Mr. JARNAGIN. They are sold to individuals with the understanding that they are to be repaired according to the building department's requirements, and we also ascertain their financial ability to do this.

Senator CRANSTON. Could you also give us a breakdown for the record of the number that is sold to individuals and the number that is sold to speculators or brokers?

Mr. JARNAGIN. Yes, sir.

Senator CRANSTON. Jerry Buckley is representing the minority staff on the committee. Did you have any questions, Jerry?

Mr. BUCKLEY. I have no questions, Mr. Chairman.

Senator CRANSTON. Congressman Hannaford, do you have any questions?

Congressman HANNAFORD. Just one question.

Once again, how many do you have now in the inventory? How many houses do you have on your inventory now?

Mr. JARNAGIN. Total inventory in my office is 1,710.

Congressman HANNAFORD. Is there not a substantial number that are not in your inventory that are abandoned and there is a long delay before they get into your inventory?

Mr. JARNAGIN. There is a process of acquisition that might take, say, 8 or 9 months.

Congressman HANNAFORD. Do you always acquire and put them in your inventory as rapidly as possible so that you do have as accurate an account as possible of the problem?

Mr. JARNAGIN. Yes, sir.

Congressman HANNAFORD. You do that?

Mr. JARNAGIN. Yes, sir.

Congressman HANNAFORD. Thank you.

Senator CRANSTON. I thank you very much for being with us.

[The following was received for the record from VA's general counsel, John Corcoran:]

VETERANS ADMINISTRATION,
OFFICE OF GENERAL COUNSEL,
Washington, D.C., September 24, 1975.

HON. ALAN CRANSTON,
U.S. Senate,
Washington, D.C.

DEAR SENATOR CRANSTON: The following information will supplement the written and oral remarks made by the Veterans Administration at hearings

before the Senate Committee on Banking, Housing and Urban Development on S. 1988, held August 29, 1975, in Los Angeles, California. At that time Mr. Gene Jarnagin, Loan Guaranty Officer, Veterans Administration Regional Office, Los Angeles, who testified on behalf of this agency, lacked specific data to respond to two of your questions.

Your first inquiry concerned the number of properties which return to the VA inventory. From the beginning of the VA Loan Guaranty Program through the end of fiscal year 1975, the Los Angeles Regional Office sold 45,176 VA-owned properties with the assistance of VA vendee loans. During the same period, 6,078 properties were reacquired.

You also asked the number of properties sold to investors. Although an inquiry is not normally made as to the purchaser's intended use of the purchased property, a review of our records reveals that in fiscal year 1975 approximately 1% of the VA-owned properties sold by the Los Angeles Regional Office were purchased by investors.

The above data refer to the entire jurisdictional area of the Loan Guaranty Division, Los Angeles Regional Office, which includes that part of California south of the northern boundary of San Luis Obispo County, plus Lincoln and Clark Counties in Nevada.

Thank you for providing VA with the opportunity to present its views on S. 1988.

Sincerely,

JOHN J. CORCORAN,
General Counsel.

Mr. JARNAGIN. Thank you, sir.

Senator CRANSTON. Mayor Doris Davis of Compton is now with us, and we would like very much to have you come forward, Doris. Doris, we are delighted to have you here.

STATEMENT OF DORIS DAVIS, MAYOR OF COMPTON, CALIF.

Mayor DAVIS. Good morning, and thank you very much. I'm very happy to be with you, and thank you for asking us to make our remarks on the subject that is so vital to the existence and revitalization of our community.

We feel that the problem of abandoned housing ties in with the entire economic development of our city and especially the stability of our city.

We have been very concerned as the city council, as the mayor, to give the emphasis of this particular problem in our community, and we want to compliment you, Senator Cranston, for the introduction of Senate bill 1988.

We've analyzed the bill and have some comments relative to the bill. We have our passouts here that will give you a little background about our city and an idea of the critical problems that are faced in the community of the City of Compton.

Though the City of Los Angeles has the highest absolute number of boarded-up houses, the City of Compton with a population only a fraction of the size of Los Angeles has the second highest number of boarded-up units and the highest number of abandoned properties per capita in the entire State of California.

Presently, Compton has approximately 350 HUD-held properties, 60 VA properties, and an undeterminable number of conventional repossessions totaling between 700 and 1,000 abandoned units.

The problems which are created by abandonment are as follows: the disadvantage, esthetically, of having boarded repossessions appearing in any neighborhood, and especially in neighborhoods, such

as Compton, which are moderately attractive, middle-income communities, is recognized. Boarded units tend to broadcast a message of deterioration and blight to the potential buyers of other properties in that neighborhood as well as to the remaining occupants of residential property in the vicinity who are working to maintain their properties. They are discouraged and so the stability of the community is deteriorated because we lose many of our stable population because they become discouraged as a result of these boarded units.

The boarded structures are sometimes found to be vandalized and often used for the storage of stolen property and drugs. Police are unable to readily view the interiors of boarded units, and public safety is a problem, and fires are often undetected inside a boarded unit, resulting in severe structural damage.

Also, they have a negative bearing on our overall insurance rates for the city. Boarded properties continue to discourage neighborhood maintenance.

You can see that these spiraling problems continue to result in the loss of tax dollars to the city.

Our primary concern with the high rate of mortgage payment failures and subsequent repossession, especially with federally held property, are believed to be attributable to sales with no down payment or very minimal down payment, over qualification of buyers (which sometimes results in a higher selling price and higher loan commitment nonjustified by the true market value of the property).

Over qualifying of buyers makes them unable to maintain the properties because they were not able to actually and in reality enter into the ownership or responsibilities of the ownership of the properties. They feel no real ownership and are not compelled to remain; and, therefore, buyers usually walk away from payments too high for their earning power with no sense of loss, since they have not committed their own funds as equity in the purchase. Inability to meet mortgage payments is paralleled by inability to keep the ownership property in good maintenance and repair.

I think an in-depth analysis of section 221 FHA insurance program is a classic example—as well as some of the other subsidized programs such as 235 and 236—is a classic example of why Compton has experienced problems with repossessed housing. In a report which we have referenced as “Housing Foreclosures and Abandonment in California,” prepared by The Institute for Local Self-Government in conjunction with the California League of Cities, it is stated that as of March 12, 1975, Compton had a total of 757 HUD-held properties of which 515 (69 percent) were originally financed under section 221.

Now, 69 percent of the abandoned housing means the Federal Government has become the largest slum landlord in our community. I think of these particular properties we have gone on to document the maintenance problems, which we have alluded to in our opening. Although they are HUD-held, the fact is that they are not being maintained, and these types of things of deterioration and blight have caused the great problems.

NUMBER OF HOUSING AND URBAN DEVELOPMENT-OWNED PROPERTIES LOS ANGELES AREA OFFICE—FHA
INSURANCE PROGRAM

City/county	Market-rate			High risk 221	Subsidized 235	Total
	203	234	222			
City of Compton:						
90220.....	60	-----	-----	172	10	242
90221.....	61	50	-----	234	12	365
90222.....	27	-----	-----	109	14	150
Total.....	156	50	-----	515	36	757

I'd like to look at our city very briefly. We have a young city. The median age in Compton is approximately 20 years. Close to 50 percent of the population is under the age of 18, and they are attending school.

In an economically deprived area with high unemployment, areas still exist which are as stable as any sections in southern California.

The fulfilling of housing needs of the low- and moderate-income population is of immediate concern to us.

FHA-insured loans is the only means by which homebuyers can finance in the Compton areas because of the practices which have been highlighted by the discriminatory lending and mortgage practices, which are referred to as redlining.

Recently, attention has been focused on the fact that Compton is redlined by State charter savings and loans. The dependency on federally insured financing is the only means of homeownership for low- and moderate-income families. This coupled with the fact that Compton's housing problem next to abandonment is property maintenance and overcrowding. Financing either repairs or room additions requires that loans be made.

In terms of the study, by the Center for New Corporate Priorities, Compton receives only \$2.41 as compared to \$617.03 in Beverly Hills of per capita mortgage dollars. I think the comparison is very apparent in terms of these redlining practices by lending institutions and insurance firms.

These unfair lending practices, unsuccessful FHA insurance programs, are two of the primary reasons why Compton is experiencing the exodus of stable residences and businesses. We need a program which will end the cycle of repossessed housing.

One possible solution, particularly in Compton with its abandoned housing, is the new "urban homestead" provision or section 810 of the Housing And Community Development Act of 1974.

The city of Compton will apply for the demonstration program. If selected, we hope to serve as a prototype for black communities across the country, because we believe what works in Compton will work in any other community similar to ours. We see the program providing:

1. Homeownership opportunities for low- and moderate-income families.
2. Stabilizing neighborhoods experiencing moderate vacancy.
3. Returning tax-delinquent parcel to the city's tax rolls.
4. Increasing the attractiveness of neighborhoods throughout the city.

5. Increasing the inventory of good habitable dwelling units.
 6. Preventing the spread of blight.
 7. Encouraging movement of owner-occupants into the city.
 8. Discouraging abandonment of properties.
- It will take the involvement, cooperation, and hard work of HUD, VA, local lenders, the local government and concerned citizens in the community to halt these problems which plague most of the inner-cities across the country.

I think an important step in this direction has already been taken in this direction with the introduction in the Senate of Senate bill 1988 "Abandonment Disaster Demonstration Relief Act."

We applaud this as one of the best attempts we have seen to arrest the degeneration of the housing stock in metropolitan areas; and we agree with Senator Harts' statement, "... It is difficult to deny that the Federal Government is not at least partially responsible for the problem."

May we add to that—and should also assume the responsibility for a solution.

Our concern is that this new effort not repeat the mistakes we have made in the past.

We believe, for example, that a part of the problem has been the absence of local influence in the approval of projects and programs. We note with some pleasure that Senate bill 1988 contains the provision that the proposed Neighborhood Protection Corporation in carrying out its functions must comply with any applicable community development program and comply with any applicable housing plan or program and that lack of coordination has been a real problem, I believe, in the communities.

This provision alone would make the bill worthy of support; but, of course, the bill provides a great deal more than that. It changes the entire thrust of rehabilitation and residential redevelopment and will provide an opportunity to concentrate our efforts on entire neighborhoods, rather than scattered abandoned dwelling units, which we feel is a "Band-Aid" approach and Piecemeal and has a circulatory effect. I believe it has been documented in Los Angeles County that even with the rehab programs it takes approximately 1 year to return to the same status.

Our analysis of the bill revealed only two areas of concern. The first, and rather minor concern, is that we have some difficulty in understanding why the Secretary of Agriculture is proposed as a member of the Board of Directors of a corporation whose responsibility is the management of a demonstration housing program in metropolitan areas.

Our second concern is more serious but, perhaps, easily remedied. Section 6 (g) of the bill states that: " * * * the corporation shall determine that the homes themselves are in decent, safe, and sanitary condition at the time of sale."

We would like to add a provision that the houses also meet the requirements of local codes where those codes are more stringent than FHA or VA codes. Such a provision might be qualified in the guidelines to avoid this provision if conformance to local code requirements would increase the price of a rehabilitated unit to a level above the median price for similar housing in the metropolitan area.

I thank you for your attention. I again commend both Senators Mondale and Hart for introducing this desperately needed legislation; and you, Senator Cranston, for being concerned enough to come help us to evaluate and to proceed, we hope, to support and implement this needed legislation.

Thank you all.

Senator CRANSTON. Thank you, Doris, very, very much.

In regard to those figures that you gave on the amount of private money invested in homes in Compton as against Beverly Hills, has the city made any great efforts with private financial institutions, either on an individual or a pool basis, to get them into the city?

Mayor DAVIS. Yes; we have during the last year worked consistently with each of the lending institutions in our community, and also with the larger big three of the State in terms of proven discriminatory practices, especially to our small businessmen. We have cited these statistics. We have tried to get the commitment. We are told that the policies of the head office of these banks are not consistent with this—and these obviously must be some loan committeemen's inequities.

We have instances such as a business person who is financing an appliance, a community person, who is deprived of approval of a loan application for a television appliance, for example, through any one of the big three and will go to an adjoining community, such as Huntington Park, with the same application and the same appliance and be approved, and we have documented many sources of these discriminatory lending practices.

We have testified with the Governor's State "Red-Lining" on these types of practices that also are helping to stifle the community's growth.

Senator CRANSTON. Do you have any kind of a preventative or early warning system going so that you know when a house or a street is beginning to reach the point of decay and abandonment?

Mayor DAVIS. No; we have really not been able to develop that because the problems with medium, small-sized cities is with staffing. Now that we are reorganizing under the Community Redevelopment Act, we are able to give more emphasis to this type of analysis, but prior to this we have not had the resources nor the staffing to try to do this kind of preventative work.

How does a person let anyone give a signal that they are in distress in terms of mortgage payments? By the time we look into it, they are gone.

These are the kinds of things we encounter. I wish there were some system, some way that perhaps we could get indications of other things that have been tried throughout the country in other communities, such as ours, that we might try to do that.

Senator CRANSTON. Yesterday in Oakland, Councilman John Sutter suggested that a system be set up, on a voluntary basis, where neighbors in a block would let some central place know when a home had been abandoned, and then there would be some organized group of people who would serve as caretakers and actually move in and live there until the home was transferred to some other family. He suggested this as a way to prevent the empties and the vandalism.

It developed also in the course of the hearing that in London they have a system called "Licensed Squatters," and these people move in to take care of the home until some other family takes over, and then they move to another one. It provides employment and shelter for those people.

Do you think such a system could be worked out?

Mayor DAVIS. Well, we proposed 2 or 3 years ago to the area HUD office, that the city would step in, especially on maintenance, and that we could take over and assume the responsibility for renting or leasing these homes or at least doing the maintenance. Our city attorney and HUD cannot—there is some very hard line between the federal regulations that will not enable a small local municipality to step in.

We have thoroughly explored this. We offered this several years ago, and we were told that we cannot do this unless we set up some legal mechanism.

HUD has told us that they would be in conflict of making the gift of public funds, and it would be interpreted that way, if they were to even engage in any program, such as this, and that has been a deterrent.

We would willingly step in and do the management because as we have cited, it has been such a critical problem.

If there could be worked out some means where we could have temporary management or even if we could have, within their own guidelines, the type of managers that are paid by HUD to do this work, who have been derelict in their duties, things could be worked out.

Now, we have had some input into the area offices so that we could make them aware that these kinds of things are consistently and repeatedly happening. We have brought this problem up to our area office, and they have worked with us cooperatively; and, yet, it has not been as successful as it should be.

Senator CRANSTON. Regarding your abandoned homesteading program that you're seeking to develop, is the city going to be in the position to provide subsidies for that at all, and are you going to be able to use the section 8 leased housing programs in connection with that?

Mayor DAVIS. Yes. Under the urban homesteading, which we are applying, we hope that with a combination use of 312 money—and that is the problem with the urban homesteading: It is not federally financed with additional money, and we'd be "robbing Peter to pay Paul" to have to subsidize and to make moneys available out of, for example, our housing and community development money.

Unless there are ample provisions attached for allocations for the upkeep or the renovation rehab of these properties, then it will be a drain on already meager resources of the small municipality.

Senator CRANSTON. How much in terms of Federal funding and in terms of dollars are you using now for rehabilitation efforts?

Mayor DAVIS. In terms of rehab, we have only just started institution of it. Just this last month we have worked with private developers, but the city itself has not had approval for a rehab program as such, none whatsoever.

Senator CRANSTON. Is inability of a family to pay property taxes a major cause of abandonment?

Mayor DAVIS. No, it is not. Actually, because under the laws of Los Angeles County, that inability can accrue to a period of, I'm not sure, about 3 to 5 years—is it?—before they are evicted on that basis, so the real problem seems to be on the maintenance of the property itself and on the actual payment ability of those persons who are buying to pay the notes. I think that is the crux of the matter.

Senator CRANSTON. Does the city of Compton acquire homes very often through condemnation?

Mayor DAVIS. No, the city itself does not.

Senator CRANSTON. You never do?

Mayor DAVIS. Well, we do, yes, but generally we have stepped this up a great deal because of deterioration.

Senator CRANSTON. If you do acquire a home, what do you do with it?

Mayor DAVIS. Well, that is why we hesitate in the acquisition, because many times by the time we have acquired it, it has become a safety hazard, and it goes to demolition; and then, naturally, it goes off the tax roll, and it gets to the point where it has gotten so far beyond our reach that we have to take another residence out of the city and that is regrettable. That's another continuum of the problem that we have been faced with, but we have done quite a bit of condemnation recently.

Senator CRANSTON. Congress Hannaford, do you have any questions?

Congressman HANNAFORD. I would just like to commend Mayor Davis for this statement. I was previously a mayor of a city that is somewhat smaller than yours and, perhaps, slightly more affluent, but the problems you described are exactly the problems that brought this to my attention and interest as mayor.

I'm fascinated, Senator, with the "licensed squatters'" concept that you mentioned, but I wonder if that is not precluded by the problem that I think the mayor has experienced. This problem is the length of time between actual abandonment and repossession, during which time there has been no legal possibility of anyone moving in because it is still in the ownership of the person who is abandoning it.

Do you have any figures on how long that is, Mayor Davis?

Mayor DAVIS. I did go over that entire schedule. I don't know if there is anyone from the area office here that could give us the exact figures on that, but as I recall, it can be something from 9 months to 1 year before the entire process has gone back to the Federal Government. At that time, even at 1 year's time—now, that means that this house is sitting there, perhaps, even for a period of 1 year or greater, and before the Federal Government rightly can legally step in and begin something, I don't know.

I think this is a very critical problem, because if you could in some way add some provision here that could streamline or enable an emergency provision, for example, that the local jurisdiction could step in prior to the completion of these, and then there is always legally the possibility of a person being able to go back and recoup their losses and take the title over or repossess their property, but I'm sure that the studies would show that this is very rarely done, as you've pointed up.

I don't know what we could do; but I think if we could do that, we could salvage our areas.

Senator CRANSTON. There must be a way to make it possible to do that.

Congressman HANNAFORD. I hope so, Senator, because I really think this is the crux of our problem.

Mayor DAVIS. I do, too.

Congressman HANNAFORD. It's not what the Federal Government is doing with the house after it gets it—

Mayor DAVIS. No.

Congressman HANNAFORD [continuing]. But it's that long delay before it becomes a part of the federal inventory, which you as a mayor cannot do anything about, and I as a mayor could not do anything about; it sat there—

Mayor DAVIS. That's right.

Congressman HANNAFORD [continuing]. And it's during that period of time that it has become unmarketable. At the time of abandonment you could market it very well.

Mayor DAVIS. That's right. I'm so glad, thank you, for this responsive note, because we've gone through this. We have looked at every single possible means; and, obviously, HUD's hands are tied on this.

I believe, as Senator Cranston says, that there must be a way; and if you could in some way address this problem in here in terms of emergency acquisition, and I don't know—do you have any ideas? Has anyone brought anything out?

Senator CRANSTON. Since I'm not an attorney, I'm not going to venture any opinions at this point, but I intend to find one who will look into it.

Mayor DAVIS. Very good. Thank you.

Senator CRANSTON. One attorney at my left is going to have the responsibility for finding the way to do that.

Mayor DAVIS. May I say that the attorney at your left was at one time one of our city attorneys, so she is very much aware of the problems of Compton.

Senator CRANSTON. Doris, thank you very, very much.

Mayor DAVIS. Thank you again.

Senator CRANSTON. You've been very helpful. Before going with the panel that will be next, we are going to take a 3-minute break.

[Short recess was held.]

Senator CRANSTON. The hearing will come to order.

We will next hear from the panel consisting of Ralph Fertig, Michael Salzman, David Lizarraga, Joseph Korpsak, and Henry Dotson. Would you please come forward and be seated over here, those of you that are present.

Ted Watkins is not here. I was with him earlier this morning, and he is well aware of what we are doing, and I was given his thoughts.

Would you please identify yourselves for the record, starting at the left.

Mr. SALZMAN. I'm Michael H. Salzman, executive director, Los Angeles Housing Authority.

Mr. KORPSAK. I'm Joseph Korpsak, executive officer, Valley Association of Cities.

Mr. DOTSON. I'm Henry B. Dotson, of the Concerned Compton Citizens Organization.

Senator CRANSTON. If you have any prepared statements, I would like to ask that you submit them to us for the record. The committee would like to have each of you just briefly summarize whatever key points you feel you want to express to us, and then we have some questions for you.

**STATEMENT OF MICHAEL H. SALZMAN, EXECUTIVE DIRECTOR
OF THE HOUSING AUTHORITY OF THE CITY OF LOS ANGELES**

Mr. SALZMAN. Senator Cranston and Congressman Hannaford, good morning. My statement is not too long, but basically what I propose is this: that for a Federal demonstration to make a mark of success, it should establish a system for process that becomes reproducible by either local units of government or by the private industry; and, otherwise, the success could be very limited and would help very few people or help even fewer communities.

There have been a number of instances where there have been successful Federal demonstrations, but they never had caught on. We can go back to the New Towns or the Green Towns bill, way back in the early days of the New Deal administration. From many aspects those projects were highly successful, but they never generated the ability to be reproduced by private industry.

Similarly—and one of the major points I make—is that there are large-scale abandonments and repetitive abandonments in many areas, particularly here in the south-central part of Los Angeles, and most things that could be done aren't going to help unless you can also increase the job opportunities for people in the area.

Not very far from here there was a very good demonstration of this. An aircraft assembly plant was built where the local indigenous people were trained to fill those jobs, and it has been so successful that about a year ago that firm wanted to recruit people for another firm in Palmdale. They advertised in a Los Angeles paper, and that kind of success cannot be rubbed out; but, on the other hand, to really do any good, maybe we need a thousand more plants like it.

Yet, that was done with some economic development administration assistance, but it is not a reproducible system so that we can keep going with it; and as long as people are largely unemployed, we are going to find that we will continue to have abandonments.

Now, back a few years ago, the Housing Authority of the City of Los Angeles was able to cosponsor with the local area office of HUD so that we were able to put out a bid proposal for developers to purchase 25 homes from HUD on scattered sites, rehabilitate them in accordance with the Housing Authority specifications, and then lease them to the Housing Authority under section 23. But under section 8, it isn't possible. As far as substantial rehabilitation under section 8, there are no set of sites that the Housing Authority could get. We could only respond to advertisements that HUD might make.

So far they haven't made any to this area organization; and if you want to respond to the ad and you have only a short time, how do you work out the mechanics to take a lot of these houses out of HUD? You can't entice the private entrepreneur to purchase these from HUD and then rehabilitate them to lease it to us.

Changes made in section 8 could help pick up many of these because many of these homes are in areas that people don't want to buy in, but they certainly can make very good housing for people who can't afford to buy them. We frankly would prefer many single-family homes to putting people in projects. It works. We have got several hundred that we operate right now.

Essentially, those are the points I wanted to make, Senator.

Senator CRANSTON. Thank you very, very much. It's very helpful to have you with us, I appreciate your testimony.

[Complete statement follows:]

STATEMENT OF MICHAEL H. SALZMAN, EXECUTIVE DIRECTOR OF THE
HOUSING AUTHORITY OF THE CITY OF LOS ANGELES

The purpose of S. 1988 is laudatory in that it proposes a demonstration to test new ways to acquire and dispose of abandoned property and to develop new financial resources for communities affected by the disaster of large-scale abandonment. I support the purpose wholeheartedly.

For a federal demonstration to make the mark of "success" it must have established a system or process that becomes "reproducible" by either local units of government or by private enterprise. Otherwise what might have been a success is only successful in a very limited way, helping few people, and helping even fewer communities. But, what is probably even of greater importance, valuable time may be eaten up waiting for the demonstration to prove itself. Obviously then, other existing programs must be continued and future cries of "let's wait for the demonstration to run its course before we consider other possible programs" will hopefully fall on deaf ears.

Large-scale abandonment and repetitive abandonments are symptomatic. They aren't only indicative of a downturn in the economy but reliably indicate those areas of a metropolis where historically much higher rates of unemployment and underemployment have existed and still exist. Ways must be found to create employment opportunities for the people in those areas, thereby tackling the root cause of large-scale and repetitive abandonments as well as finding bonafide solutions to the many other problems faced in metropolitan areas: reduction of vandalism, reduction of crime, elimination of human degradation, and improving the financial condition of cities. The rapid and wholesale elimination of unemployment and underemployment is the one single step this country can take that would be most meaningful in uplifting this nation, in preserving the moral fiber of our people, and in revitalizing the morale our forefathers were noted for. This country, historically known as the land of opportunity, must gird itself with the *will* to make our land one of opportunity for all its inhabitants.

There are some malingerers but the fact remains that the enormous and vast majority of American people are imbued with the spirit of work and the knowledge of how work can improve their lives—and this applies equally as well to those who have been unemployed for long periods of time, even to members of second- or third-generation families on welfare. But they want work, meaningful work, not governmental make-work programs that seem to get turned on and off—obviously, they even rush to make these if there is nothing else. They want permanent jobs in private industry, jobs that produce goods and services and such jobs will exert deflationary pressures to help combat inflation that robs our people of their savings, their ability to live decently, and to improve the circumstances of their lives.

Federal policies and programs, spanning several decades, have contributed to the flight of industry from the cities and to the flight of those who were and are more affluent, leaving cities relatively destitute and with large segments of their population unable to find jobs. In the land of opportunity, America's cities have historically offered the greatest opportunity for education, for jobs, for advancement and for improvement.

I would agree with the President when he speaks of the necessity of tax investment credits and increased stock dividend exemptions from taxation as a means of increasing the flow of money into the creation of new plant facilities and hence the creation of more jobs; but only if there are greater incentives to assure that new plant facilities are created within the cities and that the jobs thereby created go to the indigenous population residing in the plant's vicinity through specific on-the-job training. There are several very successful

illustrations of the foregoing, one only a short distance from the site of this hearing.

SPECIFIC RECOMMENDATIONS FOR S. 1988

P.13(e)—The addition of: "However, where a community redevelopment agency exists, said acquisition shall be achieved by contract with the community redevelopment agency following the established procedures of the affected community."

p.13(f)—Change as follows: breaking (f) into two sections:

(f) with respect to any real or residential properties the Corporation has acquired pursuant to this section, the Corporation may, by contract or otherwise—(1) Insert existing (2); (2) Insert existing (5); (3) Insert existing (7); (4) Insert existing (8) with the following changes so that lines 13, 14, and 15 of page 14 read as follows: "change in its use, the Corporation, or in the event there is a prospective purchaser, the prospective purchaser shall make application for such change in use in accordance with the established procedures of the affected units of government. Any instrument ex—"

(f) With respect to any real or residential properties the Corporation has acquired pursuant to this section, the Corporation shall, in the event any of the following are deemed desirable, contract with the affected community to: (1) Insert existing (1); (2) Insert existing (3); (3) Insert existing (4); (4) Insert existing (6).

P.14(g)—Change to read as follows: (g) Except where the property is being disposed of in conjunction with and urban homesteading program being carried out by the affected community, the Corporation shall determine that the homes it sells are in decent, safe, and sanitary condition at the time of sale. In the event of a sales which does not meet this requirement, the Corporation shall, at its option, make expenditures to correct, or to compensate the purchaser of any dwelling for occupancy by fewer than five families to place such homes in decent, safe, and sanitary condition; if (1) the dwelling was sold by the Corporation, (2) the purchaser notifies the Corporation not later than one year after the sale, and (3) the defect is one that existed on the date of the sale.

P.16(i)—Change to read as follows on lines 17 and 18: "(i) The Corporation shall provide directly or by contract with the affected community counseling on household management, property man—"

Comment on p.18(5): A desirable but probably an impossible objective to achieve in many areas affected by the disaster of large-scale abandonment.

Senator CRANSTON. Mr. Korpsak, you may go ahead.

STATEMENT OF JOSEPH KORPSAK, EXECUTIVE DIRECTOR,
VALLEY ASSOCIATION OF CITIES

Mr. KORPSAK. Thank you. My name is Joseph Korpsak. I'm executive director for the Valley Association of Cities. I am supportive of your legislation. I wish to thank members of your panel here—Congressman Hannaford, Jerry Buckley, and Carolyn Jordan—for this opportunity to speak regarding S. 1988.

I wish to thank you, Senator Cranston and members of the Senate Subcommittee on Housing, for giving me this opportunity to testify regarding S. 1988.

The purpose of this act, as I understand it, is to establish a neighborhood protection corporation to make possession of abandoned residential properties in order to prevent the continued deterioration and destruction of neighborhoods and communities and to hold and assemble parcels of land for the orderly development and redevelopment of neighborhoods and communities consistent with local government codes and ordinances.

Review of this legislation is consistent with VAC's policy statement which proclaims it will support legislation related to its functions, goals, and objectives of its organizations.

VAC is a California consortium of 10 cities—Chino, Claremont, La Verne, Montclair, Ontario, Pomona, San Dimas, Upland, Walnut, and West Covina—situated partly in a two-county area—Los Angeles and San Bernardino—as a joint-powers entity, and it was formed specifically to overcome its then areawide problems of boarded-up, vacant, and abandoned housing as identified in August of 1974.

A year ago, we developed the goal of reducing the HUD inventory of Secretary-owned single-family units from 800 to 200 by December 30, 1975. As of this date, we have exceeded that goal by our combination, reduction, and prevention program funded by HUD's "701" funds and Department of Labor's "CETA" manpower funds. Also during this same period, we have facilitated the reduction of the VA abandonment inventory from 200 to 40.

However, I must indicate that in Pomona we still have 799 boarded-up vacant units belonging to VA—or formerly HUD—and a substantial number of them belong to private lenders. Part of the problem on the VA and HUD resales is that the occupancy doesn't occur immediately, and there are some problems we have identified with VA and HUD performing on a very rapid basis appraisals necessary so that these homes may be subsequently insured and guaranteed and occupied by families that wish to purchase them.

Our success story, which relates to this reduction from 800 to 200 and from 200 to 40, respectively for HUD and VA, is contained in our award-winning "Mayors' Abandoned Housing Report" [Received award certificate from American Institute of Planners in 1974 for being an outstanding example of intermunicipal cooperation to deal creatively with the problems of abandoned housing], and we have recently completed a report entitled "Causes, Consequences, and Solutions to Abandoned Housing Report" of which complementary copies are here intended for your study.

Specifically, in reviewing S. 1988, I wish to make the following observations:

One: The definitions for single-family and multifamily abandoned housing are consistent with our observed experience and what is reported in the current literature on abandonment.

Two: An alternative to the current array of solutions to abandoned housing is needed because HUD's and VA's property disposition resales programs may be committing and recycling the same errors in spite of the abandonment reductions which they have been accomplishing in the past 6 to 9 months, particularly in the Los Angeles area, and they have made significant reductions in their inventory, particularly in our area.

Three: The proposed corporation's redevelopment activities are contingent upon approval of the local governing body which is commendable consideration.

Four: Under this proposed legislation, the corporation should also include urban homesteading with a homeowners' counseling program as part of its disposition program, which is an excellent idea.

Five: That corporation-acquired properties requiring demolition should be converted, when appropriate, to park facilities. I don't think this is indicated.

Six: The proposed corporation should have its contracted homeowners' counseling program services provided only by local HUD-

certified counseling agencies. No additional bureaucracy or technical guidelines need to be developed; they already exist.

Seven: That VAC agrees that housing abandonment is still the major housing problem in our urban and many suburban cities.

Eight: The proposed three metropolitan housing areas for the corporation's demonstration program should be Los Angeles, Detroit, and Pomona.

Nine: The time for abandonment to HUD resale is too long and requires an effective intermediary government-sponsored corporation to prevent the ravages of abandonment, and this is what we see your bill as.

Ten: The expense of abandonment to all public agencies and its contribution to the shortage of adequate housing is significant. We talk about shortage of housing. If we had all the current vacant houses occupied, we would be able to reduce that shortage quickly.

As is my practice, I have tried to keep my testimony brief and concise. I would be happy to answer any of your questions.

Thank you.

[Statement/position paper follows:]

(By Joseph F. Korpsak, Executive Officer, Valley Association of Cities)

VALLEY ASSOCIATION OF CITIES : THE MULTI-CITY ABANDONED HOUSING CONSORTIUM

The following text was delivered before the "Issues in Federally Assisted Housing" panel during the Institute on Human Resources Development, sponsored by the California League of Cities in Oakland, California, on September 13, 1974. This exposition identifies the newest type of multi-city consortium which has been organized to overcome the problems of abandoned housing in the Southern California area known as the Valley Association of Cities (VAC). VAC consists of the cities of Chino, Claremont, La Verne, Montclair, Ontario, Pomona, San Dimas, Upland, Walnut and West Covina, which are located in the two-county area of Los Angeles and San Bernardino Counties, and representing a resident population in excess of 360,000 persons.

In October 1973 the Mayor of Pomona, Ray Lepore, called together the cities around Pomona to join him in a meeting of neighboring mayors to discuss the situation of abandoned housing in what was to become the Valley Association of Cities (VAC) area. The initial meetings led to the exploring and documentation of the abandoned housing problem in the VAC area.

Subsequently a staff report was published entitled, "The Greater Pomona Valley Action Committee on Abandoned Housing". This study detailed the abandoned housing problem wherein it was determined approximately 1,000 houses were vacant, boarded-up and abandoned in the Valley Association of Cities area. Approximately 700 of those homes belonged to federal agency known as Housing and Urban Development/Federal Housing Administration (HUD/FHA). This compared unfavorably with the 7,000 HUD/FHA houses that were vacant in the entire County of Los Angeles and compared nation-wide to the 250,000 HUD/FHA abandoned houses.

Problems connected with abandoned housing showed that the neighborhoods suffered from general blight, lack of maintenance, vandalism, depression of property values, and conditions which were conducive to additional families abandoning their homes. The report made several recommendations, of which one was to establish a Valley Association of Cities (VAC) to tackle vigorously, actively, and politically the problem of abandoned housing in the VAC area. As a result of the report and its recommendations, the participating cities jointly formed together in a formal joint powers agreement for the purpose of reducing the number of abandoned houses in their individual cities.

The funding of the organization, known as VAC, came from grants from the U. S. Department of Housing and Urban Development, Department of Labor, and the State of California. VAC is structured to accomplish the following

goals: (1) to reduce the number of abandoned houses in the VAC area from the current level of approximately 1,000 to 200 by December 1976, and (2) to prevent further abandonment of single-family structures in the VAC area.

In order to accomplish these goals, VAC is staffed to perform the following functions: (1) to stimulate initially HUD/FHA to make available for sale its vacant, boarded-up, abandoned houses, (2) to provide default and delinquency home ownership counseling in order to prevent additional abandonment, (3) to conduct a study to determine why people abandoned their homes, (4) to institute a program of early warning and identification of potential abandonment-like conditions, (5) to monitor the maintenance contractors' responsibilities of HUD/FHA's agents responsible for these properties, namely the Area Management Brokers.

These programs are currently being undertaken by VAC with a great deal of initial success. This is indicated by the fact that during the previous 12 months ending July 15, 1974, only 30 HUD/FHA houses were *available for resale*, while during the last 60 days (July 16, 1974—September 13, 1974) approximately 250 HUD homes have been put up for sale and approximately 100 houses have been sold.

The VAC is governed by a Board of Directors which consists of City Council members from each of the participating cities. Meetings are held once a month to monitor the progress of VAC's objectives and to transmit information regarding the abandoned housing situation in the VAC area.

Currently the VAC is staffed by eight full-time staff members organized around the five previously identified functions to eliminate and prevent abandoned housing.

The relationship between the Valley Association of Cities and HUD is one of mutual exchange, communication, and a series of requests in order to have the effect of reducing and preventing abandoned housing in the VAC area. As a consequence of VAC's short time in operation it has been recognized by the American Institute of Planners in being awarded a state-wide California Chapter Award for dealing with the critical housing crisis and creation of a multi-city organization to put into effect remedial programs related to abandoned housing and its prevention.

It is anticipated that with success by VAC in dealing with the problem of abandoned housing, that it will branch into other problem areas, such as unemployment, economic development, and area-wide outdoor recreation programs.

Additional information regarding this experiment in intergovernmental cooperation in order to tackle problems can be secured by contacting the Valley Association of Cities, located at 666 North Park Avenue, Pomona, California, 91768, or telephone (714) 623-4456.

Senator CRANSTON. Thank you very much.

Mr. Dotson, you may proceed.

STATEMENT OF HENRY B. DOTSON, SR., CONCERNED COMPTON CITIZEN

Mr. Dotson. I'm H. B. Dotson of Compton. I'm head of the Assistance Initiative Participation Coordination Commission of Compton, which was an outgrowth of the Crime Commission, and I'm very happy to have this opportunity to make this short statement to this committee and hope that it may have some impact.

According to the 1970 Census, the percentage of homeowners in Compton is above 50 percent. With the median age at 20.5, it is obvious that Compton has a young population with an earning capacity that has good potential for homeownership. This, of course, will be predicated upon the economic situation. It can also be foreseen that the occupancy time-span for these young people can be forecast at 10 to 15 years. S. 1988, if passed, will provide the kind of incentive that will generate homeownership as well as good home

maintenance for those who need it most for growing families. Empty and boarded-up homes contribute to the early deterioration of any neighborhood or area regardless of the type of housing located in that area or neighborhood.

Abandoned houses provide places for criminal elements to meet, to store stolen property, and to execute the sale of dangerous drugs. They provide an open invitation to street prostitution, an invitation to firebugs, and always an open invitation to vandals and all aspects of vandalism. In addition, they present safety hazards for small children as well as health hazards as a result of their being breeding grounds for rodents and other pests. Usually houses which are abandoned are on weed-infested property which is extremely susceptible to fire which could cause widespread damage.

According to the 1970 Census, the vacancy rate in Compton was 5.3 percent. With the vacancy factor on the increase within the past 24 months, a large percentage of those vacancies have been boarded up. Many others have been abandoned by absentee landlords, because bringing them up to code and making them liveable has proven to be very costly. The factors surrounding this situation are not accidental. They stem from several causes:

First: Inadequate floor-space for the previous occupants.

Second: Inability to meet current mortgage payments.

Third: Desire to relocate in a new community.

Economics has played a part in all three of the above factors. The suggestions in S. 1988 dealing with economic factors seem to be workable ones. They have merit in several areas. Most greatly, in regard to the fact that they provide:

One: A vehicle through which adequate housing can be provided for those who desire it.

Two: Educational value through the proposed corporate structure.

Three: Ample provisions for lay input.

Four: A viable mechanism by which Government redtape can be cut.

Five: Meaningful employment of the skilled trades that is very necessary to facilitate and bring about a change in the housing situation as it exists in Compton and other southern California communities.

Six: Not only remodeling, but also suggests and includes the demolition of housing that would be too costly to remodel (i.e., one- and two-bedroom frame and stucco cottages and one- and two-bedroom bachelor-type apartments). There is additional merit in the plan, as proposed, in that it permits and encourages new land use.

It is generally known that where there is an adequate standard of housing, the vacancy factor is always low, and the investor is almost always guaranteed returns on his investment. The corporate structure, as proposed, seems to be sound, workable, as well as within the grasp of lay people.

With the present backlog of vacant houses now held by HUD, the VA, and FHA, which now meet present construction codes, and with these Government entities finding it very difficult to dispose of these large inventories that they now hold, the Abandonment Disaster

Demonstration Relief Act, if enacted as proposed, will restore adequate housing to the housing market. The proposed financial arrangements are good, seemingly sound and within the reach of those who need housing most and who have the least amount of money with which to purchase such housing.

In summary, special attention is drawn to paragraphs 2, 4, and 6.

We feel confident that the bodies that must approve S. 1988 will find no reason to delay or disapprove S. 1988.

Thank you.

Senator CRANSTON. Thank you very, very much, and that explanation of the length of time between abandonment and crime is particularly helpful to us. I'm grateful to you for that.

I will ask these questions of whomever chooses to answer; and if somebody wants to supplement or contradict the answer of whomever speaks first, please don't hesitate to do so.

What do you think of the "as-is sales program"? How does that work out when homes are turned over to people without any repairs being done?

Mr. DOTSON. What do we think of it?

Senator CRANSTON. Yes. What do you think of the HUD "as-is sale program" where a home is not renovated at all but disposed of and somebody takes it over in the vandalized condition?

Mr. DOTSON. I think this only has merit in that the person it is turned over to is financially able to bring it up to code. It doesn't mean much just to turn over an abandoned house to someone who may not be able to bring it up to code, nor is interested in living there, other than to enjoy the benefits of maybe what loans might be acquired from it.

Senator CRANSTON. Isn't that just a way of reducing inventory without really exercising any responsibility?

Mr. DOTSON. That is one way of reducing inventory, yes.

Mr. SALZMAN. Mr. Dotson is accurate, because if you turned over a home, you'll find in many abandoned areas that the people that may move in do not have the financial capacity to bring it up to codes; and, therefore, they might be residing in housing that was neither decent, safe, nor sanitary.

Senator CRANSTON. Do you think that the "as-is program" ought to be abolished, or should it be revised, or what should we do about it?

Mr. SALZMAN. I think it depends on the location. In some areas the "as-is program" could work because you find people with higher incomes that might buy it and live where they are living and not move right in until it has been fixed up.

Mr. DOTSON. I would like to respond to that, also.

The "as-is program" is attractive only to those who wish to renovate property, but those who wish to just occupy for a short length of time, then the "as-is program" has very little value from my point of view.

Senator CRANSTON. Have you found any programs that work in terms of finding out about a home that is abandoned and taking care of it until it's reoccupied?

Mr. DOTSON. We have in Compton recently begun what we call the "block club" situation, which is a part of NEA's protection, and it's just new in its efforts.

One of the things that the block club has taken into consideration is the fact that aside from reporting crime, it is to do something about the abandoned houses that suddenly turn up in certain neighborhoods.

Senator CRANSTON. Do they report the moment a house is empty?

Mr. DOTSON. In most cases, yes.

Senator CRANSTON. Then what happens when you find out that is the case?

Mr. DOTSON. Well, one of the things so that the house will not be vandalized, it is required that the owner board the house up, and this all the time does not make it attractive to the neighborhood, but it's required so that they are not a place for vandalism so the house is required to be boarded up.

Senator CRANSTON. Wouldn't it be possible to get somebody in there immediately as a caretaker instead of boarding it up?

Mr. DOTSON. Yes.

Mr. SALZMAN. Actually, we have been experimenting with kind of a screen and lexan that would prevent entry into the building and still would not reduce the appearance of the building to where people knew it was empty and could try to break in some other way, and it would not detract from the appearance of the neighborhood.

Senator CRANSTON. What kind of preventive measure is this?

Mr. SALZMAN. It's a screening device with an unbreakable kind of glass behind it known as lexan. This, of course, is much more attractive so it doesn't deter from the expense of the neighborhood.

Senator CRANSTON. How expensive are those?

Mr. SALZMAN. It's less expensive than board-up, because the boarding up has the labor problem involved in that.

Senator CRANSTON. What is the problem in its implementation?

Mr. SALZMAN. We are experimenting with it now in terms of using it in some of the public housing projects.

Senator CRANSTON. What is the cost of installing one?

Mr. SALZMAN. We don't know yet. We are going out to bid now; and the way it shapes up, it looks like it's a lot cheaper than having a carpenter go out and put together a boarding-up system.

Senator CRANSTON. Could you find out the cost to use this system on a house and submit it for the record within 3 weeks?

Mr. SALZMAN. Yes, definitely.

Senator CRANSTON. Could you tell me the average cost to board up a home?

Mr. SALZMAN. No, because we know in our own experience that it's the labor and time you take. When you get a carpenter, his wages are fairly high, and they have got to go out there. Unless it's a standard window, then, it's easier because you have everything prepared, and you can have screens made up in advance, also, for a standard window.

Senator CRANSTON. Well, could you also submit for the record your estimate of the cost of actually boarding up a home?

Mr. SALZMAN. Yes.

Senator CRANSTON. Mr. Fertig, please join us.

Mr. FERTIG. Thank you, Senator. I apologize for being late; I was tied up elsewhere.

I do have some testimony that I don't want to dwell on because I can submit that for the record.

Senator CRANSTON. If you could summarize, it would be greatly appreciated.

Mr. FERTIG. I can summarize quickly.

Senator CRANSTON. You can then submit for the record your formal statement.

Mr. FERTIG. Thank you.

Senator CRANSTON. Go right ahead.

STATEMENT OF RALPH D. FERTIG, EXECUTIVE DIRECTOR, LOS ANGELES COMMUNITY ACTION AGENCY

Mr. FERTIG. In quick summary, our major thrust, as the Greater Los Angeles Community Action Agency, would draw upon the fact that the abandoned housing about which you're concerned, really draws upon a heritage of government policies and private real estate policies that have left the poor—and particularly those in the structures to which you refer—in situations without the infrastructure, without the services or the support of the community entities that make for a good neighborhood living and a good life; but for the most part, if people had any choices at all, they would not live in the housing that was encouraged through some of these programs.

To a very large extent, again summarizing from this testimony, the private real estate market has not responded to the needs of the poor. The poor have no effective market demand on housing, as of course you well know, neither in the development of it nor in the maintenance of it, and government programs and subsidies have been the only thing that put any kind of capital investment into the private sector into the housing for the poor.

Other programs have discouraged the maintenance of those properties—accelerated depreciation, renewal efforts, the fact that most of this housing is constructed in the center of the city and to a very large extent the land value quickly increased over the value of the properties themselves, leading to a discouragement to the maintenance of some of these properties; that and the private real estate ventures—you know full well, Senator, the ripoff of buying up houses, making cosmetic improvements, and selling them at profits to the poor have led much to the current nightmare.

We felt in your legislation, sir, some ray of hope and some opportunity to begin to deal with some of those concerns, but we wanted to suggest a couple of amendments for your consideration.

One of these draws from the fact that because neither the government nor the private real estate industry have been in the position to do more than—the government's part has been really to focus on determining eligibility, staying in the black, housing managers have to weed out those among the residents who are in fact most able to take care of themselves and are most mobile—I mean, in favor of those who are most mobile, and we now know are least able to pay; those who are most poor; those who are most in need of help.

The private real estate, as I have stated, could only respond in terms of profit incentives. There is no profit to be made from the housing of the poor.

We would argue very strongly that there is a need, rather than turning to either government or the private real estate market, to intergrate more fully the agencies of the community action fabric that would work together in the residents that would relate them to the larger community, social and economic needs, that would try to build some of that infrastructure that would take more and fuller responsibility.

We would urge that three of the additional directors of the board of the National Protection Corp. be nominated for appointment by the President of the United States by the community action agencies, which have the largest blocks of properties that would be affected by this legislation.

We would also urge that you establish a community-based body to oversee the operations of the field offices to protect the interest of the poor; that body could encourage the development of community firms. It would be giving investments to the communities themselves to manage the properties, and we would urge that actual ownership of the land be maintained by the government entities to guarantee the maintenance of the properties be consistent with the appropriate standards and to discourage speculators who have in the past victimized both the government and the poor. We would think that such a body could thwart abuses by realtors, developers, and investment firms that have resulted in the 5,871 units reverting from private ownership to HUD, and the 2,588 to the Veterans' Administration.

A third suggestion, Senator, would be that the community action agencies in the target areas should review local plans submitted for the rehabilitation and disposition of housing units to see how they could be intergrated into this larger fabric of day care services, manpower services, development services, senior citizen services—the whole gamut of what goes into making an area a viable community.

We would especially stress that extra weight should be given to plans which have been developed by groups whose working members and constituents include those who would be affected by the program, whether you'd draw upon a community action agency or local government. It is less important, I think, than the concept of the participation of those who are to be affected by the programs.

Having said that—that's part of the written testimony or a summary of it—Senator, I wanted to add another very, very urgent note. You know of almost 9,000 abandoned units here in Los Angeles, and we would urge that you would use your influence, sir, to provide some immediate shelter in those units.

I listened with some real horror at the notion that we can board up these units, when I know that there are thousands and thousands and thousands of people being held in institutions and in camps and in detention centers because they have no other place to go.

[The statement of Mr. Fertig follows:]

STATEMENT OF RALPH D. FERTIG, EXECUTIVE DIRECTOR, GREATER LOS ANGELES
COMMUNITY ACTION AGENCY

One needs the basics for sheer survival—food, clothing, shelter—but it is housing above all which determines one's choices and changes. And it is hous-

ing patterns in Los Angeles which have contained and controlled the poor in this City.

Where one lives predisposes what schools his children will attend, what options he has for jobs, the air he breathes, the kinds of community services that he receives. Further, it strongly influences the quality of police protection and the type of human services available to him. This is largely so because of the tax base approach to the allocation of most human services through local governments.

Los Angeles is a foremost example of the way in which entire communities can exist near one another but without effective interaction. The hard-core poor in Los Angeles are isolated and exist apart from all mainstream opportunities. For them it is quite a different matter to be part of a majority poor as was characteristic of the great depression. It is also different to be part of the temporary poor who are casualties of the current recession; receiving unemployment and food stamp benefits, most temporary poor can stay in their same homes and secure the services available to their middle-income neighbors.

Current housing patterns tend to control and contain populations, particularly when they are not only continuously low income, but when they are more visible by virtue of race or language barriers. It is in this context that most of the housing for low-income people and, much of the housing that receives the special government guarantees, was built. Housing was constructed in neighborhoods that were isolated and devoid of necessary support services. And as soon as residents had other choices, they moved out of that community. There was a built-in situation which meant that those most able or mobile left while those least able to manage or, who had no alternatives, were left behind in housing that had been constructed by the government for the poor.

Compounding the housing nightmare was the fact that it was constructed with little infra structures or support services. There were insufficient commercial facilities, social services, health back-up, access to transportation, or relevance to employment centers that make for a successful and thriving community. The social and economic forces that make a place a viable community in which to live simply were not there.

Without an infra structure, isolation of the poor was further compounded, criminal acts and vandalism escalated, the poor preyed on one another and residents were forced to travel long distances to reach the nearest stores which more than not were the small markets that overcharged for essential foods and medicines.

Even less capable of managing housing for the poor, than the government itself, (witness the abysmal record of public housing management) is the private real estate industry.

The government does not adequately fund management for public housing and those trained for managerial roles are frequently consumed with assuring eligibility and weed out those MOST in need in favor of those not able to pay.

Managers are constantly caught up in the need to justify themselves and to come out in the "black" on their accounts while the government never really gives them adequate funds for the maintenance of properties. Properties, with large concentrations of children and dependent sectors of the population, are in greater, not less, need of support services.

It has been demonstrated that the private real estate industry is absolutely unable to relate to the needs of the poor. The reason is simple enough. The poor have no effective economic demand capacity with respect to the private real estate market. There is not a private builder in America who will put up housing for the poor without heavy government subsidy and there are few owners of real estate who will MAINTAIN housing of the poor.

The latter is true because, for the most part, in American cities, the poor are concentrated in the central core and the buildings which they occupy are less valuable than the land on which those buildings sit. Accordingly, there is no incentive for private owners to maintain the property any more than that which is essential for the sheer collection of rents since they plan ultimately to allow the building to be acquired by public authorities or private investors and demolished for renewal or commercial development. The private real estate market has never responded to the needs of the poor and has no economic interest basis for doing so.

Because of the historical housing neglect delineated in this paper and the potential employment opportunities offered in this proposed legislation, we fully support S 1988 as a means of providing for the housing needs of low-income people and alleviating the problem of blight created by abandoned structures.

Development of a corporation, such as that projected in this legislation, ought not to be directed toward the involvement of the private sector nor should it be controlled by forces of government in the traditional sense.

To provide maximum benefit to the poor and the business community through this legislation, we recommend the following amendments:

1. Three of the four additional directors on the Board of the Neighborhood Protection Corporation be nominated for appointment by the President of the United States by the Community Action Agencies which have the largest blocks of properties affected by this legislation.

2. Establish a community-based body to oversee the operations of the field offices to protect the interests of the poor.

This body could encourage the development of community firms to manage the properties, with the actual ownership to be retained by governmental entities. This would guarantee the maintenance of properties consistent with appropriate standards and discourage speculators who victimize both the government and the poor.

Such a body could thwart the abuses by realtors, developers and investment firms which have occurred here in Los Angeles, resulting in 5,871 units reverting from private ownership to the Department of Housing and Urban Development (HUD) and 2,588 to the Veterans Administration (VA).

3. Community Action Agencies, in the target areas, should review all local plans submitted for the rehabilitation and disposition of housing units.

In determining which plans to adopt, extra weight should be given to those developed by groups whose working members and constituents include persons affected by the program.

Inherent in these amendments is a recognition for the need to integrate into this housing proposal the social and economic concerns of the poor and unemployed, using the Community Action Agencies as a vehicle for this interlocking process.

Senator CRANSTON. What people are you referring to?

Mr. FERTIG. Well, the most immediate and obvious groups are the Southeast Asian refugees who are now in Camp Pendleton by the thousands, and that camp is not winterized, and it's by all means not a good place in which to live, where they are to be relocated far from relatives and friends in the heartland of America. They would like to be able to stay here. The only thing that is keeping them from being located here is that they have no housing.

There are also hospitals, detention centers that have people who are cured, who are ready to return to society, but they have no place in which to go. I would urge that you would also contact some of them and ask them for referral lists.

I think these houses could be occupied by people who are capable of maintaining them and dealing with them.

I think the immediate crisis is with Camp Pendleton, Senator. There is talk now of closing the camp in early October because it's on a flood plane. People are living in tents. They are uncomfortable and ill at ease in the evenings, already. They are going to have to get out of there before the rains come and certainly before winter comes.

It would be tremendous if you could use your office, sir, to at least make these immediately available on a tentative basis as an alternative to those tents.

Senator CRANSTON. Do any of you have any suggestions on how we deal with the problem that we were discussing at the end of Doris' testimony?

How do we legally get people in to take care of these homes while technically they are still owned by somebody you may have abandoned it but who may return, but it has not yet been foreclosed? How do you feel about that?

This is a legal problem that prevents a community from immediately moving somebody in to take over this property.

Mr. KORPSAK. It is a legal question, and I think it takes cooperation by the lenders. We have an early warning system; we do get notices from the lenders, HUD, and VA.

Senator CRANSTON. But have you worked out a way?

Mr. KORPSAK. Not yet.

Senator CRANSTON. We recognize Mr. Mays from the audience.

Mr. MAYS. My name is Sheldon C. Mays. My name is known as a long-time real estate broker in the professional field.

In 1949, the Congress of the United States adopted as a natural goal a decent home for every American family.

Now, we find we are talking this morning about abandoned homes in Los Angeles alone owned by VA and HUD.

As a licensed real estate broker, I receive daily a listing of properties for sale in the Los Angeles office in the "As-Is Condition."

The present procedure leaves to speculative investment or the poorer people with money and with very little equity or people who need that housing are precluded from it because they have low income and no financial ability because what it says there is a minimal down payment for the property will be \$5,000. What ordinary little human being—whether he be Chicano, Oriental, black, white, green, or purple—can afford or has 5,000 cash dollars to buy a home in an "as-is condition" and close an escrow in 30 days? Then before you can get ahold of a dime to bring that property up to code standards, that may take another \$3,000 or \$4,000, so even if he has \$9,000 or \$10,000 into the property, it may be worth \$20,000 of putting \$10,000 in. The little people just don't have the \$10,000, and they have no way of getting it.

I would suggest that in your efforts to promote the taking care of the blight conditions in the cities of America that you also make it possible for families of low income—I mean, the cream of the poor—to be able to avail themselves of these homes.

As a former housing project manager, I know that there are literally thousands of families throughout America who lack only one thing in terms of decent housing. They lack the ability to pay for that house without going broke. In everything else they are just as good a family and as good a citizen as the Rockefeller family.

Now, you must work out some kind of a way by which these people will be able to get these houses at a fair rate. Maybe there could be some kind of program whereby they can go in there on nights, weekends—that sort of thing—and actually put "x" number of hours in their helping to bring that property up to code standards, for which you would receive a credit for, say, \$2 an hour. Then he has something involved there of his own blood and sweat, and he'll have the

incentive to keep working and bring that unit up to code standards; and when he moves in, he's going to try to keep that property.

On the other hand, under sections 235 and 236—where for \$200 he could get in there—when things get a little rough, he's going to take his racetrack money out, and then he's going to pay the house bill.

What I'm saying is to make the property available for the little people who want to own a home and who are good citizens to own a home by putting their sweat, blood, and tears equity into that in the way of labor and get credit for it. Then he starts off with something there. I think if you did that, instead of these other remedies, you would do a lot more good for the people.

As a long-term housing man and real estate broker, I'm just a little bit leary of legislation without implementation from the practical point of view. I've seen various and sundry methods developed by scientists, engineers, and other technicians that really know nothing about what the little person needs or wants. When these programs were actually carried out on the local scene, you found fiscal responsibility lacking.

I'm saying, let's conduct the peoples' business in the same sound financial way we conduct the private business; because if you had a whole lot of this stuff in the private sector, they would have gone bankrupt a long time ago, and a whole lot of heads would have rolled. Let us bring the same responsibility to take care of the taxpayers' business; and if we do that, we will reach our 1949 goal, and we will find out cities a better place to live in terms of quality life.

Senator CRANSTON. Thank you, Sheldon. Those are very good points, and we will do our best to take them into account.

Let me ask you now one other question on this abandonment business and the costs involved.

Do you have any estimates of the typical average cost involved in rehabilitating a home due to the vandalism that occurs during the time that it's unoccupied?

Mr. DOTSON. Having been in that business to some extent, the typical costs for the average two-bedroom house, to bring it up to code and to take care of all the factors of abandonment, is around \$3,500. It could be more or less, depending upon the floor space in the home; that could be updated by adding other immunities to the home that wasn't there, but this is the basic.

Now, as to today's higher prices, this escalates.

Senator CRANSTON. Do you know how much of that cost is attributable to bringing the property up to code standards, and how much is attributable to the vandalism that occurs during lack of occupancy?

Mr. DOTSON. Approximately the same thing.

Senator CRANSTON. We got a figure of \$8,000 in San Francisco.

Mr. SALZMAN. I would say in our experience it would put it at about \$7,500. It isn't all attributable to vandalism, though. Some of it is, and some of the times vandalism occurs in the process of bringing the building into good condition.

We had an instance when in the middle of the night two men were in there and took out an old bathtub. It took them several hours. What could they get for an old bathtub? They were caught at it to

boot. It does add, but I think most of the cost was not due to vandalism.

It's the fact that many of the homes we took were pretty old—the electricity had to be redone; the roofs needed to be redone; and the plumbing had to be redone. It depends on the condition of the house to begin with. We know a lot of the HUD-repossessed or FHA-repossessed homes in the valley and some parts of the San Fernando Valley are in pretty good shape. You could probably get by pretty easily with a \$1,000 or \$2,000 or \$3,000 down payment.

Mr. FERTIG. Senator, could I urge you to add to your cost computations the costs that are the results of the maldistribution, the fact that there are indicated many, many people in institutional settings or many people who are overcrowded, many people who are in situations that induce them toward activities which then lead to incarceration because of their own ill-housing situations or their tentative housing situations.

The care of an individual in some of these camps is a thousand dollars or more per month. When you're talking about a family of such individuals, you're talking about many thousands of dollars per month that the Government is spending to keep these people locked up or away and involved somewhere else, and also having to spend thousands of dollars to rehabilitate properties. So that part of the cost is also the fact that we can't match these two, and there is logically no reason why the two could not be matched and that you could not draw upon existing community institutions to help orchestrate some of these different programs.

There are voluntary institutions. There are public institutions that are desperately trying to find housing on the one hand and then there are abandoned houses that have to be boarded up and protected against possible vandalism on the other.

Senator CRANSTON. Jerry Buckley has a couple of questions.

Mr. BUCKLEY. I want to address my question to Mr. Salzman.

You mentioned a program that you've used the section 23 leasing program to lease units to low-income families who qualified for public housing.

How did that work? Could you amplify on that, because the program seemed to hold a lot of promise the way you described it, and yet you say it's not possible to continue the program under section 8 of the Revised US Housing Act of 1937?

Mr. SALZMAN. That's correct.

Well, as the program's being administered, it's actually in the Housing Community Development of 1974.

The section 23 program did lend itself to it, because the housing authority would periodically receive units and allocation of units and the subsidies that run with it. There may be several thousand at a time; and, therefore, it had the freedom in how they would pick up the units. As I say, we worked this out jointly with the HUD area office where we wrote up the specifications, put out a request for proposals, and we actually received bids on what they would pay HUD for the buildings and also bids on what they would lease it to the Housing Authority for.

Mr. BUCKLEY. Let me see if I understand it.

Just to put it very simply: HUD had units which were acquired because the property had been foreclosed.

Mr. SALZMAN. It foreclosed.

Mr. BUCKLEY. And they would sell those units to the Housing Authority?

Mr. SALZMAN. No. We had put up—what we did, we reviewed these units that were available. Most of them we picked up were in the south-central part of the city.

We didn't pick them up. We cosponsored a program with HUD whereby these units, in packages of 25 single-family homes on scattered sites, were offered to developers, contractors, anyone that wanted to bid to buy them from HUD, but linked to it was that they would also have to bid on what they would lease it to the housing authority for after they had rehabilitated those homes in accordance with the specifications that the Housing Authority had developed.

Mr. BUCKLEY. Now, would it be possible under the new section 8 leasing program for HUD to sell the unit to the housing authority and for the housing authority to lease it?

Mr. SALZMAN. Well, there are other problems. For instance, in the State of California for the housing authority to take title to homes for families or for elderly, we have to have a referendum.

Now, we have had a successful referendum in this city, but only so far as for senior citizen homes, but we couldn't take title.

Mr. BUCKLEY. With a nonprofit organization—

Mr. SALZMAN. We can do it with a nonprofit organization.

Mr. BUCKLEY. Could you do it with a nonprofit organization which would take responsibility? If you had a list of people who are eligible for public housing, they would be able to lease units from the nonprofit organization, and HUD would pay the difference between 25 percent of their income and the costs of maintaining that unit; that would be possible, wouldn't it?

Mr. SALZMAN. Yes, provided you also threw into the mechanism the ability to put these homes and make them decent, safe, and sanitary.

Mr. BUCKLEY. That means that they have to find some kind of financing?

Mr. SALZMAN. That's right.

Mr. BUCKLEY. Your State Housing Financing Agency might provide one form of that financing?

Mr. SALZMAN. Yes, possibly, but I don't think in the near future.

Mr. BUCKLEY. What I'm trying to get at is that use of the public housing leasing program is still a possible way to rehabilitate and reoccupy foreclosed FHA-insured properties.

Mr. SALZMAN. It's still a mechanism. In fact, if a set-aside for substantially rehabilitated units in section 8 were available, that is all it takes.

Mr. BUCKLEY. You're suggesting that in administering this section 8 leasing program that isn't getting off the ground, HUD should set aside money specifically for the purpose of helping dispose the inventory of acquired properties. This would prevent the blight that these houses cause their neighborhoods. Could this be given a high priority in your opinion?

Mr. SALZMAN. Yes, but I wouldn't propose that HUD finance them up, because we have found that that doesn't work. The purchaser of the housing authority would get title to it; or through the means of a nonprofit organization, they could fix it up; in other words, the rentals, the fair market rents on section 8 are adequate to be able to finance and put them into good repair.

Mr. BUCKLEY. Was any study done on this program?

When you used the old section 23 leasing program, was any evaluation of the program done by HUD?

Mr. SALZMAN. I would assume so, because at the very beginning, at the bid opening in HUD, HUD people from Washington came out from the region to see how it was going, and we have done 5 packages that way, or 125 homes.

Mr. BUCKLEY. And are any of those properties that went through that process now abandoned, or are they all occupied and in good condition?

Mr. SALZMAN. Of the 125, all are occupied except 2.

Mr. BUCKLEY. And they are all in relatively good condition?

Mr. SALZMAN. Relatively. The problem is that, first, to get them from HUD, they had to pay too much for them. There are problems attached to it, obviously, because if it isn't economic to really repair it—if I were doing it, especially for the age of the homes that we do get under that program, in many of them the total plumbing should have been replaced completely, rather than only partially, but the money economic feasibility was so tied to what did you have to pay HUD to get possession of it or the ownership of it.

Mr. KORPSAK. Senator, the question Jerry has presented is a good point. We had the same experience with about a hundred units under section 23 where we basically took the ones that were currently abandoned and substandard and brought them up to rehab code under section 23.

Mr. BUCKLEY. I always thought this might be a good way to solve the problem, and I had heard that in Los Angeles this was being tried on an experimental basis.

Mr. KORPSAK. You can add Pomona to it.

Mr. BUCKLEY. And Pomona.

If this could be tested, I think we might have a mechanism here for providing the money needed to help repair and reoccupy some of these abandoned FHA properties. What would you say?

Mr. SALZMAN. Well, we have tried now for many months to get a set-aside on either due or substantial rehabilitation under section 8. We got as far as HUD recognizing it so that when they put out the regulations for the State Housing Finance Agencies, they indicated they were thinking about a set-aside for local housing agencies or for demonstrations, but that is as far as it's gone.

Mr. BUCKLEY. When I go back to Washington, I'll try to get HUD to give us a report on what is happening with that proposal of the set-aside.

Mr. SALZMAN. Because we had another interest in the set-aside, because the city of Los Angeles has a 15 percent ordinance on any new construction of 5 units or more. 15 percent of the units must be set aside for low- and moderate-income families, but that cannot be implemented unless there is a set-aside to it.

Senator CRANSTON. Do you have any figures on what percentage of the abandoned homes that exist in your communities that were insured under 221D2, 223D2, 235 and 236; if not, could you submit those for the record?

Mr. SALZMAN. I don't have it, but I would guess as far as most of those in the city of Los Angeles of single-family homes that were repossessed by FHA or HUD, were not constructed under any of those programs or were much older housing.

Senator CRANSTON. Mark, do you have any questions?

Congressman HANNAFORD. Briefly, Mr. Salzman, you said in answering Senator Cranston's question, that most of the expense of rehabing was not because of vandalism.

Mr. SALZMAN. That's correct.

Congressman HANNAFORD. A lot of them I haven't seen, for one thing, because those I have seen have been vandalized enormously. It also suggests that perhaps the code is the cause of the abandonment, that one might want to sell the home; but because of the inability to meet code standards, he is precluded; is that right?

Mr. SALZMAN. No, I wouldn't say that, either, at least in our experience; and true, it's limited, because we were working with HUD to take really the oldest properties that they were not able to sell so those properties they sold didn't take as much money to put it into good repair, and many of those were just due to age of the structure. There was some vandalism attached to it, but not that much.

Congressman HANNAFORD. Mr. Dotson, you said that you had a process whereby the owner was required to board up an abandoned house.

Isn't it a problem that most of the time you can't find the owner?

Mr. DOTSON. This is one of the problems, and the city of Compton has sort of gone to this thing where the owner cannot be located and the house is abandoned, and it stays abandoned over a given period of time, then the city of Compton will board it up, cut the weeds from around the property, and charge it to the property owner. This hasn't been always successful, but it has been one of the ways of getting to the problem.

Congressman HANNAFORD. In one of your recommendations you said that a mechanism by which Government redtape could be cut—is this Government redtape the delay between abandonment and the foreclosure?

Mr. DOTSON. This is what I had reference to.

Congressman HANNAFORD. Mr. Korpsak, you said that cooperation from the lenders would sometimes enable us to avoid this long ago. Isn't that the major problem, the State foreclosure laws?

Mr. KORPSAK. It is. There is a legal time that has to be given to the owner to relieve and then time to revert to HUD. The combination takes anywhere from 6 months, and we have uncovered houses lost by HUD vacant for 4 years.

Congressman HANNAFORD. Sounds like maybe we should be in communication with Sacramento to solve some of these problems. Thank you very much.

Senator CRANSTON. Thank you all very much. You've all been very helpful. I appreciate it.

STATEMENT OF VALARE PORTER

Mr. PORTER. Senator, before they leave, I'm Valare Porter, and I would like to say that no one has mentioned that in this area alone we have vandalism and burnt-out property. Your land value of your California land is a predominant situation.

I would like for you to answer, if it's permissible, is there something that is going on within the southeast Compton and Florence and Watts area, a slum? Does the Government or the people that are like HUD want this to be a decomposed area so that they can build, because not only is there a lot of redtape, it takes so long.

You have an eyesore. Now, we have this community development coming up. You have eyesores. This is the living proof; Watts is the living proof in 1975. I've seen right here all of this land; and even when they build these brand new homes over here, they dump all those bricks and everything. They let the weeds grow up and everything.

We are isolated. The seniors don't have anything. They have nothing to live for.

Already the code enforcement is very bad, very poor. The people that would like to come, ordinary people like me, they would like to come and complain to the realtors and all; but you know what, they have code enforcement so if they have cracks in the ceilings, if they have porches that are defective, if they have electrical wiring with no money, then they just stay mute.

When I have a problem myself in Compton, why, they have wall to wall; they wrote all over my property. We have put in windows, and they break out the windows. They stripped everything that I had in the house. They took all my plumbing and everything. Well, the house is really too old to even try to get a rehabilitation loan, and I notice there are several like this.

I would like to know what can be done about that. If some of you gentlemen on the panel can tell me what specific percentage of people who have burnt-out homes—they burned them up. When they board them up, they are not boarding them up; they are burning them, and they're burning the people out, and they leave this stuff there, and it takes about a year or so to get a demolition to get the job removed.

Community beautification goes all the way down, you know, and an ordinary land person don't want to assume the responsibility of having to pay extra taxes because when that home goes down, and no other occupier or homeowner don't come in, then, look, the taxes go up and up and up, and that is what I would like you to answer.

Senator CRANSTON. Well, Valare, we are here because we know of those conditions, and we are determined to try to deal with them. We do have two more panels that we've scheduled, and we have to go ahead with them. If any members of the next panel can respond to the questions that Valare asked, I'd appreciate it very much.

The next panel consist of Richard Crissman, Cary Lowe, Ellen Kastel, and Herman Rappaport.

We have one more panel, and we have to complete our work by 12 o'clock, so if you can each briefly summarize whatever prepared statement you have and submit those prepared statements for the record, which would leave us more time for the questions of the committee, it would be appreciated.

Could you identify yourselves for this side [indicating], beginning with Herman Rappaport starting so for the record we know who you are.

STATEMENT OF HERMAN H. RAPPAPORT, EXECUTIVE, VENTURE CAPITAL CO., BEVERLY HILLS, CALIF.

Mr. RAPPAPORT. My name is Herman Rappaport, Executive Venture Capital Co.

Mr. CRISSMAN. I'm Richard Crissman of Ralph Sutro Co.

Mr. LOWE. I'm Cary Lowe of the community information project.

Ms. KASTEL. I'm Ellen Kastel from the Center for New Corporate Priorities.

Senator CRANSTON. Mr. Rappaport, will you begin, please.

Mr. RAPPAPORT. My name is Herman Rappaport. I'm a private citizen. I am a management engineer by training, turned investor in real estate. I know that is an unpopular word here today.

I was for 5 years a member of the President's Advisory Council on Transportation.

I also was a builder for many years. I might say, with the exception of the gentleman who is a real estate broker who spoke from the audience, I possibly am the only man here who has made a living in building houses, pouring concrete, and putting my own personal signature to find a bank loan to put a deposit.

Senator CRANSTON. May I add that I've done that, too, before I was in the Senate.

Mr. RAPPAPORT. Very good. We have all seen Watts go in the last 10 years from an impossible situation to something a lot worse, and I would like to address myself to what I think is an almost incestuous relationship between the Government and the Government agencies and local leadership with the total inclusion of the private sector.

The rehab of housing is an extremely difficult task, and it's probably the least profitable—and I know that is a dirty word, again—it's the least profitable and the highest risk of any building program. I've heard figures of 7,000, 8,000, 9,000 houses in, let's say, Los Angeles County that are boarded up. We also have a construction industry that has up to 50-percent unemployment. It's in desperate need for housing, and certainly the private sector is interested in profits; and yet, no one seems to want to jump in and take advantage of the situation, and there has to be a very good reason for it.

I'm very much in favor of the bill, let me say, to start with. There is a desperate need for something like this, but I have very grave reservations at the implementation of that bill. I think the implementation is where all of these congressional agencies and Government forces have fallen flat.

We've seen a lot of headlines about redlining of savings and loans. I hold no creed for the savings and loans. I do not want to speak for them. I don't have any stock in them. I have no interest in them.

I would like to suggest that there are some very more important sources of money and private money, the pension funds. I think the pension funds have a responsibility and a role to play here in providing private capital. I think insurance companies have mortgage money that they can put to work, and I think this bill should make

it possible for them to assume some of the risks and some of the role that has to be done. I don't think the Government can do it by itself. I think the professional builder has to have a roll here; and again, it's a profitable role. The projects have to be large enough to warrant the professional builder's coming in.

Now, I understand very, very clearly the term "sweet equity" that was used here. Obviously, there has to be some position for someone who will come in and who will live in that house and who will rebuild it.

There is a man in the audience here, a fellow by the name of Dick Davis. Dick and I have worked together for now 25 years. He lives in south Los Angeles, and he is what one might call a slum landlord. He owns five houses that he fixed up by himself and rents for a profit. By working on weekends and in evening, he's put these together, and he rents them. Now, I suggest he knows a little bit more about how to fix up some of these houses than most of the people that purport to represent major efforts in this area. He's done it himself; and if time permits, I'd like the Senator and the panel to be able to ask him some pertinent questions on how to do it and why he does it. I did ask him why he didn't continue. He said, "There is no profit. It's worthless doing."

Thank you. I hope you can implement some of these efforts and make this program work, because it's needed badly.

Senator CRANSTON. Thank you very, very much.

If we have an opportunity and time permits, I certainly would like to speak with him.

[Complete statement follows:]

STATEMENT OF HERMAN H. RAPPAPORT, BEVERLY HILLS, CALIF.

I recently checked an existing housing project in Compton. A few years ago there were 500 homes. Today, a third of these have been torn down, another third is boarded up. Only one third is presently occupied. The obvious solution to reduce the cash drain, is to tear it all down.

But the possibilities I saw in this one 62-acre tract led me to some thoughts that bear on Senate Bill 1988. The objectives of the bill are excellent. How it's carried out is the question.

The federal government has poured millions in South Los Angeles housing in the last 10 years. Most is in foreclosure. Private housing is being boarded up or torn down every day. Watts is worse off today, by every standard, than it was 10 years ago. Government programs, by themselves, do not work. For Rehab programs we need experienced builders and private capital, as well as local leaders and government. Unless some new force can bring all these together, housing rehab won't work. Senate Bill 1988 proposes to spend millions of dollars to put abandoned housing back on the market; a drop in the bucket compared to what is needed. On the other hand, it can be more than necessary if we use common sense. In fact, maybe what we need is a Clearing House of Common Sense.

You see, today's experts have displaced common sense. We're told that urban problems are so complex that only specialists can handle them. Unfortunately, each expert only sees his own small specialty and there's no one to put things together; no one with enough experience to separate facts from double talk.

Facts can be simple to recognize. Los Angeles has 10,000 board-up houses; half of its construction workers are unemployed; there is a desperate need for low-cost housing; and, last, there are dozens of government programs that might apply, from HUD to D.O.T., from MESBIC to SBA, you name it. Yet experienced builders and private capital won't get involved. The risks outweigh the potential profit. Even government agencies like HUD and FNMA

won't get involved. This bill, as far as I know, is the first focus by Washington on rehab housing. But rehab housing needs total commitment.

Just about every government program that I've seen consists of two elements—government and local leaders. Each program seems designed to drive out the private sector, the mortgage lender, the builder—and that's where the experience is.

There is a man sitting in the audience—he has been a friend of mine and worked with me for 25 years. Dick Davis lives in South Los Angeles. He is an investor in Watts, and a landlord. Mr. Davis bought several substandard houses, fixed them up, and he rents them out for profit. When I asked Mr. Davis why he didn't buy more he said that he didn't like to lose money! Any rehab program that doesn't offer an experienced man like Dick Davis any incentive to invest his time and money, just can't work.

Anyone who has tried to make a living fixing up old houses will tell you it is one of the most risky construction jobs that there is. It takes know-how. The one-house-at-a-time carpenter has a tough time bringing costs down. There just aren't too many Dick Davis' around. You can't gear up to do a proper job without volume and, of course, 10,000 boarded-up houses can't be put back 5 or 10 at a time; and when the government sells houses a few at a time, for token amounts to neighborhood non-profit foundations, that is probably the most inefficient way to rehab housing that I can imagine. I'm told one government-owned company that bought houses for \$8,000 or so each, spent \$3,000 in improvement costs, and is losing money at a sales price of \$22,000. I wonder how much each house really cost the government? So much for experience.

Proper management has to bring back the conventional lender as well, and end redlining. This decision not to lend in areas with bad loans means economic and social death.

Senate Bill 1988 is directed primarily to government exposure loans and insurance. Ignoring private distress, housing will reinfect any neighborhood. Why can't we help free up loans on foreclosed housing in redlined districts by insisting that such funds be reinvested in the same districts?

I'm sure that Savings and Loans representatives can speak much more eloquently of their industry, just as the local leaders can of their needs, but I'd like to add a few words.

Local leadership is today's catch phrase. If it has experience, is creative and can influence the private sector, fine. If it is a political expedient—not so fine. I can't speak about other fields, but in urban redeveloping and rehab housing, local leadership needs help.

If I were real sick, I'd call in the best doctor I could afford—white, black or green. And I certainly wouldn't let a beginner learn anatomy on me.

One man-one vote may be a great political slogan, but small inexperienced neighborhood groups haven't been able to do very much in rebuilding programs. The problem is especially important in Los Angeles County which is a collection of small neighborhoods and independent towns. Rehab programs can't allow each city to be in a business for itself. Los Angeles has one regional agency, Urban Affairs, geared to work out rehab programs. Any demonstration program should be through Urban Affairs. The cost of momma and poppa agencies is prohibitive.

Senate Bill 1988 calls abandonment a contagious disease—an excellent analogy. We can't leave neighborhood pocket sores to fester and reinfect the entire system.

I know that "abandoned housing" is the subject of this hearing. But housing, considered by itself, is shortsighted. People need jobs to pay the rent or mortgage; they need transportation; they need family security, etc. Only a creative partnership of the private sector with government will solve the total problem.

Los Angeles just can't afford another 10 years of sliding downhill.

Senator CRANSTON. Mr. Crissman, will you give us your statement?

Mr. CRISSMAN. Thank you, Senator Cranston.

STATEMENT OF RICHARD CRISSMAN

S. 1988 looks like a practical piece of business to me. I made an economic model of a pilot project using Los Angeles County data and numbers. My project had about \$52 million of total investment

and about \$42 million of housing that were sold out of it, leaving a permanent investment or a long-term investment of around \$10 million.

I tried to calculate the benefits to the community in which that development would occur. I calculate that there is about \$2.6 million annually of tax benefits to the total project that I envisioned, and that the subventions—that is, the return to local government of State taxes—add to that by another \$6,000 annually to make a return to the community, which were to use the Neighborhood Protection Corp. device, of \$3.2 million annually. To have long-term investment left in such a project of \$10 million would seem to me a perfectly proper kind of federal stimulation.

I think the NPC can show the way for private lenders. I'm pretty sure that good housing does not beget good social conditions.

On the other hand, almost all of the cities in the United States have substantial areas of their communities where the neighborhoods are at the absolute balance between a couple of more restorations to make them whole and a couple of fewer will tip them over into an unrecoverable condition.

This act is aimed at neighborhoods in unrecoverable condition; but it can show, I think, through the demonstration project, how lenders, by blanketing a neighborhood with support—as the Bank of America has done in Los Angeles County in one neighborhood—can restore the balance of a neighborhood, but it has to be a blanket kind of investment.

For example, Chicago has about two-thirds of its neighborhoods at that moment of balance; Los Angeles has about a third; Newark is 95 percent; Paterson is 100 percent, to speak of the East.

There will be an opposition to this bill, I'm sure, by those who say that there should not be another Federal agency. The fact is in my view that there are no agencies that can do this. HUD has made a great many mistakes, and they certainly should not be permitted to select the initial project under this bill. They don't know how. They don't have the equipment to do it or the staff.

In fact, HUD should probably be limited in all of its operations except to have three stamps: one of which says insured; the other says deficient interest documentation; and the third which says rejected.

Senator CRANSTON. That is a great suggestion.

Mr. CRISSMAN. The National Corporation for Housing Services has been an excellent source of capital for low-income housing. They own about 23,000 units, all are in good condition, and they have an excellent reputation. They, however, are not a community developer. They are only a financial intermediary.

Savings and loans, which have service corporations, have been quite creative with their corporations; however, we are well aware that if they were to concentrate assets to the extent required in an NPC project, they would be severely criticized by the FSLIC.

Pension funds, my friend suggest, would be a good vehicle for investment in inner-city areas. Not so. The new pension fund legislation requires them to make investments only in insured mortgages.

Senator CRANSTON. Did you have a question, Mr. Buckley.

Mr. BUCKLEY. I just wanted to ask, if the FHA were insuring the property, what would be wrong?

Mr. CRISSMAN. I think it would be fine, and they do make substantial investments in FHA loans.

Mr. BUCKLEY. In recent studies by the Harvard-MIT Joint Center on Urban Studies, it has indicated that pension funds do not invest very heavily in mortgages, but they have invested in the stock market much more than they should have.

Mr. CRISSMAN. Well, my company services 350-odd million for pension funds on FHA loans. We consider them a very good source.

Mr. BUCKLEY. Then why do you not accept pension funds as a likely source of money?

Mr. CRISSMAN. Except under revised FHA—if you can get them back to the three-stamp operation, fine, but I think that is a major task.

Mr. BUCKLEY. You would agree that pension funds would be a good source of capital?

Mr. CRISSMAN. Yes; but not as present things exist.

Neighborhood housing service organizations are sponsored by the Federal Home Loan Bank Board through an advisory service. I think that the neighborhood housing services—block groups or whatever they are called—are a necessary ingredient to NPC programs, but they are not a substitute for it as someone has suggested. NPC need not be another bureaucracy.

I think these objections concern me greatly in seeing whether the bill can pass or not. My belief is that most institutions are process oriented. Their staff and their senior people are much concerned that every piece of paper gets into the right file and most especially that the personnel files are clean; that is no way to do housing.

Housing organizations—and in fact, most organizations—must be product oriented.

It's my recommendation that this agency be staffed only by persons whose objective is the product of restored housing and restored tax base and therefore, restored communities. There are a lot of cheap people who can keep track of things, but there are very few people who can get a product.

Turning to the use of debt instruments as set forth in the act, it appears to me that they address that directly—that part of the act—to one of the very great national issues. There is almost no long-term capital market to be seen in the future. It's a terribly unsettled situation. Until this is restored, I think it's going to be difficult to market anything beyond the initial authorization of long-term debt insurance.

I would suggest, however, that even in this initial phase that FDIC- and FSLIC-insured institutions be required to accept these debentures in exchange for abandoned housing which they own; otherwise, it seems to me that NPC is at the mercy of the Treasury as to finding of this money.

The savings and loans, which may in fact have partly contributed to the difficulties of the advance of abandoned houses on their books, get cash, when in fact they might just as well have the debt securities; particularly if they yielded any like market rates that seems

to be contemplated here. The difficulty is that the FDIC and FSLIC have to amend their regulations to permit the securities taken in the exchange of housing to be the equivalent on their books of house loans; otherwise, they fall into a category of inequity, that one-half percent that a savings and loan can have are unauthorized on investments.

In my printed statement, I have given some information which indicates why I think I'm an expert in this matter, and I really do think I am. I've been on the planning commission in Pasadena for a number of years and in the savings and loan business and mortgage banking. I'm on a number of national programs for open housing and things of that kind.

Attached to the final part of my presentation, Senator, is an addendum which backs up the number of \$3.6 million of tax distribution in my model project.

Senator CRANSTON. Thank you very much for some very unique and, I think, very constructive discourse here.

[Complete statement follows:]

STATEMENT OF RICHARD CRISSMAN

Senator Cranston and ladies and gentlemen; thank you for the opportunity to present my views on this most interesting piece of legislation.

The proposal to establish a Neighborhood Protection Corporation is a sensible and practical means of combating neighborhood decline. The Act embodies all of the balance wheels of protection which could be desired. I am certain that it will be possible for such a corporation to achieve very good results within the initial four years' program.

I. WHY NPC CAN BE AN ECONOMIC MULTIPLIER

My enthusiasm for this legislation is quantified by my measurements of the economic multiplier effect the capital authorized therein will have. For example, if 2,000 abandoned houses in Los Angeles were to be in the pilot project, I'd guess that the total import would be upon a macroneighborhood of about 10,000 dwellings . . . say 5 census tracts in which 30,000/40,000 people would live.

I have made a model (a modest model to be sure) of the impact a NPC operations in Los Angeles. Where \$52 million would be spent, I saw \$42 of sales generated . . . whether financed by NPC Loans I did not predict; the remaining \$10 million is represented by write-downs which could be recaptured from future revenues of income properties held or from their appreciation.

The direct tax benefits to LA of an NPC project of 5 LA census tracts are perhaps \$2.6 million annually. In addition, some \$327,000 annually of subventions (that is, local shares of state taxes) may be generated directly from new residents in the 2,000 units, and another \$262,000 from the improved business conditions within the census tracts. All told, the long-term investment of \$10,000 million by NPC in my model project generates almost \$3.2 million in revenues for these 5 tracts in Los Angeles.

You can see why I am enthusiastic about the potential for NPC.

II. NPC CAN SHOW THE WAY FOR LENDERS

For at least fifteen years I have been convinced that the self-interest of all the financial institutions in the United States ought to dictate that they invest the bulk of their new lending money within the confines of the existing central city. Their failure to do so, spurred on, I fear, by the housing policies of HUD, is partly the cause of the difficulties which nearly every urban center is experiencing . . . decline in the tax base, in social standards, and in municipal services. Many writers have attempted to show a correlation between the condition of housing and the economic health of the neighborhood components of a community; I am not so sure of the connection, but I am pretty sure that good housing does not beget good social conditions or good city services, in fact, it is probably the other way around. The largest areas of most cities are

those whose stability is so precarious that a few further abandonments, or a few further rehabilitations can tip the scale of economic balance within the neighborhood. Financing institutions should realize that the bulk of their business and probably the bulk of their present real estate investments lie within these on-the-edge neighborhoods of unfortunately, laws against red-lining, or for green-lining will not really change lenders' practices.

The Neighborhood Protection Corporation offers the opportunity to tip the balance in the right way in a number of neighborhoods and to demonstrate to financial institutions that age of housing is not the most important indicator of economic health; that adherence to the manners and styles of the television situation comedies are not the "style" of all healthy neighborhoods.

III. OTHER AGENCIES ARE NOT ORGANIZED TO DEAL WITH ABANDONMENT

HUD has not been the vehicle to achieve the small scale but pervasive sort of neighborhood restorations which the Neighborhood Protection Corporation could achieve, (and some have even criticized the scale at which HUD *has* operated.)

The National Corporation for Housing Partnership had a different mandate than neighborhood stabilization, and while they have developed and own something like 23,000 housing units financed under various HUD Insurance programs, their impact in any one city is minimal. They have been a contributing force for good in low-cost housing, and I am delighted for this success. They would be an appropriate partner for the NPC from time to time, but not a substitute body.

The old Action Programs recommended that housing corporations of the type proposed here be created, but it was assumed that private companies would be the funding bodies. Action programs were not taken up by the private corporation, and with the pressure upon them to stabilize their profits and cope with manufacturing problems, I think it is unlikely that they can diversify to the extent required to be effective catalysts of neighborhood regeneration.

Savings and Loan Associations have been permitted to have service corporations and a few of them have done quite interesting things along the line of rehabilitation; these institutions would be severely criticized, were they to concentrate their assets in the fashion required to solve NPC abandonment problems on any useful scale. In fact, there could be a substantial risk to the savings depositors by the kind of liquidity and lack of income which the development of NPC programs will involve. In fact, no financial institution, as the real estate investment trusts have learned so recently, can afford to be without income during the development period of a large project. Only an agency especially designed to take on such a task, of the character of the NPC, can really be effective.

Neighborhood Housing Services organizations, a plan for which is advanced by the Federal Home Loan Bank Board, are a brilliant and effective idea. They, however, would operate at the citizens support level, which adjoins to NPC rather than substitutes. Neighborhood Housing Services can create the citizen pressure which would cause cities to enforce their codes and keep neighborhood services up to appropriate levels. Further, Neighborhood Housing Services cannot raise the capital necessary to develop neighborhoods in the same way as NPC could.

Thus, I conclude, that it is not possible for any of the existing agencies, public or private, to make exactly the contribution which the NPC is chartered to make.

IV. NPC NEED NOT BE JUST ANOTHER BUREAUCRACY

Many objections will be raised to the creation of "yet another federal agency." Senator Hart, in his introduction of this legislation, referred to the success of the Homeowner's Loan Corporation in the 1930's and drew a parallel between this proposal and HOLC. If I were a better scholar, I would have tried to find out in advance of today's hearing whether the staff of HOLC were dedicated to their task or concerned with the protection of their personnel files. If it was the latter, it would surprise me that they succeeded. If it was the former . . . dedication to the task of stabilizing the housing market . . . then the success explains itself. The staffing of the Neighborhood Protection Corporation seems to me to be the vital ingredient as to whether it will succeed or not. Bear with me, please, if I appear to digress into a philosophical area.

My belief is that most institutions of any size become process-oriented. That is to say that they devote the bulk of their man hours and money to systems,

self-examination, procedural matters, internal balances and checking, and to the terribly important matter of protecting one's personnel file from adverse comment.

Successful organizations, and these are all too rare in terms of total output, are product-oriented; that is the bulk of the organizations' time and money is spent on the output of the thing for which the organization was chartered . . . be it wiglets, or housing.

In a product-oriented housing organization, the management and staff will have as their principal concern things like: the number of rooms developed at a price; and the number of persons who are paying rent or mortgage payments, and success will be measured against a matrix of time/money. Thus, Senator Cranston, it is my recommendation that however the agency is staffed, it be staffed with persons whose objective is the product of restored housing, restored tax base, and therefore restored communities. There are plenty of people available at modest salaries who can keep track of the process and keep the organization from getting into the sorts of trouble which would vitiate its good work or in fact cause it to be terminated . . . but those are not the kind of people who ought to be in charge.

Some have said that HUD is process-oriented, rather than product-oriented; I think that is probably the reason that they have been criticized. The NPC should not be organized that way. The corporate President must be a man of several disciplines. The merchant builder will have had little experience in rehabilitation and the social consequences of a project the bureaucrat has (perhaps) little experience with "product orientation," the city planner will be new to financial management, and the banker new to this program. The ideal president will be knowledgeable in all these fields.

V. USE THE DEBT INSTRUMENTS OF NPC FOR PROPERTY ACQUISITION

The debt instruments to be issued under this law seem destined for issuance through regular federal agency underwriting techniques. These are uncertain times when, it seems to me, our most basic economic issue is the restoration of the long-term capital markets; a new issue of an untried agency seems a perilous expectation. I expect the use of Second Liberty Bond moneys by the Treasury to acquire the NPC debt is intended to ease the marketing problem. A further ease would be to require HUD or other Federal agencies to accept NPC bonds in full settlement of the purchase price of houses acquired. Institutions insured by FDIC or FSLIC should be authorized to hold NPC bonds acquired in exchange for abandoned housing in the same accounting classifications as the houses sold . . . that is, primarily, as though they were "home loans" as the regulations define them, rather than as non-conforming investments, or permitted long-term obligations within the definitions of liquidity. Both of these steps, using bonds to pay HUD for houses, and the freedom of regulated institutions to accept bonds for houses, will conserve the \$35,000,000 of capital allowed to begin the agency.

VI. WHY MY SUPPORT OF S-1988 IS THAT OF AN "EXPERT"

It may help you to know that I arrive at these conclusions after a fairly long experience in a number of housing situations. I have been the managing officer of a large savings and loan. My present field is mortgage banking, and I serve on the task force of the Mortgage Banker's Associations for Redlining. In addition, I have worked with the Potomac Institute on their recent study on inclusionary zoning practices, at foreclosed sites which could then only be cleared into vacant lots. I am the Chairman of the Planning Commission in Pasadena. My experiences in Pasadena, which is 120,000 people, about as assorted as any group one might find in the United States, and a microcosm of all the municipal problems anybody has ever seen. The nice thing about Pasadena is that we are small enough that, in our careful way, we are able to deal with our problems on a pretty human basis. From that experience I learn that it is the human basis of dealing with urban problems that makes the solutions, and that is a further element in the Neighborhood Protection Corporation which appeals very strongly to me as a reason for its probable success.

Recently, I have made a number of talks for the National Trust for Historic Preservation. I speak on the various ways of financing, adaptive uses of old

buildings, and in the restoration of an aged and interesting, but not necessarily historic, housing stock.

A modest man would not stand before you and mention these qualifications but I want to be as loud as possible in saying that I am a qualified judge of what will work in restoring cities, and this is one of the desperately needed tools to make them go. I congratulate you upon the legislation and would be pleased to do anything possible to urge the Congress to its final enactment.

ADDENDUM TO COMMENTS OF RICHARD CRISSMAN RE S. 1988.

Here is the basis for my model of a Los Angeles project:

A. *Project definition.*—2,000 abandoned units comprising 1/5th of the housing stock in 5 census tracts where 24,000 persons presently occupy 4/5 of the dwellings, and retail/commercial activities comprise 20% of the land uses.

B. *Objective.*—A healthy, but modest, neighborhood restored at the least possible cost.

C. *Program and development.*—Most abandoned units are repaired for resale, and those replaced are equal in number to those demolished. Vacant/abandoned commercial structures are demolished to the extent they inhibit the health of occupied premises; small landscaped areas and parking for occupied stores is created by most demolitions. Key structures are an old movie theatre, a tabernacle, several churches, and a large abandoned public building; these are rehabilitated, a mail order firm occupies the public building; and a triple cinema the theatre. Local public stores, (parks utilities, amusements, and so on) are modestly landscaped, and street tress, curbs, sidewalks, and streets are put back into as-built condition jointly by the city and NPC.

D. *Features.*—Neighborhood Housing Service organization (per FHLBB) is funded with the income from \$200,000 provided 1,000 families join.

E. *Project costs.*—NPC share:

2,000 units of abandoned housing acquired	\$16,000,000
2,000 units of abandoned housing replaced or repaired	16,000,000
Commercial and key structures acquired and "treated"	6,000,000
Street improvements	2,000,000
	40,000,000
Design, supervision, overhead and marketing	12,000,000
Project Cost	52,000,000

F. *Project capital recovered at completion of:*

Sales of 2,000,000 units	40,000,000
Sales of commercial and key structures	2,000,000
Net long term holding of commercial landscape, parking, and key structures	10,000,000

G. *Project annual revenues to Los Angeles:*

1. Direct benefits of increased real estate tax revenues, annually:	
2,000 dwelling units assessed at 25% taxed at \$12 per hundred	\$1, 300, 000. 00
All other taxable NPC properties, whether sold or held, assessed and taxed as above	300, 000. 00
8,000 dwellings existing whose tax yield increases 10% as the area stabilizes	500, 000. 00
Commercial structures existing whose tax yield increases 10% as the area stabilizes	500, 000. 00
Total	2, 580, 000. 00

2.a Subventions for 6,000 new residents in project area:

Gas tax	9. 00
Motor vehicles	6. 00
Liquor 50
Cigarettes	4. 00
Sales	35. 00
Highway 07
Total	54. 57
6,000 × \$54.57	327, 000. 00

2.b Subventions for 24,000 continuing residents who redirect 20% of their trading activities back into the project because of improved facilities, safety and service:

20% × \$54.57 × 24,000-----	262, 000. 00
Total subventions-----	589, 000. 00

¹ Multiplied by 6,000 equals \$327,000.

H. *Summary of project.*—The \$42,000,000.00 of project sales either represents recapture of cash invested by NPC or, more likely, includes first mortgages, insured and uninsured, taken back to finance sales. The remaining \$10,000,000.00 of project cost is for long-term capital investment, probably at a low yield, and possibly recoverable over and through inflation and values. A case may be made that if 90% of the sales were carried back in mortgages yielding fair and current rates, the net cash flow from interest (say 2% above debenture costs) might allow write-off of the \$10 million in 14 years.

The real beneficiary in this project is the host city . . . where the new cash flow to this project area is almost \$3,200,000.00 annually.

Senator CRANSTON. Mr. Lowe, will you proceed, please.

STATEMENT OF CARY D. LOWE, ATTORNEY, COMMUNITY INFORMATION PROJECT

Mr. LOWE. Thank you, Senator.

Let me say that I'm speaking from the prospective of being an attorney with some experience in housing research and consulting. My organization, the community information project, has been involved in approximately a 6-month study of low-cost housing market problems in the Los Angeles area, including not only redlining and other related mortgage market phenomenon, but also the process of speculation of housing and the resulting abandonment of low-cost housing.

It seems to me, based on my experience in this research, that the problem of abandonment of housing is really inseparable from the problem of speculation in inner-city and low-cost housing.

In the Los Angeles area where we have traced abandoned properties in various communities as to their previous ownership, we have found that across the board over half of the abandoned properties had just previously been owned by housing speculators that could be identified as repeating speculators over and over again in the same neighborhoods. By speculators, I mean either realtors or other individuals who have bought up properties either through hard bulk sales or through low-cash payment purchases from individuals who were fleeing the neighborhood, doing cosmetic rehab on those properties, and then reselling them to incoming individuals at very inflated prices on FHA or VA mortgages. Now, if our calculations are correct, then in fact those kinds of properties represent over half of the abandonments in the Los Angeles area, and then speculators really merit a lot more attention than they are getting at this point.

I'd like to add one other qualification at this point, and that is that I think that the abandonment problem in the Los Angeles area is greater than anyone here has recognized so far. I say that because most of the statistics that have been provided relate primarily to the city of Los Angeles per se. Doris Davis is from Compton and was here earlier and did talk about the problems of her community, but

there are many other areas peripherhal to the city of Los Angeles—like Pasadena, Altadena, Lynwood, and other outlying communities—in which there are massive abandonments going on and which are not counted by FHA or VA or by any other Government agency normally in their tallies of abandoned properties in Los Angeles. I can't give you an accurate assessment of just how many there are, but there are a lot more than any of your lists show.

I think there is also to a certain extent in this understanding of what the problem is that we are discussing. I think your legislation does direct itself pretty well to the problem, but I think a lot of input you're getting is not. The problem is not what to do with the abandoned housing once they are abandoned; the problem is how to keep them from being abandoned in the first place, and that goes partly, as Mike Salzman and other previous speakers suggested, to making sure that the people who buy those houses are qualified buyers in the first place and who can keep up with the payments on the loan. I think much more importantly it goes to what the quality of that housing is going to be at the time the property is bought by those people, whether it's from a Government agency, from an individual seller, or whoever.

The problem is that we need to give people individual single-family homes that are in good condition on mortgages that they can afford so that they are not going to be stuck with oversized mortgage payments; they are not going to be stuck with properties that are beyond the scope of their financial ability to rehabilitate, and this has to be done on a constant neighborhood-wide basis, which I think your legislation contemplates, so that you're not going to have random abandonments throughout an area and depressing property values and lowering the desirability of that neighborhood generally.

Now, it seems to me that if we can judge anything from the past itself that the private sector, the financial community, has proven itself unwilling or unable to cope with this situation. I say that because we can look not only at what happened in the years before HUD and FHA came into existence, but what has happened to FHA mortgage programs in the last 7 or 8 years, during which time we have had fantastic abutting of inner-city communities, which I regard as being an overt conspiracy among mortgage lenders, realtors, rehabilitation contractors, and all other individuals involved in the housing mortgage market.

I don't use that term lightly. I mean to say that these people all have vested interests in seeing that HUD and FHA was a miserable failure. They have profiteered on it consistently. They have made hundreds of millions of dollars around the country and left inner-cities like Los Angeles in a ruinous condition.

Let me give you a typical example of what happens to a property that is speculated upon and off of which a number of people profiteer: say that in a given neighborhood, a beginning transition neighborhood, like a previously largely white community abutting the black community of south-central Los Angeles, is identified as one that is right for speculation. Through devices as crude as blockbusting—and others that are considerably more sophisticated—existing current owner-occupants are led to believe that their community is on its way

down. Now, one way that that happens is that they find that they can't get conventional mortgage loans, including for repair and rehabilitation loans, on their properties. They know they are on their way to being FHA, and they know that that means that the property is going to go down and the neighborhood is going to be less desirable.

At this point, speculators can come into the neighborhood and pick up the properties at low cash prices, buying out people who are willing to give up a lot of the bulk of their equity because they'd rather sell out now for cash than wait 5 years down the road when the neighborhood is in miserable condition, and they are not going to get much for their property at all.

Once the speculator acquires the property, which may or may not be in good condition—let's assume that this is an older property that is in some need of repairs and rehabilitation to bring it up to housing codes, and needs to have some money put into it. The speculator who has now acquired the property, who has standard arrangements with housing rehabilitation contractors to do cosmetic repairs, will simply contract with his usual colleagues to do repairs that may look good. They may look like they meet code standards, but they won't.

We've had discussions about this with local code enforcement people, and they recognize that they can't enforce the codes to the hilt. They often have to do the most superficial kinds of inspections, and they don't manage to make sure that the properties are brought up to proper code levels.

At some point realtors steer incoming residents, often lower-income minority people, into these communities and arrange financing through their standard low procurers to get FHA mortgages to these properties. The new buyers are often much less sophisticated than the previous owners. They don't realize that the properties are in the condition that they are in. They don't realize that the mortgage terms being offered are the ones they are not going to be able to make consistently and still maintain the quality of the property. I could go into this further, but I think you get a sense of what I'm talking about.

Once they are in the realtors, the housing rehab contractors, and these other individuals who got them in there leave the scene, and they have no one left to deal with except whoever is holding the mortgage at that point and is demanding payments from them. Of course, they default in large numbers; and when they default, they either voluntarily abandon or are evicted. At that point the property is left for FHA, HUD, or whomever, to worry about boarding it up.

Senator CRANSTON. Thank you very much for your description of the property.

Mr. LOWE. You get the idea.

Senator CRANSTON. Could you sort of abbreviate the balance of your testimony?

Mr. LOWE. Let me make some specific comments about the Act that you're proposing, because although I think the intent in it is extremely good, I see some holes in it that lend themselves to the kind of abuses that we have seen in the past.

It seems to me that the first place you need to be concerned is about how the plan is going to be capitalized. I'm not a financial expert;

but from my reading of the section of the Act dealing with capitalization, it seems to me that it depends too much on acceptance by the private sector and on the obligations that are going to be instituted by the corporation. If the private sector wants to accept those—that is, if it purposely wants to thwart the intent of the neighborhood corporation—it will not accept the corporation's obligations on the second mortgage. They will be worthless obligations because no one will accept them in trade for properties, and the results will be that the corporation will be stuck with properties.

Unless it can dispose of its properties, literally as quick as it acquires them, the corporation won't have liquidity. It's going to have millions and millions of dollars tied up in properties that have just acquired, but they will be stuck with them, and they won't be able to do anything else with them. They probably won't even be able to properly rehabilitate the ones that are acquired.

As far as rehabilitation of the property, it seems to me that you need much stronger standards than the ones now. To simply say that the corporation may rehabilitate or repair the properties before selling them to incoming new residents, is much too loose. You need to have a standard—such as the Uniform Building Act or some other constant standard—across the country to be followed; and it has to be required to be met, not to be put on a "They may do so" basis.

I would also say that sales of the properties, once they have been rehabilitated, should only be to owner-occupants. If you let absentee landlords get into these neighborhoods that are going to be rehabilitated, you just go back in the same cycle of speculation and exploitation.

Senator CRANSTON. Well, might there not be some organizations that would be appropriate for that?

Mr. LOWE. Conceivably nonprofit corporations could also fill that gap, yes. I think that is a good point.

Ultimately, the neighborhood corporation has to be competitive with the private sector, or it's not going to work, and it has to be made competitive during the demonstration period; or, obviously, it's not going to reach the full basis that the bureau contemplates.

The reason this may be difficult, if not impossible, is that the corporation is going to have, first of all, higher acquisition costs than the private sector does. It's not going to be buying on hard bulk sales, but rather making acquisitions from sellers. Its rehab costs are going to be considerably higher because it's going to have to meet code standards rather than simply doing cosmetic repairs, and it's going to have to pay realtor commissions in acquiring properties, which speculators don't have to do.

For all of those reasons, I'm skeptical about the ability of the corporation to compete financially with the private sector, that's going to require some subsidies, and I'm in favor of that. I'm just saying that it has to be anticipated before this bill goes through.

I've covered all the main points except that I want to add in closing that if you want to avoid with this plan what has happened with HUD, you need to have some objective outside monitoring being done. HUD has failed to a large extent because of both internal corruption and just gross inefficiency, and it's my feeling that you're

going to have to create a separate monitoring agency to be responsible not to the neighborhood corporation, but rather to some external organization like the General Accounting Office, and that this monitoring agency should be charged with doing cost-benefit analyses of the work of the corporation and observing the practices of its officials to make sure that the kind of corrupt practices that have ruined HUD don't emerge here as well.

Senator CRANSTON. Thank you very, very much.

[Complete statement follows:]

STATEMENT OF CARY D. LOWE, ATTORNEY, COMMUNITY INFORMATION PROJECT

I. INTRODUCTION

We believe that this bill represents a significant step forward in dealing with the problem of inner-city housing deterioration and abandonment. By proposing to create a new agency to deal with this situation, it finally recognizes that the private financial community has abdicated its responsibility to the low-cost housing market, and that other government agencies, including HUD, have done more to exacerbate the problem than to combat it.

The intent of the bill is also valid in that it appears to recognize the need to gain control of the entire mortgage market in a given areas as a precondition to dealing with the factors which cause abandonments. This is vital to controlling the activities of housing speculators, whose activities are inherently linked to the abandonment process. Our research into mortgage defaults and property abandonments in several neighborhoods of the Los Angeles area has consistently indicated that more than half the defaults occurred on properties just previously owned by a relatively small number of identifiable speculators.

It is necessary to construct an alternative to the existing private system of mortgage financing, because of all the vested interests which are involved in the preservation of the speculator market in the private sector. These interests include financial institutions which literally bankroll speculators through high-interest interim financing, low-grade rehabilitation contractors who perform cosmetic repairs at inflated rates, and mortgage bankers who provide financing for the buyer. The buyer, who eventually abandons the property, usually as a result of either the condition of the property or the inability to both keep up high mortgage payments and maintain the property, is often procured pursuant to a conspiracy among all of these parties. Finally, since homes sold by speculators are ordinarily bought with a government-insured mortgage, it is FHA or VA which ultimately has to pay off on the defaulted mortgage and take possession of the abandoned property.

II. COST COMPETITIVENESS

In order to effectively eliminate speculator activity in the areas where the proposed Neighborhood Corporation would operate, it is necessary that the corporation be able to do business on a competitive basis with speculators. As it would perform under the terms of the bill, there is some question that the corporation could compete in this regard. First, it must contend with high acquisition costs, in that it is required to go through detailed legal proceedings in taking possession of abandoned properties, and could have higher direct-purchase costs than speculators, who can acquire some properties through HUD bulk sales at a discount and others at undervalued cash sale prices. The corporation will also have higher costs than speculators in repairing the properties prior to resale, since speculators would normally do only cosmetic repairs, and the corporation hopefully would do more substantial rehabilitation; a recent study done for the City of Los Angeles indicated that the average cost of rehabilitating a single-family home bought from HUD is over \$6,000. Further, the corporation will have to pay realtor commissions since it apparently will have no other source of buyers for the properties it has acquired and rehabilitated. Finally, the corporation will have to discount its mortgages to sell in the secondary market.

III. CAPITALIZATION

The proposed means of capitalization for the corporation described in Section 3 appears somewhat risky. Although the issuance of initial capital stock is within the control of the board of the corporation, the issuance of further obligations, which are apparently intended to support the acquisition and rehabilitation of property, and the origination of mortgages, is subject to the discretion of an outside party, the Secretary of the Treasury.

Furthermore, even if no obstacles are encountered in the issuance of obligations, it remains to be seen whether the private sector will accept them. This is not because there is any reason to doubt that these obligations will be redeemable, but rather because the private financial sector has a vested interest in seeing this demonstration project fail, since it constitutes an invasion of their profit-making territory.

An additional problem is that the bill allows too much discretion in the setting of terms, including interest rates, on these obligations. As a result, the private sector may only agree to accept these obligations at such an inflated interest rate that the corporation is bound to lose money on every transaction. Additionally, this discretion as to the terms of each obligation, which might theoretically provide useful flexibility, also creates an enormous opportunity for corruption.

Our concerns as to these financial matters are expressed here only to ensure that these issues are carefully considered, since we have no specific reason to believe that any of these potential problems will arise.

IV. MONITORING AGENCY

Our greatest concern is that, while the undertaking proposed in this bill has great conceptual merit, and has the best of intentions, it is no different in that regard than many previous proposals which have attempted to deal with massive social ills through equally massive corrective programs, and is subject to all the same problems and abuses suffered by its predecessors. Obviously, the classic case of corruption and inefficiency dooming a well-intentioned program is HUD. But while we are glad to see that this demonstration project is to be operated outside the controls of HUD, many of the same potentials for disaster are present.

To accomplish its purposes, the Neighborhood Corporation needs to be as self-contained as possible, minimizing its reliance on outside parties for contracted services. At the same time, it does need to be constantly monitored by some outside agency which has no incentive other than to ensure the proper operation of the corporation. We propose that such a special agency be created, with the mission of conducting ongoing cost-benefit analyses of the progress of the project, and investigating potential corruption and other abuses. This agency should be required to make its reports to an objective outside party, such as the General Accounting Office, to ensure that it remains free of influence. Its staff should also be shielded from pressure, as well as from threats of dismissal in response to their diligence.

We do not believe that the conflict of interest prohibitions contained within Section 4(c) (3) of the bill are sufficient to guard against potential corruption within the corporation. Even if there are no overt cases of personal profiteering by directors or employees of the corporation, there still exists endless opportunity for awarding of contracts to favored acquaintances, payment of inflated billings with a view toward kickbacks from contractors, and a host of other situations of the type which have so consistently spelled financial disaster for HUD over the years.

The bill also needs to be supplemented with some penalty provisions to be used against outside parties who profiteer at the expense of the project. It is not sufficient to merely blacklist such parties as to future dealings. The corporation must have authority to rescind contracts with them, and to refuse payment for goods and services, up to the amount found by the monitoring agency to have been misappropriated. Furthermore, in the selection of contractors, realtors, and other parties with whom it needs to do business, the corporation should begin by eliminating all those who already appear on the blacklist maintained by HUD.

V. MISCELLANEOUS

We also make the following recommendations, as ways to better make this bill serve the interests which it is intended to promote:

1) Single-family homes should only be sold by the corporation to owner-occupants, so as to eliminate the problems generated by absentee landlords who fail to properly maintain properties;

2) The corporation should be required, rather than permitted, by Section 6(g) to perform repairs or rehabilitation on properties which it has sold in substandard conditions;

3) It is insufficient to rely on a vague standard such as "decent, safe, and sanitary," in Section 6(g), to describe the condition to which property must be brought before resale; instead, compliance with the Uniform Building Code should be mandated;

4) Wherever possible, rehabilitation work should be contracted to individuals and firms in the low-income and minority communities, as a form of affirmative action;

5) The bill needs to contain some explicit requirements as to the procedures for selection of properties to be acquired by the corporation, to ensure that the limited resources of the project will not be wasted on properties in areas which are beyond rehabilitation;

6) The requirement for counseling of prospective buyers in Section 6(i) is very good as far as it goes, but should be expanded to further require instruction on how to obtain redress for deficiencies in purchased properties, including rehabilitation or compensation in accordance with Section 6(g).

VI. LOS ANGELES

We strongly believe that Los Angeles should be one of the proposed demonstration areas. This is based on two important considerations. First, the problem of abandonment in the Los Angeles area is worse than generally believed. This is because statistics such as those provided by HUD and VA include only properties within the city limits of Los Angeles, ignoring the multitude of abandonments in abutting communities such as Compton and Pasadena. Second, although Los Angeles has a serious abandonment problem in many areas, it also contains many neighborhoods which are beginning to become blighted but are still very much salvageable. This combination of circumstances should make the Los Angeles area an ideal, and necessary, demonstration site.

Senator CRANSTON. I would appreciate it if you would be very brief and summarize your formal statement and then submit your written statement for the record.

**STATEMENT OF ELLEN KASTEL, RESEARCH DIRECTOR, CENTER
FOR NEW CORPORATE PRIORITIES**

Ms. KASTEL. I'll do my best.

Senator Cranston, my name is Ellen Kastel. I'm research director of the Center for New Corporate Priorities, a Los Angeles-based public interest organization which specializes in research on the impact of financial institutions on minorities, women, the poor, and the aged. I also represent the National Task Force on Credit Policy, sponsored by the center, which is attempting to increase the influence of public interest and community groups over credit decisionmaking.

I should also state that Craig Lowe and myself sit on the Los Angeles Community Coalition Against Red-Lining.

We are very concerned because although abandonment is a major problem in Los Angeles, we feel it is only one element in a multifaceted problem, and unless analyzed properly from the beginning and appropriate solutions are found from the beginning, you will

end up with just one overlay, one more fragment, one more program, and one more Government bureaucracy. This goes to the demonstration program in the three cities. What about the other cities? What about the continuing growth of abandoned houses even as this program goes into effect?

We feel that it is really critical to have a full perspective of this issue rather than just deal with isolated problems. One thing that we are very interested in is a restudy of the financial institutions and their impact on mortgage spending and on homes. We know that the Government programs to date have produced failure. We have not produced an adequate home for every individual.

The House of Representatives has to do a study which we hope will take a new look at housing and what kinds of programs and what kinds of insurance mechanisms should be used. We are wondering if the Senate will do anything in this particular regard, or will it only continue with piecemeal programs?

Just because time is short, I will spend some time talking about some things that I think could improve this particular program, especially if it was used in conjunction with other demanding affirmatives.

If this proposed "Abandonment Disaster Demonstration Relief Act" is seen as one facet of a complete revamping of Federal mortgage-lending programs, its impact on the communities selected would be increased by incorporation of the following recommendations:

One: I think it is critical that half of the board members should be selected from public interest, consumer, or community groups and that these groups should represent a broad spectrum of socioeconomic characteristics of the neighborhoods which have demonstration programs. I would like to note that in the particular statement that the designation of chair and vice chair as "chairmen." I certainly hope this is not a sign that the nine-person board will consist of nine men. This is just one example of concern of our kind of organization.

The only criteria which is spelled out for representation on the board is that

* * * not more than five shall be members of any one political party * * *

The composition of this board is critical to the success or failure of the program. A more detailed description of selection criteria should be included in section 4. As I understand it, Carla Hills, who is in charge of HUD, will be on this board.

Two: The national nature of this board places it out of touch with specific community problems. One fault with VA and HUD programs is their lack of concrete knowledge of the houses they insure.

In Los Angeles County, assuming selection, 12 boards should be set up. One for each redlined area in Los Angeles County. Each board should consist of 50 percent public representation and 50 percent private. The present wording of section 5 does not describe the exact way to insure "local cooperation and assistance," and it must be strengthened to allow for local decisionmaking and control. Above all, it is important to set up a local community-based board of directors for each metropolitan area and neighborhood.

Three: The impact of counseling services provided to prospective buyers and owners of property has been proven to make a difference in the success or failure of other credit programs. This inclusion in section 6 is to be commended; and to fulfill its function, we would like it to be extended to last the life of the mortgage loan, regardless of how long the abandonment of these homes may be.

Four: More attention, as Cary Lowe stated, should be paid to ways of insuring that "homes are in decent, safe, and sanitary condition at time of sale." Specifically, present HUD and VA programs have failed to develop adequate safeguards for the buyer. Since the corporation involved would be responsible for the cost of any defect that was not corrected at the time of sale—if I'm reading the proposed legislation correctly—inspection programs must be initiated with more care than under present procedures.

With all these changes and a rethinking of the "Abandonment Disaster Demonstration Act," I think the abandonment asked for is good, and we could make a giant step forward in eradicating housing abandonment in our cities.

Senator CRANSTON. Thank you very, very much.

I want to assure you that Carla Hills will be there and will see to it that not just males are appointed to the board.

[Complete statement follows:]

STATEMENT OF THE CENTER FOR NEW CORPORATE PRIORITIES AND THE
NATIONAL TASK FORCE ON CREDIT POLICY

I am pleased to be here and to see your concern about the growing abandonment of residential structures in Los Angeles and in other cities around the country.

The Center has just released a study of mortgage lending policies in Los Angeles entitled "Where The Money Is," Mortgage Lending in Los Angeles County. Our study shows that one million people in Los Angeles County live in neighborhoods which are denied mortgage loans. During the first five months of 1974, these neighborhoods received less than one percent of all single-family loan dollars expended by state-licensed savings and loans. The twelve major areas denied mortgage dollars are Compton, Covina, East Los Angeles, Boyle Heights, Echo Park, Highland Park, Long Beach, Pacoima, San Fernando, Pomona, Pasadena, San Pedro, Venice, Santa Monica, West Covina, and South-Central Los Angeles. Our study does not include specific research on the magnitude of abandonment in Los Angeles, but if it did, the map of abandonment would duplicate our map of red-lined communities.

Abandonment is a major problem in Los Angeles, FHA and VA owned property in Los Angeles cited in your bill totals 5,845 abandoned houses. We have requested from savings and loans a list of the abandoned properties they hold in Los Angeles County. To date Gibraltar Savings and Loan, the seventh largest in the nation, is the only one to have supplied this information. Their list total 41 and includes not only residential but also commercial and vacant property. Multiply this figure by the number of financial institutions involved in mortgage lending in Los Angeles County, and a picture of the magnitude of abandonment emerges.

But abandonment, while a distressing component in the decline of our cities, is only one element in a multifaceted process. To state that "housing abandonment is still the major housing problem in our urban cities" is to simplify a complex problem. Housing abandonment is one product of our nation's inadequate mortgage-credit policies. We have, over the years, developed a complex system of regulation; direct and indirect subsidies to the buyers, sellers, builders and financiers of housing. Taxing mechanisms; government insurance and a myriad of other, often conflicting tools for providing adequate housing at a reasonable price.

While the concept of rebuilding and rehabilitating abandoned housing is a worthy one, the money expended in whatever three cities selected will not be sufficient to eliminate the nation's abandoned housing problem. For even if the program operated optimally, it would have no impact on abandoned houses in other cities. More important it would have no impact on the abandonment process which would continue unabated throughout the country.

What is needed is a program to eliminate the issues of housing abandonment. First, eliminating the profit which some individuals and corporations make on abandoned housing would eliminate the reasons for misrepresentation of structural conditions on the one hand, or income and credit characteristics on the other.

Second, FHA and VA programs were set up to meet a real need, the need of low-income (but credit worthy) individuals to own their own homes. But these programs have failed. One of the major indicators of neighborhood decline is the presence of government-insured loans in an area. Once FHA- or VA-insured loans are granted in a given community, conventional money dwindles and then disappears altogether. Credit-worthy families are refused conventional loan dollars and are forced to contend with government-insured loans—with all their restrictions and red-tape. Housing conditions and structural improvement are misrepresented to innocent buyers who take occupancy and are unable to pay the price to fix substandard conditions and deficiencies. In addition, credit characteristics of potential buyers are gerrymandered and families who are financially incapable of supporting mortgage payments are given government loans and soon default on them.

The present FHA and VA programs are unfair both to families who could afford conventional loans (but are denied them) and to neighborhoods whose abandoned homes result from unscrupulous lending policies.

Without setting up administrative standards to eliminate the abuses found in present HUD- and VA-insured programs the "Abandonment Disaster Demonstration Relief Act" will fail as the number of abandoned homes outsteps all attempts at rehabilitation and redevelopment.

In conjunction with a rethinking of government insurance programs, the "Abandonment Disaster Demonstration Relief Act" might stand a chance for success. But the tendency of government programs is to superimpose on one faulty mechanism, a new "perfect" mechanism which will prove just as inadequate.

That National Task Force on Credit Policy and its constituent organization is working to destroy myths and build realistic programs for providing sound housing for consumers. The absence of a comprehensive credit program for mortgage lending has meant the failure of years of well-meaning plans such as HUD and VA insurance. So today, as a result, we find that we have not made a dent in our goal of supplying sound housing at a reasonable cost to all sectors of the economy.

It is within this context that we must develop mechanisms of allocating credit to those portions of the population now priced out of the housing market. We have suggested a number of recommendations to achieve greater access to mortgage credit by low- and moderate-income families. Most of these recommendations revolve around the same theme: financial institutions must become accountable to the public, for it is *our* deposits that are being used to determine housing policies.

First, there must be full disclosure from all financial institutions of the location of their deposits and loans, by census tract. Loans should be broken down by type and purpose and should include a breakdown of conventional vs. guaranteed loans and loans for owner-occupied vs. absentee-owned property. Such data must be publicly available by institution so that consumers can assess the responsiveness of each institution.

Each institution should make public a periodic "statement of geographical investment pattern." Each should be required also to keep on file copies of all written loan requests for a period to two years, so that the public can assess the extent to which demand is being adequately met.

Second, branching and chartering requirements must be changed to give the public review of the performance of financial institutions. Each institution presently must file extensive information to obtain approval for charters or new branches. We are suggesting a mandatory five-year renewal of charters

of financial institutions, which would be subject to review of the institution's performance in meeting its Affirmative Action Plan. The public should be allowed to challenge both charter renewals and new branch applications on the grounds that "public convenience" has not been met.

Third, all agencies which regulate financial institutions should have at least one-half public representation, made up of individuals with not official or monetary connection with financial institutions.

Fourth, all agencies which regulate financial institutions would be enlisted to monitor and mediate complaints of credit discrimination. If patterns of discrimination were found, regulatory agencies would be authorized to apply sanctions—including: withdrawal of governmental funds, increasing of reserve requirements, levying fines or revocation of licenses.

Finally, the government must develop a conscious credit allocation program to channel mortgage credit into high-priority areas not being served by financial institutions. The exact form is one which required input from other public interest and community groups. We would be glad to supply a list of organization and individuals interested in working towards such a solution.

Senator CRANSTON. The two of you, if you would wait, please. I do want to hear from you, but there are witnesses that were scheduled and who I think may have other time demands on them. I want to ask just a couple of questions before I dismiss this panel.

Mr. Crissman, let me ask you: do you have any idea of how to shorten the vacancy period for HUD-VA acquisitions?

Mr. CRISSMAN. Senator, the private foreclosures conducted by a savings and loan, or in fact by a mortgage-banker in behalf of a principal, can take as little as 120 days. It can string out if you have service people and you can't get service or you can't discover the condition of their service record.

Any further delay in acquiring the property is, I would think, that access of process over process, and it can be shortened and it can be dropped. It seems to me inappropriate for HUD to acquire properties themselves. They ought to be acquired and handed on to the servicers who are qualified to dispose of the property and a loss reconciliation made with HUD later.

Senator CRANSTON. Let me ask you this—and any of you that want to comment, please do so—do you feel that the foreclosure period should be shortened?

Mr. RAPPAPORT. The problem is even really more complicated than it appears on the surface with the last corporate entity involved. There has been—and it's increasing—the opportunity to go into bankruptcy courts and ask for a delay that can extend for 1 year, maybe 2 years; especially if there is a little bit of income, it can stretch on and on. There has to be some way some agency can step in immediately. We are talking about a matter of days, not the normal time, because the house can be ripped off in a matter of hours.

Senator CRANSTON. Yes. I think a principal problem that we face with this bill in relationship to the administration and its nonsupport presently or opposition is the creation of a new agency; there is concern about setting up new bodies.

Do any of you have any thoughts to express now, or could you submit to us in writing your thoughts, on how we might integrate this sort of a program into the present structure of HUD, and then at the same time allow for community decisionmaking and input in the process.

I'm afraid we're going to get into a deadlock unless we find some revision of that aspect of this bill, and we need action on this problem.

Mr. RAPPAPORT. Certainly not integrated with HUD.

Senator CRANSTON. Well, what should we do?

Mr. RAPPAPORT. HUD, as we've earlier expressed, is out of sympathy with it, and they couldn't do the job.

Senator CRANSTON. Well, then what about rehabilitation, how could that be intergrated with HUD? HUD has to be involved in it, obviously.

Mr. CRISSMAN. I wonder if there is not some piece of HOLC left around somewhere, or perhaps the Corporation for Housing Partnerships could be given the additional stimulus and the capital suggested here as a vehicle. They are quite good planners. They are associated with the National Institute for Housing and Management; they are the founders of it. They are highly respected, and they have been able to balance their own budget.

Senator CRANSTON. Would you give a bit of that information and submit it in writing to us? We do have a problem with the administration that we have to overcome.

Mr. LOWE. I would be unalterable as to having HUD's administration be over this corporation. My greatest fear is that if that were to happen, not only would it be subject to all the same corruption and all the inefficiency that HUD has gone through, but it would also be liable to become nothing more than a bailout agency for HUD and all of its massive mortgage portfolio that it's stuck with.

I don't want to see this corporation getting saddled with all of HUD's property and ending up literally bailing out HUD financially.

Senator CRANSTON. Thank you very, very much. I deeply appreciate the four of you testifying, and you have been very helpful. The two of you please wait and stay there while we continue with the other witnesses.

May we now have the final panel consisting of Prof. Frederick Case and Prof. Frank Mittelbach.

Let me say that if you could just briefly summarize your testimony, I'd greatly appreciate it.

**STATEMENT OF FRED E. CASE, PROFESSOR, REAL ESTATE AND
URBAN LAND ECONOMICS, GRADUATE SCHOOL OF MANAGEMENT,
UNIVERSITY OF CALIFORNIA**

Professor CASE. I'm Fred Case. I'm on the board of directors of a major savings and loan company that has an office in Compton. I'm on the city planning commission, and I've been on the building safety commission for code enforcement. I've been doing research at the university, and I also do consulting with private organizations who want to know what to do with property that's no longer in economic use.

First, we have done a study of nine different cities, and I offer for your staff this book that I wrote in which we asked what worked in different kinds of cities. At the back we have summarized the thing

in about three pages where we list all the things that need to be done to provide housing in the inner city. We compare that with solutions to these problems, and then we relate that to the various Federal problems that will give you an idea of the gaps.

Let me just say something that I hope can be brief, and I won't offend too many people—I don't mean to be offensive, but I suggest, Senator, that I've watched these kinds of hearings. Normally, I refuse to come to them.

My experience in the city says that what's occurring here is that you have identified a white elephant, and what you're getting is a bunch of blind men telling you what the white elephant looks like from their perspective; in other words, when you get an expert in here, if you listen, each one says it's a rope or it's a pillar or it's something else.

I would suggest that maybe at this point you might want to turn the hearings around. There is no need to talk to any more experts. HUD, FHA, the National Science Foundation, and other agencies have examined this problem of experts for years. There are hundreds of studies available so that if you want help on what can be done, we'd be very happy in our research program to give you an annotative bibliography. You don't need any more expert testimony. The thing that I find in looking at this is that no one talks to people who are going to have something done to them. I would suggest that if you could create a pragmatic agency which you or people sponsoring the agency would say, "We are going to take a personal interest in this, and you're going to be personally responsible for reporting to us on doing what we want done." Then if you would say very specifically what you want done—"We want 10,000 abandoned houses rehabilitated, and we want 10,000 times"—in other words, set your objectives very specifically.

Then talk to the people to whom you want to provide this housing. Talk to the people who are living in the rehabilitated housing. Come down in to Watts and walk around and talk to the man on the street and find out what the problem is; let them tell you what the problem is, and then turn to the agency and say, "Here's the problem. You go solve it."

I think what you're trying to do is necessary, but I'm very concerned that if you let HUD or FHA get near it, you can document it, and they are going to ruin it. It's going to turn into profiteering.

I think you're doing the wrong thing. I think you're listening to the wrong people. I'm very much in favor of citizen's participation. In our planning commission we approve citizens' participation, and we find if we allow the people who have the problem to tell us what the problem is, then we turn to them and say, "Here, solve it." Don't solve the problem that you're defining, don't solve what you can solve, but here's the problem.

Now, I want you to use whatever is available, and I would suggest that this is what your agency really ought to be defined as: One that will use any agency in the Government, any study, any program, any private group that it can to get done what has to be done, that is all.

Senator CRANSTON: Have you or people working with you talked to the people that you are referring to, those living in these communities?

Professor CASE. Yes, sir.

Senator CRANSTON. What do they say needs to be done?

Professor CASE. Well, a lot of things, and I hate to speak for them—and I apologize for the people who are in the audience.

(1) The problem of crime and police harrassment; (2) Schools that are inadequate; (3) Lenders that give them the runaround; (4) City bureaucrats that push them around from one agency to another until they get discouraged and can't do anything: for example, having hearings and things that are going to affect them at times when they can't come to those hearings; (5) Making everything center downtown where there ought to be somebody out here; and (6) Going to the FHA and finding total indifference. People can't answer questions or won't help them, saying this is not our problem.

For example, next week I'm going to talk about an area called "Village Green." One-third of that area is in a constant state of eviction, and the other two-thirds are thinking of leaving. What can you do for a property area like that? Well, we are going down in there, and we have talked to them. We think probably the best thing is to just clear out the whole area and put in light manufacturing and provide employment because the basic problem of evictions is that people lose their jobs, and then they can't afford to pay the balances.

We've looked at the Pacoima area and the boarded-up houses there and talked to the people there asking them, "Why did you leave?" And the answer is, "Well, gee, you give me a nice house and Pacoima is a great place to live, but I have to have a car to get work, and I can't afford a car." The family now has to have two cars. Well, you go on down through the whole area.

Senator CRANSTON. Well, if you clean up housing in Pacoima, what effect would that have?

Professor CASE. Well, it's not housing. The problem in Los Angeles is that there isn't a lack of good housing. There is a sufficient supply of good housing. It's the price of the housing and the ability to buy the housing so that in Los Angeles if you aren't earning at least \$20,000 a year, you're not going to be able to afford a house.

In the Village Green area there is a lot of good housing around there. What we would be taking out is so insignificant in terms of what is still available and what it would do for the capacity of the people to pay for the housing and stay there and to buy more housing, will be so great that the net cost benefit is all in favor of doing this. The neighborhood is constantly changing because it's a source of crime and vandalism, which have our gangs living in there that every once in awhile swoop out of the area and go over Baldwin Hills and raid Baldwin Hills and rip it off, or they get out into the Village Green area, if you know where I mean. If you clean up the area, at least you stop that sort of vandalism and crime.

It's the same way in the south Los Angeles area. There are some very fine neighborhoods in here, and the neighbors have to band together to protect themselves. If you can take 5 minutes, drive around some of these streets and ask yourself, "Why should a modest low-cost housing have all this iron grilling over everything in the house?" That is one of your answers.

Senator CRANSTON. Well, thank you very much. I appreciate your frankness. I accept your criticisms, and I agree with virtually all of them.

Professor CASE. Thank you, I'm sure. I think I've known you quite awhile.

Senator CRANSTON. Thank you.
[Complete statement follows:]

STATEMENT OF FRED E. CASE, PROFESSOR, REAL ESTATE AND URBAN LAND ECONOMICS, GRADUATE SCHOOL OF MANAGEMENT, UNIVERSITY OF CALIFORNIA

I am speaking as a private person although I was on the Los Angeles City Building and Safety Commission for 6 years, working on code enforcement and neighborhood rehabilitation. I have been a member of the Planning Commission for two years, one year as its President. Four more years are remaining in my present term. My emphasis has been on providing low-cost housing through effective landuse planning. I have been involved in research on housing for more than 20 years. I am submitting a research report with these comments representing more than three years of research in nine American cities for the purpose of determining what programs succeeded and what programs failed in providing better, lower-cost housing for inner-city families. (Inner-City Housing and Private Enterprise, Frederick E. Case, (ed.) Praeger Press, New York, 1972.) My testimony will reflect these experiences and studies.

1. THERE IS A NEED FOR HOUSING CONSERVATION, REHABILITATION AND IMPROVEMENT

The intent of the bill is very much in tune with future directions in which the housing industry must move for the next decade at least. The price of new housing places it beyond the reach of all but about 30-40 percent of all American families. Each year, we lose from the market place through abandonment and other means about two percent of the existing inventory, or approximately 1,400,000 housing units. The resources needed to save even one-half of this number are considerably less than those needed to build an equivalent number. If modestly priced homes and rental units are to be made available, more attention must be paid to saving the existing units.

2. THERE IS A NEED FOR AN INDEPENDENT AGENCY

HUD, and particularly the FHA, is burdened with such a broad array of housing programs, some conflicting in purpose, that it should not be asked to supervise this program. More importantly, neither agency has demonstrated a capacity to deal with programs or concepts which are somewhat foreign to the basic purposes of either providing new subsidized housing to low-income families or insured home loans to middle- and upper-income families. Further, the manager and administrators of these agencies should not be asked to participate in the operation of the new agency, although they could undoubtedly give some useful advice on its operational policies.

The Neighborhood Protection Corporation (NPC) should be given goals and objectives which are precise, measurable and related to definite time periods. Annually, the agency should be required to spell out its goals in terms of accomplishments, cost and manpower and, at the end of the year, report on the differences between what it planned to accomplish, what it failed to accomplish, and what it intends to do about it. One of the major weaknesses in the 1949 Statement of National Housing Policy is that the goals are so generalized and the programs supporting policy so indeterminate, that there is no way of getting a useful cost-effectiveness measure of the programs. This is not to say that the program should pay for themselves or necessarily be measured against some type of economic yardstick, but NPC should be held responsible for productivity according to the goals Congress has in mind when it creates the agency.

3. A POTENTIAL OF CONFLICTING OBJECTIVES COULD CREATE PROBLEMS

Rehabilitating abandoned housing now does not mean that this housing would be suitable for low-income families. Improving abandoned housing and the adjacent neighborhood can create a complex of expenses that would make the cost of the improved housing too high for any but middle-or upper-income

families. There is no reason why dealing with abandonment and providing low-cost housing could not be handled in one agency, but the two should not be tied together. Both needs exist— save the abandoned housing and provide centrally located housing for low-income families.

If providing housing for low-income families is the objective then subsidies, family counseling, flexible loan arrangements and a host of other things are needed which have little to do with recovering abandoned housing. One of the reasons for much abandoned housing is the failure to deal with the people-problems associated with providing the housing to low-income families.

On the other hand, saving abandoned housing when coupled with neighborhood rehabilitation and improvement of existing public facilities and programs can halt deterioration. Some subsidy is involved in this program but the housing should be made available to those who can afford it, particularly if the effort results in a better class neighborhood for the minority families earning \$10,000 to \$20,000 annually. Some would say this is gilding the lily, but the realities are that many neighborhoods with predominantly middle-income families, particularly minority families, could be saved with great benefit to the families involved. There are simply not enough older neighborhoods or housing at modest prices available to minority families. If NPC has to repay its Treasury debt, it cannot accept FHA-VA values. FHA-VA should be required to accept losses arising from inflated appraisal values. Perhaps FHA-VA should be asked to use their "insurance" resources to absorb their losses on abandoned property. In some ways the legislation has the aspects or urban removal.

4. WE SHOULD USE WHAT WE ALREADY KNOW ABOUT HOUSING ABANDONMENT, REHABILITATION, ETC.

Over the years, HUD has contracted for hundreds of studies about all kinds of housing problems. Some evidence of this is found in the materials provided by Mr. Schechter for inclusion in the *Congressional Records*. There is no need for additional research or studies on the subjects of this legislation. Before the NPC begins operations it should be required to submit a full detailed analysis of all studies undertaken by HUD which relate to the subject. Further, it should list and evaluate all suggestions that have been made about rehabilitating housing and use them as a basis of developing their own operational policies, programs and goals. One of the persistent inabilities of federal housing agencies is to learn from all of the studies that they commission. Too frequently they use selective learning to hasten the failures of the programs they administer. Clear differentiation between individual abandoned units and areas of abandoned properties.

5. WHAT IS THE MARKET FOR THE HOUSING TO BE SAVED?

One of the sad facts about providing low-cost housing is that those for whom it is being provided are seldom asked what they want or need in housing. Any private corporation planning to undertake the kinds of activities envisioned for the new agency would first do an extensive market study to determine who would want the housing, what physical characteristics would they want in the housing—i.e., bedrooms, baths, privacy, neighborhoods, etc., how much can the families afford in price of rents, what kinds of financing terms would be needed, what kinds of other help would the families need to move into the housing.

Another market factor about the abandoned housing is that there is a lack of real understanding of why the housing was abandoned. Circumstances vary widely from community to community, so that the reasons for abandoned housing in Newark or New York, Memphis or Indianapolis or Atlanta or Los Angeles are not the same. In Los Angeles, for example, housing has been abandoned in Pacoima not because the families did not want the housing nor could not afford the payments, but because the housing was so remote from employment sources that the breadwinners could not afford the time and expenses of getting to their work. On the other hand, in south-central Los Angeles, experiments with rehabilitated housing indicated no one would buy the homes even at bargain prices because of the high crime rate in the surrounding area. Recently the Bank of America agreed to cooperate in helping

rehabilitate housing near the downtown area, but before this could be done, the Planning Commission had to declare the area a special planning area, so that more restrictive aspects of building and zoning code enforcement could be mitigated. Lenders sometimes foreclose on property and create abandonment because numerous types of regulatory controls make foreclosure the more economic way of handling a housing problem, rather than making a serious effort to work with the family in trying to save the housing.

FHA-VA values are too distorted for the NPC to be able to pay those values and accomplish its objective.

6. CLOSE COORDINATION WITH LOCAL AND STATE GOVERNMENT IS A MUST

As the NPC operates it will find that help is needed in the form of legislation, services, or programs from the city, county, and state governments. Some form of continuing coordination should be integral to the agency's operations.

More importantly, agency operations should be carefully related to local planning and zoning programs. In Los Angeles, we have 35 separate community plans, with each community requiring a slightly different approach to its housing and neighborhood conservation problems. Too frequently actions by federal agencies are at cross purposes with the local community needs and objectives. In fact, the actions of FHA have been a major factor in encouraging the flight to the suburbs and the abandonment of the inner-city.

7. PRIVATE INDUSTRY AND THE LABOR UNIONS SHOULD BE ASKED TO HELP

Federal housing agencies do not make effective use of the services, the expertise which exists in the private sector. Serious thought should be given to ways in which builders, contractors, Realtors, mortgage lenders, labor unions can be used to advise and assist NPC in implementing its programs. Lenders, for example, could suggest ways of solving mortgage-lending regulations. Labor unions could counsel in improving labor productivity. In other words an advisory council, with some powers and responsibilities, might provide an effective advisory service to the board of directors of NPC. Basically NPC will have to face the tradeoffs between social objectives needing subsidies and financial goals related to Treasury financing and neighborhood and property rehabilitation to market standards.

Senator CRANSTON. Professor Mittelbach, please be as brief as possible.

STATEMENT OF FRANK MITTELBAACH, PROFESSOR AND JOHN CLAPP, ASSISTANT PROFESSOR, UNIVERSITY OF CALIFORNIA

Professor MITTELBAACH. My name is Frank Mittelbach. I'm on the faculty of the grad school of management at UCLA. As part of my professional work I specialize in housing, eliciting urban studies, and I have been research coordinator for a Governor's Housing Commission on Housing here in California and also a consultant to President Johnson's Committee on Urban Housing, as well as HUD and other agencies.

I'm accompanied by Prof. John Clapp this morning, and he asks to join me in the statement, and he will quickly present a summary of our full paper which we have submitted for the record in advance.

Senator CRANSTON. Thank you very much.

Professor CLAPP. Thank you. Thank you, Frank.

I might say that my expertise in this area stems from a year-long study which I have recently completed on housing abandonment in New York City.

Research on housing abandonment has succeeded in compiling a list of factors which are causally interrelated with each other and with

abandonment. Some 45 logically distinct factors were enumerated in my recent study and review, so it might be said that the research establishment in the academic establishment, in its infinite wisdom, has determined that almost everything contributes to housing abandonment and that housing abandonment contributes to anything that is left over. We are given to understand that housing abandonment is a special case of the general proposition that everything is related to everything else.

Now, for a crime-related view on housing abandonment. Despite this distressing situation concerning the research and literature, we feel that some progress has been made in distinguishing the most important variables which are causally related to abandonment. Almost every study of the subject has found that crime—particularly vandalism, which falls heavily on the communities afflicted with abandonment—strongly discourages both landlords and tenants.

Tenants with sufficient income move to safer communities, communities which may have offered more attractive housing even in the absence of the crime problem.

Landlords don't see the sense of investing in a property which is frequently vandalized and stripped of valuable parts. You have heard this in the previous testimony here today. Thus, basically sound housing becomes vacant and valueless; it stands ready to house further criminal activity, to send fear through neighboring residence, and to signal to others outside the community a declining neighborhood.

Many very low-income families cannot afford to escape the neighborhood experiencing high rates of crime and abandonment, so a strong association is observed between abandonment and the ability to pay for housing services. The low ability to pay for services is associated with the high rate of abandonment.

When landlords become discouraged about their buildings, lenders, bankers, savings and loans, and others become petrified with fear, so neighborhoods experiencing abandonment are usually found to be redlined. The redlining of a whole neighborhood because it contains some abandonment may reflect racial prejudice, just as the flight of white tenants and the discouragement of white landlords may reflect prejudice. Well, that's a crime-related view.

We might interpret the same inference from other points of view like an income-related view. There are many variations on the abandonment process, and more importantly, there are other ways to interpret the process.

For example, the process may begin with the inflow of low-income tenants and the exodus of those with the ability to pay for newer, more attractive housing. The resulting high vacancy, or at least a high turnover rate with attendant costs associated with turnover, and cost of low-rental return causes abandonment.

Ironically, the ability of our economy, aided by numerous government subsidies, to produce new housing opportunities may account for the abandonment of the less attractive housing stock. The abandoned housing then facilitates crime, causing part of the observed association between abandonment and crime.

Finally, we have some comments on the neighborhood protection corporation. We visualize several ways in which the neighborhood

protection corporation might work, but none of them would seem to lead to a satisfactory resolution of the abandonment problem.

One possibility is that the corporation will arrest abandonment by investing large sums in the rehabilitation of housing in a given neighborhood. But we know from Mike Salzman's testimony and other testimony that rehabilitation is an expensive process of \$7,000 or \$8,000 for rehabilitation, so we think that it is unlikely to occur on a scale grand enough to attract tenants who can repay the government's capital and repay bondholders with interest.

We certainly would not bank on special circumstances such as the favorable movement in interest rates which bailed out the Homeowners' Loan Corporation in the 1930-40 period.

There is another possibility which operates on the assumption that abandonment spreads like a contagious disease. The neighborhood protection corporation may somehow contrive to acquire housing early in the abandonment process before it is vacant and vandalized. By injecting a relatively small amount of capital in the housing thus acquired, the spread of abandonment may be arrested.

However, we have grave doubts about the contagion theory of abandonment, even when viewed in the context of a more sophisticated theory of neighborhood effects. These theories rest on the most casual observations of the way the world works; we suspect that the difficulty in offering such evidence either pro or con in relation with the contagion theory accounts for the popularity of the theories.

We think that a prudent approach to the abandonment problem demands that confidence be placed in the views, such as the crime-related view and the income-related view presented earlier, which have withstood rigorous analysis. In capsule form, solutions must address the inability to pay for housing, and they must address the high rate of crime and vandalism.

We do think that there are viable alternatives to the neighborhood protection corporation. For example, appropriations can be increased to the housing allowances portion of title II of the Housing and Community Development Act of 1974. These additional appropriations might carry the stipulation that they should be provided on especially favorable terms to tenants in neighborhoods experiencing abandonment. The resulting improvement in the ability of low-income tenants to pay for housing services in the afflicted neighborhoods, accompanied by the requirement of title II that landlords provide well-maintained housing, will surely slow the abandonment process.

If housing allowances were provided in sufficient volume to neighborhoods experiencing abandonment, we believe the abandonment process might be reversed; and in this respect, we are in basic agreement with Mike Salzman. However, such a step would have to be accompanied by measures to reduce crime and vandalism, including its sources.

Finally, I have one other comment. Basically, I agree with the testimony of Michael Salzman, and I agree with modifications that he suggests to the Housing Community Act of 1974. These modifications would deal greatly with the abandonment problem, and in addition I have the suggestion that I made that some of the housing

allowances we set aside should be willing to occupy housing which is identified as being in danger of abandonment.

Finally, I do have a suggestion for shortening the vacancy period. I don't see this as a legal problem; I see it as an economic problem, and the reason is that I believe that statistical work has shown that abandonment occurs when a house or a building is considered valueless; in other words, the economic value, it has no market value. The landlord sees no reason to retain ownership or even try to sell it because it has no value on the market.

My suggestion is that subsidy money be provided to acquire this housing just before it becomes valueless; in other words, at nominal prices to acquire the buildings, offers of \$100, \$200, \$300 to landlords who will relinquish their housing for that amount.

Some further arrangements would have to be made for housing which is encumbered by mortgages, and basically I think the same kind of opportunity could be offered to the lenders that they could receive \$200 or they can try to sell the house on the market. If it's really valueless on the market, then they will take the \$200, and then the non-profit corporation or whatever kind of corporation the Housing Community Act which does this, which does acquire these properties, will have title and without the legal hassle that goes with court action.

Senator CRANSTON. You've given us some good suggestions on how to prevent housing from being abandoned. What would you do with the housing that has been abandoned and vandalized?

Professor CLAPP. Well, I think the Housing Community Development Act of the Senate, title 1 or part of it, could be used to (a) rehabilitate, (b) demolish. In many cases, there is nothing there, and it just has to be demolished.

Senator CRANSTON. Obviously, if we're going to do that, there will be a need for funding for that effort.

Mr. BUCKLEY. I wanted to say thank you for the suggestion on how we would prevent abandonment and just to review one point: you were suggested that HUD should go to the lender in the case of a mortgage on a single-family home and offer him slightly more than the amount of the mortgage so that he would turn the property over.

Isn't there the possibility that HUD could go to the owner himself and let him know that he doesn't have to walk away from this house in order to avoid his responsibilities under the mortgage, if he doesn't have the money to pay off the mortgage. He can sell the property to some entity—whether it's FHA or some other entity—which will secure the property immediately, and he can make \$200 or \$300 on it so that the property will not be economically unviable.

We have found in Detroit and Chicago and elsewhere that people bought older houses with only these cosmetic repairs, and the house has been refurbished. They put \$500 down. They didn't have the money to repair the furnace, when it gave out. If they couldn't provide the money to repair the furnace, you could buy the house from them, put it up to code, and then sell it to someone else or lease it to some other person or to the individual who was in there himself. You can even buy it from him and lease it back to him.

Professor CASE. Let me say something from the lender's viewpoint. First, let the lender have a tax write-off if he turns over an abandoned house equal to the amount of unpaid mortgage. Secondly, don't let the home loan bank, Federal Savings and Loan Corp., get in the act by requiring the lenders to put up special reserves for property which appear near abandonment or in areas where there may be some special problems. Just let a savings and loan make the loan and not ask him to put up these other things so he can make his normal profit, and I think you'll get along a lot better with savings loan people.

Senator CRANSTON. Do you have any advice to us on the conflict between, on the one hand, the view of the Administration that we should not set up new entities like the Neighborhood Corps., and on the other hand the dismayed advice by the previous witnesses over the idea of leaving this in the hands of the present HUD operation?

Professor CASE. Yes, definitely. If we are going to get more housing in the United States, we are going to have to save the stock we have. Each year we lose around a million to a million-and-a-half units. If we can create an organization whose only goal is to keep at least 5 percent of that stock from being abandoned, we have a good reason for a new organization.

If you look at FHA, VA, TRA, THA, the whole array, they are not dealing with the existing inventory in an effort to keep it from becoming abandoned. They want simply to improve it, and they want to provide new houses.

Yes, I think there is a need of an agency whose only goal is to save what there is. It has no other function except that. Let us keep from losing in 1 year more units than are financed new by all the Government agencies combined.

Senator CRANSTON. Well, what about the administration's pretty firm position against setting up more agencies?

Professor MITTELBACH. Perhaps our full testimony evidences more skepticism than was shown in the summary. I do feel that it would add an additional layer of complexity.

I think there is something that became quite apparent this morning in the discussions and that is the extraordinary constraints and institutions that surround housing. I mean, it is a morass, and the question comes up as to what would another layer do; particularly, when the problems, perhaps, are not so much in the physical property per se but have to do with the social conditions and income and neighborhood situation where much of this housing is.

Now, it is our contention in the testimony—and I would sustain this idea—that by itself, strictly looking at the property without serious concern with the people that are currently living in there or which have lived in there or that might live in there, would be a very serious mistake.

We must orchestrate a variety of efforts in order to preserve and maintain older neighborhoods. It is not strictly a housing problem at issue of abandonment, and I think we would stress this and emphasize as much as we can.

Senator CRANSTON. Thank you.

Professor CASE. Senator, specifically I would take the FHA, and I would make it into a private operation. I would make it somewhat,

perhaps like the Home Loan Bank operates or one of those organizations, where those who participate in the FH program buy stock in the organization. The Treasury finances it additionally, and then you buy stock and participate in it that way. There are enough private mortgage guaranty insurance companies around that the functions of the FHA could be well performed by them.

The FHA is now constituted and responding to conditions of 1932 and 1938. It is still responding to an outdated housing policy. It's the housing policy that has to be changed. There are several of these housing agencies that I would suggest ought to be returned to the private sector so that the Federal Government can spend its resources where its most urgently needed for the one-third of the population that continues to be unhoused, although in 1932 we said that we were going to solve that problem.

Professor MITTELBACH. Let me make an additional comment.

We are somewhat concerned, also, about the fact that this particular bill tends to, once again, emphasize the property and production site as contrasted to the question of increasing the demand and the capability of people for housing and a demand in specific neighborhoods.

I think we have had a most unfortunate experience in the production of homes, and we would hope that any steps that are taken would not perpetuate this situation.

Professor CLAPP. I'd like to say that, once again, under the Housing Community Development Act of 1974, new organizations to deal with the abandonment problem are quite possible, but they would be locally based organizations and not another layer of Federal bureaucracy, and I think the Administration would find this acceptable.

Senator CRANSTON. Yes, I think that is a good proposal.

I want to thank you very, very much for coming. Despite your skepticism about the value; it was of value to us.

[Complete statement follows:]

STATEMENT OF FRANK MITTELBACH, PROFESSOR AND JOHN CLAPP,
ASSISTANT PROFESSOR

In our presentation at these hearings, we are mindful of one of the key purposes, namely, to consider S-1988 which is intended to support corrective actions to alleviate housing and other property abandonments in many areas of our cities and to generally enhance housing and community environments. We note with interest a reference in S-1988 to selected federal mortgage insurance and guaranty programs. The contention seems to be that these program made a contribution to aggravating housing abandonment problems. We would like to examine this contention presently, but if, correct, troublesome questions are raised. These very programs also were designed with the best of intentions, and the assumption prevailed at the time of enactment that they would significantly improve housing and the residential environment of low- and moderate-income populations, especially in innercity areas.

The point we wish to stress is that often there is a wide disparity between the intent of many of our housing programs and their final effects. Past experiences with housing programs suggest that efficiency, equity and other goals are often compromised although, at the time programs were initiated, expectations were high that the goals would be advanced. In part, our failures of the past resulted from the fact that insufficient attention was paid to the expected behavior of self-interested consumers and producers in contact with these programs. Presumably, we would like to avoid or reduce the risk of unanticipated and undesirable side effects in structuring

programs for the future. Therefore, it is incumbent that we realistically evaluate implications of proposed programs.

Our prefatory remarks may serve to place what we have to say in perspective. We do not challenge the goal of facilitating conditions which will reduce the abandonment of housing especially when the quality of units is not substandard and undesirable neighborhood effects are experienced in combination with abandonment. Also, we do not challenge the proposition that low-income populations and areas occupied by low-income populations are particularly affected by abandonment. Our primary concern is with the proposed measures partly designed as an antidote to the medicine we prescribed and administered in earlier periods. If we appear unduly skeptical, this is attributable to a concern we have that policies and programs at least move us in the desired direction at a reasonable cost.

In this context we note with relief the experimental character of S-1988. It indicates an appropriately cautious posture and offers the opportunity to evaluate failures and accomplishments periodically should the Bill be enacted. Some, of course, may deplore such a statement as supportive of hesitant action where stronger steps are called for. But past policies and programs provide sufficient clues that significant budgetary support, without substantial pre-knowledge on prospective outcomes, may carry with it wastefully or inappropriately applied resources.

FACTORS IN ABANDONMENT

In general one may agree with the proposition that abandonment in many cities "is affected by a combination of neighborhood degradation, absentee ownership, racial antagonism, tenant vandalism, landlord abdication, and credit shortages."¹ It identifies the multi-dimensional and complex character of the abandonment problem.

Of course, in many areas, and Los Angeles offers illustrations, one observes single-family formerly owner-occupied housing where abandonment is substantially associated with selected federal programs. The scenario is familiar. Low-income families have been induced to purchase often poorly repaired homes with low down payments and attractive payment schedules (including subsidies). With low equity in their homes, a decline in income, and little promise of selling the homes at advantageous prices, the loss experienced in walking away is relatively small. Lenders on insured homes, in turn, will be prone to foreclose rapidly with defaults and delinquencies rather than to work with clients, because the federal insurance or guaranty is more readily exchangeable into cash than the promise of borrowers. Access to these programs, of course, transfers risk from private institutions to the general taxpayers. Thus, incentives are present to use these programs where possible. However, to place responsibility for abandonment on those programs and the general behavior of suppliers ignores the fact that FHA and VA programs have played a very significant role in building the American suburb. In these areas low down payments and attractive terms have provided the opportunity for large numbers of people to leverage their limited equities into handsome gains at the time of sale as housing prices skyrocketed.

Obviously, there is a difference between (1) vacant but not abandoned housing, (2) housing vacancies with abandonment, and (3) vacant abandoned housing that has been vandalized to the point where it is unfit for occupancy requiring either demolition or substantial capital investment for rehabilitation. In determining which of these conditions is likely to prevail, it may be well to consider the alternatives faced by the many participants in the process. An owner-occupant, let us say, who considers moving has an incentive to either find a tenant or to sell the home. In the face of weak demand which is expressed in anticipated low rents or low-sales price and sluggishness in finding a tenant or buyer, this owner-occupant would examine the cost to him of holding a normal vacancy. If the costs of holding a normal vacancy are high and expectations of future rents or sales price are unfavorable in relation to the costs, then he may be encouraged to abandon. Also, the decision

¹ George Sternlieb, et. al., "Housing Abandonment in the Urban Core," *Journal of the American Institute of Planners*, Vol. 40, No. 5, September 1974, pg. 331.

to move is determined by the availability of alternative housing whose net benefit stream is satisfactory compared to his current residence. Parenthetically, we might note that abandonment research has paid relatively little attention to where tenants or owner-occupants move to and whether their housing conditions have improved or not.

Lenders presumably are motivated to assure regular repayment of principal plus interest and protection of the capital which is the security for a loan assuming for a moment they have no recourse to federal insurance or guaranty. However, if the costs are high in collecting payments from borrowers, or with foreclosure high operating and maintenance costs are experienced in the face of weak sale or rental demand for property, then they will be prepared to write off the loan.

Vandals might include former occupants, children, neighbors, or even specialists from within or outside the community. For example, we have been informed of situations where property owners are offered price lists for repurchasing fixtures and equipment formerly in property. However, we do not really know very much as to whether in general vandalism is casual or organized. In view of the fact that vandalism impacts on housing supply and neighborhood quality with potential effects also on housing prices, we are reluctant to invoke strictly concepts of self-destructive behavior and the rage of low-income populations. We tend to the view that the gains from vandalism exceed the losses for many participants in the process. The gains take the form of sale of materials and equipment or incorporating these into one's own property. Potential losses would include housing price effects, penalties associated with the probability of getting caught and prosecuted, as well as the loss associated with applying one's energies to alternate endeavors. Clearly, if the net gains from alternate occupations were attractive, vandalism would probably be reduced.

The previous comments may serve to throw light on an assumption reflected in S-1988. The assumption is that abandonment operates like a contagious disease which spreads rapidly and inexorably throughout neighborhoods and communities once the process begins unless remedial measures are taken. Similar reasoning was applied to and formed the basis of many urban-renewal programs to remove and replace slum housing. With due respect, we have difficulty in digesting the concept that large segments of cities would be simultaneously abandoned and occupied by slum dwellers. The contagion theory in our estimation is weak and relies on superficial observations. Fundamental factors other than contagion have been identified as contributing to abandonment. These factors have to do with incomes, costs, prices, and socio-economic behavior in response to levels and changes therein. Also, a possible "neighborhood effect" may come into play which determines the investment or disinvestment behavior of property owners in interaction with each other and with consumers. Moreover, we do not deny that racism also contributes importantly.

Housing is a bundle of services. Conditions on and surrounding the property as well as access to variety of opportunities substantially determine the quantity and quality of housing services in a particular residential location. Prospective residents searching in the market evaluate the bundle of services in the light of the prices—currently and in the future. Supplier in turn examine the costs in relation to current and expected returns. If net returns are favorable, they will invest. Race and ethnicity enter into the picture in that they are often treated as a surrogate by demanders and suppliers and are assumed to signal the expected directions neighborhoods take. Racial change is believed to indicate neighborhood decline when more often the process is reversed. Racial change becomes possible because neighborhoods have declined already. Suppliers then may refuse to provide capital even at a very high price to particular areas in the face of racial change without reference to the capabilities of individual investors in homes or apartments. This is what "red-lining" is all about. But we should also note that as whites flee from these areas and minority demand is not expanding rapidly, vacancies result and these become targets for vandalism and abandonment. The situations is further confounded as upwardly mobile minority populations move out and are replaced by those of even lower income. It should not be forgotten that large numbers of minority investors are caught in the vandalism-abandonment cycle and often suffer severe capital losses. This profoundly affects the rate of capital accumulation in minority communities.

If there is one point inquiries into abandonment are agreed upon, it is that abandoned properties are not necessarily those of the poorest quality in cities. It might suggest that neighborhood conditions and access have an important bearing on abandonment. Social disorganization in neighborhoods with high concentration of crime (especially vandalism and crime related to youth gangs) and large and broken families accompanied by inadequate supervision of children tends to significantly increase abandonment rates. One interpretation of this finding is that a strategy which substantially focusses on property and property improvement, no matter how efficient, without alleviating the problem of social disorganization and its sources is ill conceived. We would further stress that social disorganization is not pervasive and varies considerably within low-income areas. Therefore, only as far as social disorganization spreads to neighboring areas with abandonment would the process be replicated. Moreover, if abandonment proceeds rapidly in particular neighborhoods and families prone to social disorganization move elsewhere, other forces come into play which reduce abandonment. Not the least of these forces is rising housing prices and perhaps public and private actions which increase the costs of vandalism.

Much has been made in recent years of the so-called "neighborhood effect" where a disincentive is present for individual property owners to reinvest because benefits of such investments flow to neighbors rather than those making the investment. The conclusion derived often is that when investments are made in concert by groups of investors or for that matter a "neighborhood corporation," satisfactory returns may be earned. It is perhaps a more sophisticated version of the contagion theory and has been applied to explain the persistence of slum housing. Under certain special conditions it might also pertain to abandonment. If the "neighborhood effect" is a problem, and the evidence is limited supporting the contention, then indeed a general tendency would be present for disinvestment in many areas of cities. However, it is highly unlikely that the effect is pervasive and conditions can be postulated where even if some of the benefits of investing in property spill over to neighbors, individual property owners indeed would have an incentive to continue to maintain and rehabilitate rather than to abandon.

THE NEIGHBORHOOD PROTECTION CORPORATION CONCEPT

Specifically related to S-1988 we have a number of comments. A basic issue is whether the Neighborhood Protection Corporation is likely to prove an important instrument for halting and reversing abandonment (in general and in specific areas of cities). One reaction is that the Bill evidences an inordinate interest in the physical attributes of property and neighborhoods. Presumably, our goal is to enhance the well being of people who own and occupy structures in neighborhoods rather than properties themselves. The acquisition and rehabilitation of abandoned properties must be accompanied by demand from people to live in them at prevailing prices in the neighborhoods where they are located. If rehabilitation restores confidence in the areas where the properties are then, indeed, benefits may be significant. However, restoration of confidence involves more than physical improvement of the neighborhood environment. Indeed, if the Neighborhood Protection Corporation's activities were to operate in tandem with other programs and involve heavy inputs of additional resources, a total process of neighborhood rejuvenation might be attained. But then it seems reasonable to assume that with sufficient assistance and subsidy any neighborhood and the properties and people within it may enjoy a high level of well being. If we interpret the proposed Bill correctly the purpose of the Neighborhood Protection Corporation is not, however, to be a vehicle for channeling large subsidies to neighborhoods. Quite the contrary, the assumption seems to be that it operate on a fiscally sound basis. Given the time-consuming character of property acquisition, and the high costs of rehabilitating vandalized property, one must inquire whether rents and/or prices are likely to be sufficiently attractive for the Neighborhood Protection Corporation to enjoy a satisfactory spread between the returns and costs.

One way of examining the prospective experiences is to compare the advantages and disadvantages implicit in S-1988 compared to a strictly private corporation with similar goals but lacking certain powers. Major advantages to the Neighborhood Protection Corporation would include (1) the power and duties

to assemble residential abandoned properties overcoming many legal obstacles faced by strictly private corporation; (2) assurances that the capital stock is purchased by the U. S. Treasury; (3) the possibility of selling obligations on the open market at a lower interest than would a strictly private corporation decreasing the cost of debt service (if the U.S. Treasury stood by to purchase these obligations at its discretion, interest on obligations clearly would be relatively low); (4) tax-exempt status on capital, reserves, income, etc. but no exemption from property taxes. Some of the disadvantages relate to (1) Primary concern with abandoned and often vandalized residential property in primarily older neighborhoods imposing heavy costs in clearing up titles, outstanding debt, rehabilitation, etc.; (2) the resources required in providing counseling services to purchasers of housing units; (3) the general problem of relatively high administrative costs associated with the continued public scrutiny directed to the operations of an independent agency of the United States.

Whether the financial advantages embodied in the lower costs of obtaining capital are sufficient to overcome the high risks, uncertainties and generally large costs associated with the functions of recycling abandoned properties would, of course, be determined by the demonstration. But unless a benign neighborhood effect accompanies the activities of the Corporation which in part would be expressed in generally rising housing prices and rents, doubt is cast on fiscal solvency. Of course, one might postulate situations where a total process of neighborhood rejuvenation and redevelopment is accomplished with fiscal solvency, but the effect might well be that experienced with our older urban-renewal programs, namely, the relocation of lower-income populations. It is not difficult to imagine situations where as the Corporation improves properties on a large-scale basis, housing rents and prices rise in neighborhoods and low-income populations find they cannot afford to live there any more. The implications are fairly obvious. "Place prosperity" has been attained, but this should not be confused with "people prosperity." With respect to "people prosperity" one must ask also who are the gainers and losers. Renters probably would lose, whereas property owners would gain. Since renters are more likely to be in a very low-income categories, we are then once again faced with a situation characteristic of most of our production-oriented housing programs—i.e. redistribution of income in favor of relatively high-income populations and failure to attack the basis of low-income problems. Of course, the activities of the Neighborhood Protection Corporation might be joined to housing allowance and leased housing efforts as well as other programs. However, in the process a fundamental goal of certain demand-oriented efforts would be affected. We refer to improved opportunity to obtain not only better quality shelter, but greater flexibility in choosing one's place of residence.

We are sensitive to comparisons made between the proposed Neighborhood Protection Corporation and the Home-Owners' Loan Corporation in the 1930's and 1940's. The HOLC encompassed several functions including the refinancing and management of loans in defaults; lending for reconditioning and the management and sale of distress properties acquired. The very large decline on interest rates for government borrowing during the 1930's placed HOLC in the position where it enjoyed a very favorable spread between what it paid for funds versus receipts (about 2.5 percent on a net basis.)¹ Even though HOLC acquired many properties during the depth of the depression and only limited efforts were made to sell them in the early years, it experienced a net loss on this phase of its operations by the final date. Simply put, lending, loan management, and refinancing proved to be profitable, whereas management and sale of properties did not. The latter operation is more akin to the proposed Neighborhood Protection Corporation and, in the case of HOLC, covered properties throughout the urban areas and not necessarily those highly concentrated in a few neighborhoods. Also with respect to abandoned properties the phenomenon became apparent not only in the recent economic recession but had much deeper roots. In other words, comparison between HOLC and the proposed Corporation should be approached with caution.

¹ C. Lowell Hariss, *History and Policies of the Home Owners' Corporation* (New York: National Bureau of Economic Research, 1951.)

SOME ALTERNATIVES

Alternative strategies for addressing abandonment problems have been documented elsewhere and need only be indicated. Broadly they include the following: (1) Let the process of abandonment and renewal take its course; (2) Accelerate the process of abandonment and renewal with public assistance; and (3) Prevent abandonment and revitalize areas with public assistance. The Neighborhood Protection Corporation in many respects might be viewed as supporting all of these strategies depending on local circumstances, but essentially it emphasizes prevention and remedial action. However, it is not equipped by itself to address problems surrounding social disorganization in all of its ramifications, nor would it have the power to provide significant income or housing subsidies. Its relative independence from other agencies poses the additional question what cooperation might be received to orchestrate efforts where desirable. Perhaps a demonstration might suggest how such an orchestration could be designed to cope with the problems effectively. However, past experiences provide little comfort on this score. We are continually caught in the trap where specific programs are enacted to deal with problems whose sources are complex, but this is not reflected in programmatic approaches. With respect to the Bill under consideration, the embodiment of the contagion theory without reference to the costs and benefits to owners, tenants, vandals and neighbors exemplifies the thinking. Perhaps there are strong administrative and federal budgetary reasons why the management and disposition of foreclosed and abandoned property should be centralized especially as this pertains to property with federal insurance and guaranty. Possibly some efficiencies can be attained in the process. But the function of management and disposition should not be confused with the substantial responsibility to rehabilitate including the implicit assumption that a "profit" can be made. Of course, if the Neighborhood Protection Corporation were to acquire the properties at a very low price, then an incentive to rehabilitate might be present. A recent report makes reference to HUD selling foreclosed property "usually . . . for less than half the money it paid to buy the multi-million dollar loans from lenders . . ."¹ If rehabilitation of property is the major goal, then purchase at even more favorable prices followed by rehabilitation might lead to a paper profit for the proposed corporation. However, this would represent largely a hidden subsidy to rehabilitation in selected areas without fuller review of whether rehabilitation is the most appropriate course of action. Essentially, it would be a form of financial legerdemain not uncommon in the management of our housing affairs. Inefficient but hidden subsidies are preferred to relatively more efficient but open subsidies.

Assuming, however, that the Corporation would acquire properties at realistic prices, its options would include the demolition, repair, rehabilitation and alteration of units followed by sale or rental. If repaired and rehabilitated a demand must be present for these units at rents and prices which at the minimum meet the cost of capital. Some of the prospective demanders may have access to housing assistance. If this assistance is not tied to a specific property as would be the case under the leased housing program or proposed housing allowance efforts, for example, then one would have to ask whether the combination of neighborhood environment, location, and shelter quality at the prevailing prices or rents are satisfactory to prospective occupants in the light of alternatives. Unless additional steps are taken to improve neighborhood environments, including reduction of social disorganization and improved neighborhood facilities which also have experienced disinvestment as the abandonment process advanced, many prospective residents will choose to live elsewhere. Only if rents and prices are very attractive, indeed, will many people be induced to live in these areas without the additional investments in related facilities and services. In any event, given the very limited mandate to the Neighborhood Protection Corporation and the responsibility for financial solvency, its contribution to alleviating the existing problems will be relatively small. In many cases the best approach will be to tear down and demolish units rather than to rehabilitate. The question then arises what to do with the land. It could be sold to private profit or non-profit groups or public agencies. Or the corporation

¹ *The Wall Street Journal*, Aug. 15, 1975, p. 2.

might under its own auspices go into building development. The risks in building development are not significantly different for reasons already mentioned. Moreover, where abandonment is spotty and dispersed, the kind of scale effect which has characterized urban redevelopment efforts will be lacking particularly since the corporation's emphasis will be on residential properties. All of these elements impinge on financial solvency. Moreover, the potential actions would be undertaken without influencing income of prospective residents and the general desirability of neighborhoods. Clearly, physical renewal of housing is not enough, and the prospect for reducing further abandonment may be unaffected unless a benign neighborhood effect is realized. The outlook for such a benign neighborhood effect without collateral action in addition to physical rehabilitation is clouded.

Senator CRANSTON. Valarie, we have to quit in about 10 minutes. If we could cover this in that time frame, I'd appreciate it.

Mr. LEHRER-GRAIWER. Just briefly, my name is Jonathan Lehrer-Graiwer. I work for the Western Center on Law and Poverty, which is a regional services group. We have been involved in the past several months in a lawsuit against a "bulk as-is-sale" by HUD of 147 properties in the Dillman Heights area, which is about 650 homes on the west side of San Bernardino.

Mrs. Pope is the executive director of the San Bernardino Westside Community Development Corp., a nonprofit community-based group, and I think she can describe what has happened in her community.

Mr. POPE. Senator, my name is Valarie Pope, and I wear two hats: I'm the cochairman of the Rights Corp. for the County of San Bernardino, and I am also the executive director of the San Bernardino Westside Community Development Corp., which is made up of a group of homeowners and other business people from the general area where the abandoned houses exist.

We all live there in the general area. We feel that we know what the problems are. We started to get involved with redlining and abandoned houses in November of 1971, I think it was, when we first realized that we were a redline community.

We know some of the problems the different governmental programs have tried out on us. We know what those results were. They led up to the point where I think one of the gentlemen said that the savings and loan and FHA got frightened of us and tried to redline us. For all intents and purposes, the savings and loan and FHA abandoned us. We didn't abandon them; they left us.

As a result of that, any home-improvement loans that we may have made to make to bring our property up to the standards of the properties of the white people, we couldn't make those loans. Because of the nature of our community, outside speculation, in many cases real estate speculators went into areas and entice welfare recipients to come into the area to purchase homes, and the real estate broker would make the down payment for the woman, giving her no idea what homeownership was all about, just knowing that for once she'd obtained the American dream of becoming a homeowner. In most cases the real estate broker made the downpayment for her. She got in the house; needless to say, the FHA contract had already come through and did a cosmetic job on the house. Right after she moved in, the roof started to leak, the cesspool backed up, and all the other things that cause a frustrated homeowner.

After all that, we tried to negotiate with the FHA, number one, as vice chairman of the NAACP to try to get the FHA to lift the redline from our community. Well, that didn't happen. We tried to get the FHA to let us be under any kind of program that FHA may have had, which we know of no programs they did have.

I remember once we submitted the 235J program to the Santa Ana FHA office. After months of negotiating with that office, they told us we were in the wrong office. They sent us to the Los Angeles HUD office. After months of negotiating with the Los Angeles office, we were told we were in the wrong office, and they sent us to another. Before we could complete the negotiations there, the President put a moratorium on all 235 programs. The only thing I'm saying is about the frustrations that we have been through to reach this point.

I have read your bill just briefly. I just found out about it last night. I haven't had an opportunity to prepare a statement. But in reading the bill, the one problem I find with it is that you expect organizations such as us—I hope you have us in mind when you talk about neighborhood organizations—to take on this large responsibility and then somewhere down the line become self-supporting. I would hope at the time the telephone bill comes through is the time you expect us to become self-supporting. I don't know how we can do that; that's number one.

No. 2, you talk about Carla Hill. I'm sorry that she's a woman. She's the Director of HUD. I've seen no changes in HUD or FHA since she has taken charge, and you say she will be president of this corporation. Regardless of all the revisions within that bill, I don't see it working. I don't see it working if FHA or HUD has anything whatsoever to do with it.

I live in a community now that is a result of a bulk sales program. I'm living with those results. At least before the bulk sale, the houses were boarded up. We raised enough cane to get them boarded up; but as a result of the bulk sale, they are all unboarded. They purchased the houses. It was 147 houses in our community from two- to four-bedroom houses, for a total of \$296,000 from FHA; but then within 15 minutes' time that guy that bought those houses for \$296,000 turned right around and sold that for \$472,000. He made approximately \$176,000. My understanding is he paid FHA \$29,000 for the option. He collected the money for the future sale from the new buyers and he used that money to pay FHA off, so he never had any more than \$29,000 involved in a sale at any one given time, and he made \$176,000.

We had the city of San Bernardino offer to purchase the houses from FHA, to give the city of San Bernardino under the Housing Community Development Act of 1974, a block grant, an opportunity with the city and the community working together to develop those houses so that they would be retained for low- and moderate-cost homeowners. This is one of the problems that we have. Sure, there is housing all over, but we can't afford it. We can't qualify. The houses they can qualify for are the kind of houses that are going to fall apart as soon as we get in.

I run a program right now that develops housing for low-income people; it's under the Veterans Administration. We can get little or

no cooperation out of FHA; only the VA would help us. It took \$20,000 to develop that contract. Where did that money come from? It came from all kinds of grants, to get to the point where we could implement the program.

We are developing houses where what we call a Spanish stucco—we've color coded the exterior—is guaranteed to last from 10 to 15 years. We guarantee the roof for 5 years. We guarantee the house for 1 year. It's a three-bedroom house, fenced yard, carpeting and built-ins. A three-bedroom house in southern California will go for \$10,000, \$15,000. A two-bedroom house is \$9,200. House payments on a two-bedroom house is \$92. House payment on a three-bedroom house is \$102.

In the area that I'm talking about just one street north of where we are working now in Dillman Heights, we are selling houses there. We have the same housing owned by the Veterans' Administration. We rehab them. They put them back on the market for \$8,200 for a three-bedroom house, \$82 a month. The sale buyer has the same house. He's charging \$17,500 for it. The same house we sell for \$8,200; I mean on the same block. What I'm saying is that I agree with whichever one of the gentlemen talked before that you need to come into the communities.

Senator Cranston, I've been in your office many times in Washington. I've talked to your office many times in Los Angeles. I've appeared before you several times, but I have yet to be able to sit down and talk to the person who calls up those bills about what our problems are; I've yet to be given that opportunity. College professors give all these statistics and suggestions, but how can they really know what the problems are? I'm a living witness, and I bet you I've got the experience. I've lived the research, and I do it daily.

We use manpower money to pay the people in the community to rehabilitate those houses. After they've gone through a minimum of 6 months to a year training with us, then they are ready for entry-level apprenticeship programs. We find we have 68 percent now and placement is very good, and many times we find this the best way to accomplish what needs to be done, but I employ the people from the community. You talked about vandalism. I've been running this Housing Development Corp. developing housing for 18 months, and my vandalism is running at a cost of \$500 out of those 18 months because the people that live there are developing the houses. We don't have somebody coming in from Orange County in an air-conditioned limousine checking out our work. We check it out, and we do it.

Thank you for your time.

Senator CRANSTON. I want to thank you very, very much. You are very straightforward and very constructive, and I appreciate it very, very much. Carolyn Jordan and Jerry Buckley would like to meet with you and talk with you and some others now about some of the particular things you haven't had a chance to express in detail and ask you some questions, and maybe you have some questions to ask them. They are going to be working on this bill trying to revise it in the light of these hearings into something that we can pass and any more information that you can furnish us with would be of great

help, so if you don't have to run off, you can have such a conversation with them.

[The complete statement of Mr. Lehrer-Graiwer and additional material follows:]

STATEMENT OF JONATHAN LEHRER-GRAIWER, WESTERN CENTER ON
LAW AND POVERTY, INC.

ABANDONMENT: DELMANN HEIGHTS, A CASE IN POINT

For the past month and a half the Western Center on Law and Poverty, Inc., has been involved in a federal lawsuit aimed at preventing the Department of Housing and Urban Development ("HUD") from abandoning to property speculators the 147 vacant houses it owns in the Delmann Heights area of the City of San Bernardino. Among the plaintiffs to that suit is the San Bernardino West Side Community Development Corporation, headed by its Executive Director, Valerie Pope. This non-profit community-based corporation is dedicated to improving and stabilizing the community in and around Delmann Heights.

The problem of abandoned and foreclosed housing owned by HUD and the Veterans Administration is starkly outlined by the communities of Delmann Heights and California Gardens located on the west side of San Bernardino. Attached as Exhibit 1 to this presentation are the introductory pages to the Delmann Heights/California Gardens Revitalization Study which was commissioned by the California Youth Authority and which describes in some detail the social tragedy which has occurred in the two subject communities. Out of a total of approximately 650 dwelling units in Delmann Heights, over 300 units are vacant, 133 of which are currently owned by the VA and 147 units have been recently sold by HUD in a bulk "as is" sale to a private speculator.

Although some of the causes of the high degree of abandonment in Delmann Heights and California Gardens were the result of economic and social forces beyond the control of government agencies involved in those areas, it is clear that the continued deterioration of the Delmann Heights area, in particular, can be ascribed to a failure in programs instituted by HUD. This can be seen in tracing attempts by HUD over the past three years to dispose of its inventory of abandoned and foreclosed housing.

In 1972 HUD entered into an agreement with a private developer for the purchase, rehabilitation and resale of HUD-owned vacant properties under the then existing practice by HUD of requiring the repair of units it sold. That first deal did not come to fruition and was abandoned sometime in late 1974. Then armed with new bulk sale regulations contained in the Property Disposition Handbook no. 4310.5 §§330, *et seq.*, HUD decided to sell the 147 abandoned and foreclosed properties in a bulk "as is" sale, with absolutely no requirements that the purchaser develop and rehabilitate properties for sale to owner-occupants. The result was the conclusion of such a bulk "as is" sale on June 27, 1975 for \$295,000 (\$2,000 per house) to a company which simultaneously resold the properties at a profit of \$125,000 to three speculators. These speculators, in turn, set up a public auction of those same properties for July 27, 1975. As indicated by Exhibit 2, the newspaper advertisement for the auction, the houses were again to be sold "as is" at prices ranging between \$4,500 and \$7,000, which again represented a substantial potential profit from the less than \$3,000 paid to the first buyer and the \$2,000 initially paid to HUD.

Fortunately, as a result of the suit instituted by the Western Center on Law & Poverty against HUD and the subsequent purchasers, and as a result of an ill conceived "get rich" scheme, in general, the auction failed. The plaintiffs to that suit have now been successful in at least temporarily averting the total deterioration of Delmann Heights as a result of a speculative and potentially fraudulent venture by obtaining a federal court order setting some standards of development for the current owners.

However, the lesson is clear that HUD has embarked upon a policy of abandoning the units it has acquired to some of the lowest and basest real estate speculation. This general policy by HUD to make bulk "as is" sales without any rehabilitation requirements or supervision would appear to be in conflict with a variety of national housing policies as set forth in 42 U.S.C. §1701t, 42 U.S.C. §1444, 42 U.S.C. §1441a, 42 U.S.C. §5301 and 42 U.S.C. §1437

and with HUD's own regulations contained in the Property Disposition Handbook No. 4310.5, Chapter 10. However, aided by an internal conflict within the law, between the policies of safeguarding and improving the quality of low and moderate income housing, in particular, and of safeguarding the mortgage insurance fund, HUD has been able to issue internal directions and notices specifying that the primary objective of the property disposition program is to "Reduce the inventory of acquired property in such a manner as to insure the maximum return to the mortgage insurance funds". (Notice HM 74-57, September 11, 1974.) The previous emphasis on rehabilitation requirements seems to be a dead letter. This policy which implies a complete disavowal of any responsibility by HUD to assure the rehabilitation of dwelling units it acquires and the continued vitality of neighborhoods in which these units are found underlines the critical need for a separate development corporation as proposed in the Abandonment Disaster Demonstration Relief Act—a corporation whose primary function would be to rehabilitate, as quickly as possible, and otherwise develop abandoned housing and to sell such housing to owner residents.

I am including for the committee's information several pages from an affidavit of Ms. Valerie Pope submitted to the district court in Los Angeles and outlining some of the basic causes for the cycle of sale, abandonment, foreclosure, reacquisition by HUD or VA, rehabilitation and resale which has occurred in the Delmann Heights area as many as three and even four times.

COMMENTS AND CRITIQUE OF PROPOSED

On the basis of the experience gained from the Delmann Heights and California Gardens communities the following comments are advanced in an effort to increase the likelihood that the proposed act will spawn an effective program for redeveloping and revitalizing abandoned properties. Initially, let me state that the elements which I have concluded are essential to any effective program are (a) that community groups in affected areas participate in the planning and execution of developments; (b) that the corporation assure that the development and/or rehabilitation is substantial, as opposed to cosmetic, and is executed in a workmanlike manner; (c) that the burden of rectifying or suffering the consequences of inadequate rehabilitation be removed from resident owners of properties sold by the corporation; and (d) that sufficient buyer screening and counseling be implemented.

1. In regard to the active participation by community groups, the proposed act does require the corporation to "consult, on a continuing basis, with local officials and affected residents of a selected area with respect to matters of mutual interest and concern". (Section 5(a)) I believe that this does not go far enough and that the act should strongly encourage the active participation by community groups and residents in the planning and execution of the development and/or rehabilitation of a selected area. If a particular area has a community organization in existence which can demonstrate community support, a commitment to safeguard and revitalize the area and the knowledge and skill necessary to undertake a part or all of the proposed development, it seems that such a group should be given careful consideration in helping the corporation to execute its plans. I stress this point because the existing HUD regulations (Handbook no. 4310.5, §330(b)) actually mandate a preference for profit-motivated developers in the purchase of bulk sales and require a specific finding by the Director that a bulk sale program cannot be successfully concluded with a profit-motivated sponsor before concluding an agreement with a non-profit sponsor. The advantages to the corporation of working as closely as possible with existing community groups are manifest and include (a) the ability to galvanize community support; (b) access to information about the community's desires and needs; (c) access to information about prospective buyers and their qualifications and commitments to maintaining the properties which they buy; and (d) access to information about local contractors and their reliability.

2. The Act should include a specific requirement that sales and rentals of units by the corporation should be to individuals who will actually reside on the premises which they purchase. Additionally, to deter speculation, restrictions should be placed in deeds that any subsequent sale of properties must also be to resident owners. In the case of the sale of a multi-family dwelling, the corporation may be allowed to sell the property to a non-profit group with adequate restrictions on resale.

3. The Act does not deal with the corporation's responsibility to adequately check the credit and assess individual prospective buyers for likelihood of their success as homeowners. As indicated by Ms. Pope on pages 5 and 6 of Exhibit 3, inadequate screening of buyers by HUD has been, to a significant extent, responsible for the abandonment cycle which has occurred in Delmann Heights and elsewhere. The problem is particularly acute in the case of HUD and VA-insured loans where the private lender has little incentive to adequately screen buyers since his investment is completely insured. The object of proper screening is to insure, as much as feasible, that the prospective buyer has some chance of meeting the payments required by home ownership and that the prospective buyer does not have a history of purchasing and abandoning homes or defaulting on mortgages. As stated by Ms. Pope, the people who bear the burden of unqualified buyers and subsequent abandonment are the remaining residents who are left with the vandalized remains of the vacated homes.

4. A concomitant to adequate credit screening is adequate counseling which the Act does mandate in §6(i). However, I believe that the corporation should also be given authority for ongoing counseling where necessary. It is clear that home ownership, in particular, often necessitates a significant change in social and budgetary management by a family—a change which may well require ongoing counseling beyond the initial purchase of the property.

5. The Act provides the corporation with authority to compensate a purchaser for structural or other defects if three specified conditions are met [§6(g)]. I believe that this is inadequate and that the corporation should be held specifically responsible for the quality of the rehabilitation and/or development conducted upon properties it sells. This responsibility should not be dependent upon the second part of the third condition that the defect be one that proper inspection could reasonably be expected to disclose. One of the critical elements for a successful program is assuring, to the maximum extent, that low and moderate income buyers of the dwelling units sold by the corporation are able to maintain their properties and continue to have the desire and incentive to maintain payments on the properties. To this end, every reasonable step must be taken to eliminate unnecessary burdens on low and moderate income home buyers. A burden which has often led to abandonment involves defects in the rehabilitation which are discovered some time after purchase. The corporation is in a good position to extract quality warranties from rehabilitation contractors and developers and is in a much better position than low and moderate income buyers to pursue actions against such contractors in the case of improper work. Placing the responsibility on a low and moderate income buyer to collect for improper work would increase substantially the danger of the abandonment as a result of the increased cost on the owner. Consequently, the responsibility of the corporation for rectifying improper work should extend to all defective work without limitation as to whether the defect is one "that a proper inspection could reasonably be expected to disclose".

6. The proposed Act provides in §6(h) and §7(a)(3) for authority to extend the time for payment of any installment by any mortgagor. I believe that the Act should set some standard under which the corporation would be required to grant an extension of up to three months upon a good cause showing temporary inability to make payments, as a result of illness or some other unforeseen circumstances. Possibly, the Act should allow a mortgagor a one-month payment extension every two or three years if the extension is brought up to date within one year, except where there exists evidence that the mortgagor is committing waste on the property.

7. Section 7(a)(5) specifies that the operation of the corporation shall be fully self-supporting. I question whether the cost of counseling, if meaningfully implemented, should be included in this self-supporting requirement.

I fear that the managers of the corporation will readily discard the counseling requirement or severely limit its application at the first sign of a budgetary problem. This would be tragic in the sense of undercutting one of the most critical elements necessary for a decrease in the abandonment rate. The counseling program should be independently and generously funded from some other source such as general revenues so that competing budgetary demands do not lead to its demise.

DELMANN HEIGHTS/CALIFORNIA GARDENS REVITALIZATION STUDY—

An Experimental and Demonstration Project in Community Crime Abatement

(By Dukes-Dukes and Associates; John Dukes, *President*; Sammie Dukes, *Executive Vice President*; L. P. Lewis, *Project Manager*; Robert Mascolo; Jerry Varnado; Louise Webb; and Dianne Williams)

Prepared for California Youth Authority, Sacramento, Calif., Contract 2-CCA, to be utilized by The San Bernardino Westside Community Development Corporation.

INTRODUCTION

A keystone of American democracy is the right of every citizen to participate in the decision making processes that directly affect his life. The basic intent of this study is to establish a framework where the people of Delmann Heights and California Gardens can develop their own decision making processes for the well being of their community.

In 1972 and 1973 Dukes-Dukes & Associates undertook a contract with the California Youth Authority to deal with crime abatement in selected California cities. Among these cities was San Bernardino. The study area there is made up of approximately 80 single family homes, 41% of which are vacant and boarded up. Mortgage insurance on these homes was provided by the FHA or the Veterans Administration and through the process of mortgage foreclosure these agencies had acquired these properties.

Through a nearly devastating process of real estate manipulations stemming from racial bias, economic disinvestment and inappropriate public actions, Delmann Heights and California Gardens had been transformed into deteriorating neighborhoods undergoing the abandonment process. Due to the high rate of mortgage foreclosures and difficulty in remarketing the vacant houses, the FHA had been forced to withdraw these properties from the market.

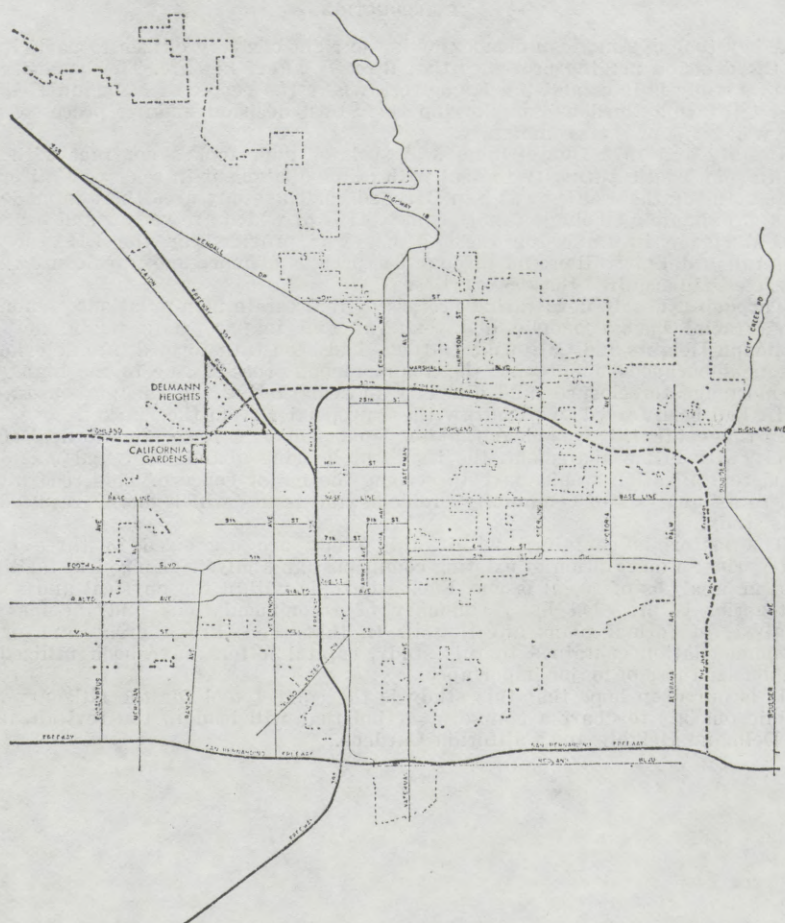
In this context, it was clear that for Dukes-Dukes & Associates to deal effectively with crime abatement, the issues of housing abandonment and neighborhood revitalization would have to become the major concern. This recognition led to an analysis of community problems and issues which finally resulted in this study.

The materials contained within this study are organized in three basic categories; a description of existing conditions, an analysis of physical facilities and an analysis of social issues. Each sub topic within the physical and social categories is preceded by a summary of recommendations and includes an analysis of formal plans affecting it. In that there are a great number of recommendation contained in this study, capital letters have been utilized to emphasize those of major importance.

It is our deep hope that this study is the correct tool for the citizenry and public officials to chart a course of action that will lead to the revitalization of Delmann Heights and California Gardens.

LOCATION OF STUDY AREA

SAN BERNARDINO



DELMANN HEIGHTS/CALIFORNIA GARDENS STUDY
JUNE, 1974

DUKES-DUKES & ASSOCIATES

GOALS

Specific goals

The overall goal of this study is to create a context where residents can develop their own plan to revitalize the residential portions of the area while improving community facilities as well as commercial and industrial patterns.

To retain and rehabilitate or modify existing housing, stop the high rate of abandonment, and to allow for a stable yet varied population growth.

To seek ways of relating Delmann Heights and California Gardens to the entire city.

To re-evaluate present plans affecting the study area and to influence future plans so that they will be more responsive to the people's needs.

To provide job opportunities by encouraging industrial and commercial development best suited to the economic base of the study area and entire city, ultimately leading to full employment at acceptable wages for residents.

To provide adequate, attractive neighborhood facilities and human services conveniently located to serve the people who live and work in the district.

To revitalize the existing shopping area and to attract appropriate commercial investment for the greater convenience and pleasure of the people who live and work in the area.

To improve the appearance of the study area for those who live there and make it an attractive and interesting place to visit.

To buffer residential areas from incompatible land uses.

To improve traffic circulation within the area while enhancing access to and from the study area and, in particular, to keep non-residential traffic out of the residential neighborhoods.

To provide adequate education for all residents regardless of existing educational deficiencies.

To achieve an adequate measure of study area resident control of all public policy and decision making processes affecting the institutions, services and quality of their community.

BACKGROUND

The City of San Bernardino was originally established as a Mission town and is now the seat of the largest county in the nation, which covers an area of approximately 20,000 square miles. After being established as a Mission town by the Spaniards, San Bernardino became a Mormon Settlement. The Mormons developed the town on a grid system which exists today and established themselves as the dominant social force until they were called back to Salt Lake City in the mid 1800's. Later, settlers developed the area as a center for citrus fruit crops and shortly thereafter, San Bernardino became a railroad center when the Atchison Topeka and Santa Fe relocated its maintenance shops. The City of San Bernardino's population grew significantly as a result of World War II with the establishment of military bases and related new businesses.

Recent data shows San Bernardino County with a population of 698,000 people of which nearly 450,000 are White. The County's non-white population is mainly Spanish Surnamed (111,700), with a small Black population (29,300). By contrast, the City of San Bernardino, with a total population of 107,000, has a much larger percentage of non-white people, with 25,000 Spanish Surnamed persons and 17,500 Black people.

Over 70% of the non-white population is concentrated in the western sector of the city. Within this western sector, or the "Westside" as it is called, the Spanish Surnamed and Black populations are geographically situated in distinct areas with the predominant Black population to be found North of Baseline Street and the Spanish Surnamed located South of Baseline.

Within that portion of the "Westside" that is predominantly Black are two adjoining neighborhoods known as Delmann Heights and California Gardens (see Location of Study Area map). These two neighborhoods have the same general demographic characteristics yet differ in size and, most significantly, in the rate of abandonment of single family homes. Highland Avenue, a major East-West Street and California Street, a less heavily trafficked North-South Street, separate the two neighborhoods. More specifically, Delmann Heights is bounded by Cajon Boulevard to the Northeast, Western Avenue to the East, Highland Avenue to the South and California Street to the West. California

Gardens is bounded by 19th Street to the North, California Street to the East, a vacant tract of land just below 17th Street to the South, and State Street to the West.

Both areas were developed privately in the 1950's with single family homes for sale and financed under either FHA or Veterans Administration mortgage assistance programs. The homes themselves are generally small, and spartan. These neighborhoods were initially considered relatively stable and had no more than the usual number of mortgage foreclosures.

California Gardens, until last year, was just outside the City limits of San Bernardino, while Delmann Heights was annexed to the City in 1966. Prior to annexation, this area, known as Muscoy, was inhabited by white upwardly mobile families of modest income that would generally sell their homes and move elsewhere to similar or better housing as their income rose, other job opportunities occurred, or their families became too large for the house they occupied. (It is interesting to note that three of the city officials interviewed in the process of developing the data for this study mentioned that they or other fellow workers had "started out" in Delmann Heights).

Between 1950 and 1960, Delmann Heights at the northwest edge of the city began to experience an exodus of white households. The increased property tax assessments that resulted from annexation coupled with the influx of relocatees from a redevelopment project elsewhere caused an acceleration of this exodus to what can only be described as a panic withdrawal of White families. It is estimated that currently the Black populations of the two neighborhoods exceed 90% of the total.

As a result of the rapid white exodus, property values dropped to the point where it became difficult for a seller to market his property and pay off outstanding mortgages. In the late 1960's it became increasingly expedient for a property owner (Black or White) with little cash equity to abandon his property rather than attempt to pay off mortgages that amounted to more than the houses current value on the open market. Thus, a grim pattern had begun and has continued to accelerate to this day. For instance, in May of 1971, 100 properties had been abandoned and were in foreclosure by FHA or the VA in Delmann Heights alone. In May of this year, there were nearly 300 vacant and boarded up houses in foreclosure in Delmann Heights. Some of these houses have been abandoned, foreclosed upon, rehabilitated and resold two and three times. If this accelerating rate of abandonment were to continue, it would be only two years more before the entire area is abandoned. Presently, it is very difficult to sell a house in Delmann Heights on the open market due to the high percentage of abandoned and boarded up buildings, combined with a history of high rates of arson, vandalism and theft. Many of the remaining families have been victimized, their property stolen, damaged, or destroyed. Even though a major need for low and moderate income housing exists, the image of Delmann Heights is so bad that few have been willing to buy into the area. Delmann Heights can only be characterized as a blighted neighborhood with boarded up and vandalized houses everywhere. The houses, which are approximately 20 years old, can generally be described as shabby, deteriorated, and devoid of landscaping. Signs threatening prosecution by the F.B.I. for trespassing are an ominous presence. Many of the occupied units are overcrowded.

In spite of the grim recent history of Delmann Heights, there still exists a core of stable and courageous homeowners whose properties are generally attractive and well kept. Most of these owners are committed not only to remaining in Delmann Heights, but also to working to make the area, in all senses, a viable community. These residents with assistance from the Community Development Corporation are organizing themselves in groups structured to achieve this goal.

California Gardens, just a few blocks away, has a lower rate of abandonment and cannot be described so negatively as Delmann Heights. Of the 142 homes thirty-five are boarded up. While this is a very high rate of abandonment, one does not leave the area with the same sense of ominous disaster as in Delmann Heights. In June of this year the Community Development Corporation had rehabilitated and sold five of the vacant units in California Gardens and were working on fourteen others. A homeowners association was formed to deal with neighborhood problems, and a cautious sense of optimism prevails. The area

looks good with well painted and landscaped exteriors, children playing outdoors and a renewed liveliness.

In tracing and analyzing the evolution of the Delmann Heights Area certain facts became obvious. It has never possessed those qualities that are inherent and indicative of a cohesive community. Initially, circumstances did not warrant any community or neighborhood considerations. Evidence indicated that the primary, and perhaps, the only consideration for the development of Delmann Heights was to quickly produce a housing resource to meet a critical need.

Population shifts and changes produce a new or expanded need for goods and services. For example, a significant increase in the percentage of female heads of households usually increases the need for child care services. Additionally, if a neighborhood changes from a predominance of one ethnic group to another it also produces the need for goods and services which are reflective of their ethnic subcultures. Unresponsiveness to meeting these demands for specific types of goods and services often results in community apathy. Apathy can best be described as being frustrated by not getting the necessary assistance which could make life easier to cope with on a day-to-day basis; a feeling of alienation and isolation, and a constant struggle to maintain a concept of "self worth".

In the past few years some fragmentary programs were implemented aimed at community restoration. In each instance, these efforts have produced minimal positive results.

This being the situation, how do intelligent planners justify putting more money and valuable energy into a community that has already had a significant amount of attention, both through planning efforts and public monies? Quite simply, the public planning efforts have been inappropriate at best, and the monies have been spent on programs that were detrimental to the well-being of the community. This statement does not deny that competent and well-meaning people have not preceded our involvement, but rather that their efforts were the result of blindly accepting inappropriate conceptual notions about the treatment of urban problems from other communities without adequately evaluating the impact of the usage of these programs in their own community.

The full intent of this study is to develop a schematic framework under which public action can be positively utilized to make a dysfunctional community a reasonable place to live. In short, we are committed to bringing Delmann Heights and California Gardens to the point that there is no question in any resident's mind that this is his home and that he is basically satisfied with it.

TO BE SOLD AS IS--ALL CASH
DOORS WILL BE OPEN AT THE PROPERTIES FOR INSPECTION 8 AM--8 PM EVERYDAY
SAN BERNARDINO

9. As indicated in Exhibit A, there have been some unsuccessful fragmentary programs implemented in the past four years including rehabilitation of some HUD and Veterans Administration ("VA") foreclosed properties and subse-

quent resale, aimed at the restoration of the community. In fact, many of the subject houses, together with many of the VA-foreclosed properties have gone through the cycle of sale, subsequent abandonment foreclosure and re-acquisition by HUD or VA under their mortgage insurance programs, rehabilitation and resale two, three and even four times.

10. As the figures in Exhibit A indicate the rates of abandonments and foreclosures rapidly accelerated between May 1971 and May 1974 in spite of the fragmentary efforts mentioned above. The reasons for the failure of these efforts and for the continuance of the abandonment, foreclosure, rehabilitation, resale cycle are primarily the following:

(a). The failure by HUD and VA to consider and implement a comprehensive revitalization plan which deals with the variety of factors such as those explored in the Delmann Heights Study (see Exhibit "A"). A comprehensive plan of development is necessary to assure prospective buyers that their investment will be safeguarded by an overall improvement in the neighborhood. Logically, no person will be willing to invest several hundred dollars as down payment in a house if the adjacent houses(s) is or is likely to remain vacant and boarded up. In connection with Delmann Heights this not only would require a comprehensive plan to develop the subject 147 homes but also a coordinated plan to develop the 133 homes currently owned by the VA which are also boarded up. Additionally, a plan of development would have a greater possibility of success if it also dealt with the kinds of physical and social considerations, such as transportation and street patterns, recreational facilities, and safety, which are dealt with in the Delmann Heights Study. A community with approximately a 50% vacancy rate which has experienced repeated, unsuccessful fragmentary improvement attempts cannot be reasonably expected to turn around with a program which does not address itself to the total picture including but not limited to the condition of the physical structures.

(b). The inadequate "cosmetic" rehabilitation work performed on houses and the resulting deterioration which is noticeable within several months to a year have also been responsible for the failure of past development efforts. Unfortunately, I have all too often witnessed the spectacle of newly "rehabilitated" homes deteriorated within a short time as a result of cosmetic, inadequate and shoddy rehabilitation work. An example of such work is the inadequate preparation of exterior and interior surfaces for painting and the use of inappropriate or cheap paints with the resulting bubbling and blistering of the painted surfaces. Another example is the use of less expensive interior wood mouldings in exterior surfaces and the resulting deterioration of the moulding. The result of such practices is to present the buyer within several months with the alternative of investing several hundred or thousand dollars to rectify the improper work or of abandoning the property. Since the buyers of homes in the Delmann Heights area are invariably lower income families (homes sell for about \$9,000 to \$10,000 in a properly rehabilitated condition) who are on tight budgets, the result is likely to be the abandonment and subsequent boarding up of the house with the concomitant detrimental effects on the surrounding homes. I have personally seen examples of cosmetic rehabilitation of the type I have described in some of the thirty-two homes rehabilitated by Defendants Oma S. Brown, Fred Sykes and Ronald G. Mogen and in homes previously rehabilitated by HUD for subsequent resale.

(c). The inadequate screening and counseling of prospective buyers condoned or tolerated by HUD and VA have been instrumental in the deterioration of Delmann Heights. The purpose of counseling is to insure that a buyer fully realizes the present and future costs of home ownership. Future costs include maintenance and increasing property taxes resulting from the improvement of the subject house and of the neighborhood. In contrast, proper screening and credit checks are intended to assure that the buyer can adequately afford such costs. Unfortunately, I have seen examples of buyers whose credit ratings had been falsified and others who bought and abandoned several houses in series, each time managing to qualify for HUD or VA mortgage insurance as a result of falsified credit or changes in identity and as a result of inadequate credit screening procedures. Unfortunately, the reality of a neighborhood is that if buyers are not adequately screened for credit worthiness and they subsequently abandon their property or are foreclosed upon, the neighborhood and the remaining residents bear the consequences of decreased amenities, property values and increased vandalism.

Consequently, it is clear that all of the elements which I have outlined (comprehensive, coordinated planning, adequate rehabilitation, and adequate buyer screening and counseling) are critical to a development plan which stands any chance of success in Delmann Heights. Tragically, the sales by HDU to JLI is the complete antithesis of a program containing these elements and in my opinion that sale and the simultaneous resale to Brown, Sykes and Mogen will result in another cycle of cosmetic rehabilitation, sale, abandonment/foreclosure. Such a development portends the distinct danger of irrevocably condemning Delmann Heights to a major social failure and to the demolition of all the remaining homes as the tragic conclusion of government apathy and private profit. I sincerely believe that the next development of the subject 147 houses and the 133 VA homes is the final opportunity to turn the neighborhood around. This, however, will require a comprehensive, coordinated plan of all of the units (HUD and VA). The CDC is committed to the revitalization of Delmann Heights and the surrounding area, but I believe we have reached the point of no return. I am afraid that our community has one last chance to turn around and become an on-going community. I am, however, confident that with a well conceived, coordinated plan and careful and conscientious implementation we have a chance to succeed. All I want is a decent chance. We have had enough abandonments; HUD must not be allowed to abandon its responsibilities to the remaining community of insuring to the greatest feasible extent, a successful development of the properties under its control.

11. I frequently drive through the Delmann Heights area on a daily basis, since CDC is intimately involved in attempting to improve the neighborhood. Within the last few days I have seen several of the subject 147 homes posted with real estate broker signs indicating that the houses have been sold since July 27, 1975. In particular I have talked to a man who bought one of the subject 147 homes after the public auction on July 27, 1975. From my conversations with this man I believe that he has very little awareness of the costs he should anticipate as a homeowner and in fact he has little if any idea of the pendency of this action or of its significance. From my experience with rehabilitating and selling homes in the area and from my conversations with this purchaser, I am convinced that he cannot afford the payments on the house he was sold. Additionally, I have been in his partly rehabilitated house, and I have seen very shoddy and inadequate rehabilitation work of the type I have described and which will deteriorate in a very short time. All together I would say there is a strong likelihood that the house which I am referring to will go through the abandonment cycle in the near future with the resultant loss of the purchasers equity and the detriment to the surrounding neighbors.

Senator CRANSTON. Thank you very much. We now stand adjourned. Thank you.

[Whereupon at 12:15 p.m. the hearing was adjourned.]

