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SUPPLEMENTAL HOUSING AUTHORIZATION FOR FISCAL YEAR 1977

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HEARING

BEFORE THE

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

HOUSE OF REPRESENTATIVES

NINETY-FIFTH CONGRESS

FIRST SESSION

FEBRUARY 22, 1977

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

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SUPPLEMENTAL HOUSING AUTHORIZATION FOR FISCAL YEAR 1977

TUESDAY, FEBRUARY 22, 1977

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND COMMUNITY
DEVELOPMENT OF THE COMMITTEE ON BANKING,
FINANCE, AND URBAN AFFAIRS,
Washington, D.C.

The committee met at 2:20 p.m. in room 2128 of the Rayburn House Office Building; Hon. Thomas L. Ashley (chairman of the subcommittee) presiding.

Present: Representatives Ashley, Moorhead, St. Germain, Mitchell, Patterson, LaFalce, AuCoin, Spellman, Blanchard, Hubbard, Tsongas, Hannaford, Evans of Indiana, Lundine, Brown, Stanton, Wylie, McKinney, and Evans of Delaware.

Also present: Full committee Chairman Henry S. Reuss.

Mr. ASHLEY. The subcommittee will come to order.

The Subcommittee on Housing and Community Development is meeting this afternoon to hear the administration's request for a supplemental authorization for assisted housing for fiscal year 1977.

We have as our witness this afternoon the distinguished Secretary of the Department of Housing and Urban Development, Hon. Patricia Roberts Harris.

Madam Secretary, we welcome you before us today for what we hope will be a long and beneficial relationship with this subcommittee.

We have looked forward to your being with us. We are glad that you are here, and we have great confidence, all of us I am sure, in your many talents and the abilities that you bring to this most important job.

This week promises to be an extremely busy one for this subcommittee and for you, Madam Secretary. I understand that you testified this morning before the Appropriations Subcommittee and you will appear before us again on Thursday to present the administration's recommendations regarding the community development block grant program, the authorizations for fiscal year 1978 and the extensions of your Department's programs and authorities.

I would suggest to the members of the subcommittee, if possible, they limit their questions to Secretary Harris specifically on the items that are being requested in the supplemental authorization. You will have the opportunity to question the Secretary at some length on Thursday, since she has set aside time in her very busy schedule to be with us in both morning and afternoon sessions.

It is my hope that the subcommittee can proceed to a markup session tomororw on this authorization request, particularly since the Appropriations Subcommittee will also be marking up this week and will need the necessary authorization from this committee before proceeding with the supplemental appropriations request.

Before I ask you to proceed, Madam Secretary, I would ask that Chairman Reuss if he has a comment, we would be pleased to hear from him.

The CHAIRMAN. Thank you, Mr. Chairman.

I just wanted to welcome you, Secretary Harris, to this committee. You will find us good friends for the goals that you and we cherish, and we are most happy and honored to have you here. Thank you.

Mr. ASHLEY. Mr. Stanton?

Mr. STANTON. Secretary Harris, I join our chairman, Mr. Reuss, and the subcommittee chairman, Mr. Ashley, in extending to you a warm welcome. Many of us on the subcommittee have been proud over the years that we have done our best to come up with what we consider nonpartisan, good housing legislation. We certainly want to continue that in the future, and we will continue it on our part. And, I know that you will do your best to give us the necessary information we need from time to time. It is with a spirit of cooperation that I am very pleased to welcome you.

Mr. ASHLEY. Thank you, Mr. Stanton.

Madam Secretary, I note that you have a prepared statement. If you wish to proceed with that, you can proceed in any way you wish.

STATEMENT OF HON. PATRICIA ROBERTS HARRIS, SECRETARY OF HOUSING AND URBAN DEVELOPMENT, ACCOMPANIED BY ALBERT KLIMAN, JOSEPH BURSTEIN, VINCENT J, HEARING, S. LEIGH CURRY, AND JERRY FITTS

Secretary HARRIS. Thank you, Mr. Chairman, Chairman Reuss, and Mr. Stanton for your kind remarks.

Mr. Chairman and members of the subcommittee, it is a distinct pleasure for me to make my first appearance before this subcommittee. I am looking forward to a close and fruitful working relationship with you.

I am here today to discuss with you the administration's requests for supplemental authorizations for fiscal year 1977, which I believe are essential to a successful beginning in our housing and community development efforts.

Before discussing the specifics of our supplemental authorization requests, I would like to share with you some of my initial observations about the Department which I now head, as well as the current state of the housing sector and our Nation's urban areas.

When I arrived at HUD, I found a Department which was meeting numerical goals, but not actually producing the units represented by the numbers, the administration's requests are designed to enable us to achieve the Department's goals. They also are designed to enable the Federal Government to bear its fair share of the cost of assisted housing.

Turning to the state of the housing sector, when I appear before this subcommittee on Thursday, I shall go into a greater detail about the state of housing and of our cities. The Department's fiscal year 1978 legislative program, which I will discuss with you at that time, will be this administration's first real opportunity to have a substantive impact on the many problems that confront us. At this time, however, I would like to say that while the position of housing has improved, low-income assisted housing has not shown adequate improvement. The members of this subcommittee are well aware of the continuing needs for federally assisted housing. Local officials are counting on HUD to help them meet the needs of their communities. Accordingly, the five requested authorizations contained in the legislation I am proposing today constitute only an immediate response to the most severe deficiencies.

The Department's five supplemental authorizations for fiscal year 1977 are contained in the proposed "Supplemental Housing Assistance Authorization Act of 1977" which we are submitting to the Congress at this time.

Briefly, the proposed legislation would provide for the following: First, an increased funding authorization for section 8 assisted housing under the United States Housing Act of 1937; second, an increased authorization for public housing operating subsidies; third, lifting the limit on appropriations for losses of the Federal Housing Administration's general insurance fund; and, fourth, an increased funding authorization for our urban homesteading demonstration program.

In addition, we are requesting an extension, to 30 years, of the maximum contract term under the section 8 housing assistance payments program for all privately financed new or rehabilitated units in projects presently limited to 20-year maximum contract terms which are financed without Federal assistance, except those financed pursuant to the HUD section 244 coinsurance program or by the Farmers Home Administration.

We are requesting an increase in the amount of additional annual contributions contract authority for fiscal year 1977 authorized for the section 8 housing assistance payments programs. As you know, the amount presently authorized, as of October 1, 1976, and subject to release in the appropriation act, is $850 million. We are proposing to increase this amount by $378,050,000, to a new total of $1,228,050,000.

Presently available contract authority will provide funds sufficient to assist less than 236,000 units. This increase is designed to provide enough section 8 funds to permit the Department to begin to assist during this fiscal year all 400,000 units of housing for lower income Americans to which the Department is committed.

We are asking for a $19.6 million increase in the fiscal year 1977 authorization for public housing operating subsidies. This increase is needed because of increases in utilities and other costs and resultant hardships in public housing projects throughout the Nation because of this year's unusually severe and extended winter.

To expect local housing authorities to absorb all of these additional costs entirely out of their own resources would be impractical and unfair to management and to tenants.

If additional assistance is not forthcoming, expenditures for other essential operating needs will have to be reduced. As it is, under the

performance funding system for operating subsidies the Department would pay for 75 percent of the additional energy consumption with local housing authorities absorbing the balance.

Since payment is made after costs have been incurred, part of the cost of these added utility costs will be chargeable to the fiscal year 1977 authorization and part to that for fiscal year 1978, depending on the ending dates of public housing agency fiscal years. The increased funding we propose will cover excess utility costs for local housing authorities with fiscal years ending December 1976, and March and June 1977, for costs incurred this winter.

At present, the authorization for appropriations for losses sustained by the FHA's general insurance fund is, as you know, limited to $500 million, even though the total amount of losses actually incurred by the fund has risen to over twice that amount.

In fact, the FHA general insurance fund has accumulated a total of approximately $6.1 billion in insurance claims of 524,449 units of housing and 948,448 title I property improvement and mobile home loans as of September 30, 1976. A total of 314,015 acquired and assigned housing units have been sold at a loss of $1.115 billion and approximately $206 million of title I notes have been written off as losses.

In addition, the general insurance fund has realized over $18 million in losses through discounts on sale of purchase money mortgages. Cumulative general insurance fund losses from all sources total approximately $1.340 million of which $77.5 million have been restored.

Accordingly, in order to restore and assure the fiscal integrity of the general insurance fund, the Department is proposing that the present $500 million ceiling on appropriations for losses be lifted so that such losses could be fully funded through the appropriations process.

The Department also is requesting for fiscal year 1977 an increase in the funding authorization for the urban homesteading demonstration program from $5 million to $15 million. I believe the urban homesteading demonstration program is a promising resource for the revitalization of our cities.

As you know, the demonstration program involves the transfer of HUD-acquired properties to communities for conveyance at no more than nominal cost to families who agree to rehabilitate and live in these properties for at least 3 years. As a condition of participation, communities are required to develop comprehensive plans to revitalize the neighborhoods in which these properties are located by providing increased private investment and improved public services.

The supplemental authorization for the demonstration contained in our proposal would permit us to use this resource more extensively and thus would enable us to evaluate its long-range potential more quickly.

As I noted earlier, the administration proposal includes, in addition to proposed-funding increases for assisted housing, an extension to 30 years of the 20-year maximum statutory term for section 8 new or rehabilitated units undertaken by private developers without Federal assistance of insurance. The only exception would be those projects financed pursuant to the HUD section 244 coinsurance program or by the Farmers Home Administration. As you know, under present law, the term of housing assistance payments contracts for privately developed new and rehabilitated section 8 units may not exceed 20 years.

We believe this change will be instrumental in overcoming what has been a major obstacle to successful implementation of the section 8 program—the reluctance of many lenders to lend under the program when their investment is protected by section 8 assistance for only 20 years. With a 30-year term, we believe that more lenders will participate in the program, and thus, provide a boost to our efforts to meet our housing assistance objectives in this and succeeding fiscal years.

I would like to close today with a few remarks about several pending legislative proposals in which I have a particular interest.

First, Mr. Chairman and members of the subcommittee, I have looked very closely at the proposal of Chairman Ashley, Mr. Brown, and others for a National Commission on Neighborhoods. Mr. Chairman, I would like to say that I strongly support your concern for the effect Federal programs have had on our cities' neighborhoods. I have asked the Department's Office of Policy Development and Research to undertake a study of the ways in which Federal programs can have a beneficial impact on our neighborhoods, and, in addition, the ways in which community involvement in the development of these programs can be stimulated. I have asked the Office of Policy Development and Research to undertake an analysis of the bills introduced by, among others, the distinguished chairman of this subcommittee in conjunction with its study of the general problem of our neighborhoods.

Because I have been in office only 30 days and have devoted a considerable amount of that period to staffing and budgetary issues, I would hope that the Department would have more time to make a determination on these bills, especially where the proposed bills have potentially significant budgetary implications for the Department. I can assure you, however, that we will provide you with our views as soon as our study is completed.

As you know, Mr. Chairman, Acting Federal Insurance Administrator J. Robert Hunter testified before this subcommittee on February 16, on the Department's proposed 1-year extension of the riot reinsurance and crime insurance programs. These programs expire on April 30, 1977. As Mr. Hunter stated, the Department's request is to allow us time to review and evaluate these programs in line with the administration's housing and community development goals. I, therefore, urge the subcommittee to act quickly on this important legislation.

This concludes my prepared statement. I have with me, Mr. Chairman, some members of HUD career staff, who will assist in responding to questions.

They are Mr. Joseph Burstein, who is undoubtedly known to you all, the Acting Deputy Assistant Secretary for Housing, Deputy Federal Housing Commissioner; Mr. Jerry Fitts, who is the Acting Deputy Assistant Secretary for Economic Affairs; Mr. S. Leigh Curry, Acting Deputy General Counsel; Mr. Vincent Hearing, Acting Deputy Assistant Secretary for Administration; and then, as I say, my good right arm for these matters, Mr. Albert J. Kliman, the departmental budget officer, who has been coming up here for a good number of years, and undoubtedly will have the answers to your questions that I do not have.

Thank you very much, Mr. Chairman.

[Secretary Harris' prepared statement with attachments: "HUD Fiscal Year 1977 Supplemental Estimates," and a letter to Speaker Thomas P. O'Neill with proposed legislation re the section 8 housing assistance payments program, follows:]

STATEMENT OF PATRICIA ROBERTS HARRIS

SECRETARY OF HOUSING AND URBAN DEVELOPMENT

BEFORE THE

SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT
OF THE
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

ON

FISCAL YEAR 1977 SUPPLEMENTAL AUTHORIZATIONS

FEBRUARY 22, 1977

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

IT IS A DISTINCT PLEASURE FOR ME TO MAKE MY FIRST APPEARANCE BEFORE THIS SUBCOMMITTEE. I AM LOOKING FORWARD TO A CLOSE AND FRUITFUL WORKING RELATIONSHIP WITH YOU.

I AM HERE TODAY TO DISCUSS WITH YOU THE ADMINISTRATION'S REQUESTS FOR SUPPLEMENTAL AUTHORIZATIONS FOR FISCAL YEAR 1977 WHICH I BELIEVE ARE ESSENTIAL TO A SUCCESSFUL BEGINNING IN OUR HOUSING AND COMMUNITY DEVELOPMENT EFFORTS.

BEFORE DISCUSSING THE SPECIFICS OF OUR SUPPLEMENTAL AUTHORIZATION REQUESTS, I WOULD LIKE TO SHARE WITH YOU SOME OF MY INITIAL OBSERVATIONS ABOUT THE DEPARTMENT WHICH I NOW HEAD AS WELL AS THE CURRENT STATE OF THE HOUSING SECTOR AND OUR NATION'S URBAN AREAS.

WHEN I ARRIVED AT HUD, I FOUND A DEPARTMENT WHICH WAS MEETING NUMERICAL GOALS, BUT NOT ACTUALLY PRODUCING THE UNITS REPRESENTED BY THE NUMBERS. THE ADMINISTRATION'S REQUESTS ARE DESIGNED TO ENABLE US TO ACHIEVE THE

DEPARTMENT'S GOALS. THEY ALSO ARE DESIGNED TO ENABLE THE FEDERAL GOVERNMENT TO BEAR ITS FAIR SHARE OF THE COST OF ASSISTED HOURSING.

TURNING TO THE STATE OF THE HOUSING SECTOR, WHEN I APPEAR BEFORE THIS SUBCOMMITTEE ON THURSDAY, I SHALL GO INTO A GREATER DETAIL ABOUT THE STATE OF HOUSING AND OF OUR CITIES. THE DEPARTMENT'S FY 1978 LEGISLATIVE PROGRAM, WHICH I WILL DISCUSS WITH YOU AT THAT TIME, WILL BE THIS ADMINISTRATION'S FIRST REAL OPPORTUNITY TO HAVE A SUBSTANTIVE IMPACT ON THE MANY PROBLEMS THAT CONFRONT US. AT THIS TIME, HOWEVER, I WOULD LIKE TO SAY THAT WHILE THE POSITION OF HOUSING HAS IMPROVED, LOW-INCOME ASSISTED HOUSING HAS NOT SHOWN ADEQUATE IMPROVEMENT. THE MEMBERS OF THIS COMMITTEE ARE WELL AWARE OF THE CONTINUING NEEDS FOR FEDERALLY-ASSISTED HOUSING. LOCAL OFFICIALS ARE COUNTING ON HUD TO HELP THEM MEET THE NEEDS OF THEIR COMMUNITIES. ACCORDINGLY, THE FIVE REQUESTED AUTHORIZATIONS CONTAINED IN THE LEGISLATION I AM PROPOSING TODAY CONSTITUTE ONLY AN IMMEDIATE RESPONSE TO THE MOST SEVERE DEFICIENCIES.

FISCAL YEAR 1977 SUPPLEMENTAL AUTHORIZATIONS--OVERVIEW

THE DEPARTMENT'S FIVE SUPPLEMENTAL AUTHORIZATIONS FOR FISCAL YEAR 1977 ARE CONTAINED IN THE PROPOSED "SUPPLEMENTAL HOUSING ASSISTANCE AUTHORIZATION ACT OF 1977" WHICH WE ARE SUBMITTING TO THE CONGRESS AT THIS TIME.

Briefly, the proposed legislation would provide for the following: (1) an increased funding authorization for Section 8 assisted housing under the United States Housing Act of 1937; (2) an increased authorization for public housing operating subsidies; (3) lifting the limit on appropriations for losses of the Federal Housing Administration's General Insurance Fund; and (4) an increased funding authorization for our urban homesteading demonstration program. In addition, we are requesting an extension, to thirty years, of the maximum contract term under the Section 8 housing assistance payments program for all privately financed new or rehabilitated units in projects presently limited to twenty-year maximum contract terms which are financed without Federal assistance, except those financed pursuant to the HUD Section 244 co-insurance program or by the Farmers Home Administration.

Additional Annual Contributions Authority

We are requesting an increase in the amount of additional annual contributions contract authority for fiscal year 1977 authorized for the Section 8 housing assistance payments programs. As you know, the amount presently authorized, as of October 1, 1976, and subject to release in the appropriation act, is $850 million. We are proposing

TO INCREASE THIS AMOUNT BY $378,050,000, TO A NEW TOTAL OF $1,228,050.000.

PRESENTLY AVAILABLE CONTRACT AUTHORITY WILL PROVIDE FUNDS SUFFICIENT TO ASSIST LESS THAN 236,000 UNITS. THIS INCREASE IS DESIGNED TO PROVIDE ENOUGH SECTION 8 FUNDS TO PERMIT THE DEPARTMENT TO BEGIN TO ASSIST DURING THIS FISCAL YEAR ALL 400,000 UNITS OF HOUSING FOR LOWER-INCOME AMERICANS TO WHICH THE DEPARTMENT IS COMMITTED.

OPERATING SUBSIDY INCREASE

WE ARE ASKING FOR A $19.6 MILLION INCREASE IN THE FISCAL YEAR 1977 AUTHORIZATION FOR PUBLIC HOUSING OPERATING SUBSIDIES. THIS INCREASE IS NEEDED BECAUSE OF INCREASES IN UTILITIES AND OTHER COSTS AND RESULTANT HARDSHIPS IN PUBLIC HOUSING PROJECTS THROUGHOUT THE NATION BECAUSE OF THIS YEAR'S UNUSUALLY SEVERE AND EXTENDED WINTER.

TO EXPECT LOCAL HOUSING AUTHORITIES TO ABSORB ALL OF THESE ADDITIONAL COSTS ENTIRELY OUT OF THEIR OWN RESOURCES WOULD BE IMPRACTICAL AND UNFAIR TO MANAGEMENT AND TO TENANTS.

If additional assistance is not forthcoming, expenditures for other essential operating needs will have to be reduced. As it is, under the Performance Funding System for operating subsidies the Department would pay for 75 percent of the additional energy consumption with local housing authorities absorbing the balance.

Since payment is made after costs have been incurred, part of the cost of these added utility costs will be chargeable to the fiscal year 1977 authorization and part to that for fiscal year 1978, depending on the ending dates of Public Housing Agency (PHA) fiscal years. The increased funding we propose will cover excess utility costs for local housing authorities with fiscal years ending December 1976 and March and June 1977 for costs incurred this winter.

General Insurance Fund

At present, the authorization for appropriations for losses sustained by the FHA's General Insurance Fund is, as you know, limited to $500 million, even though the total

AMOUNT OF LOSSES ACTUALLY INCURRED BY THE FUND HAS RISEN TO OVER TWICE THAT AMOUNT.

IN FACT, THE FHA GENERAL INSURANCE FUND HAS ACCUMULATED A TOTAL OF APPROXIMATELY $6.1 BILLION IN INSURANCE CLAIMS ON 524,449 UNITS OF HOUSING AND 948,448 TITLE I PROPERTY IMPROVEMENT AND MOBILE HOME LOANS AS OF SEPTEMBER 30, 1976. A TOTAL OF 314,015 ACQUIRED AND ASSIGNED HOUSING UNITS HAVE BEEN SOLD AT A LOSS OF $1.115 BILLION AND APPROXIMATELY $206 MILLION OF TITLE I NOTES HAVE BEEN WRITTEN OFF AS LOSSES. IN ADDITION, THE GENERAL INSURANCE FUND HAS REALIZED OVER $18 MILLION IN LOSSES THROUGH DISCOUNTS ON SALE OF PURCHASE MONEY MORTGAGES. CUMULATIVE GENERAL INSURANCE FUND LOSSES FROM ALL SOURCES THEREFORE TOTAL APPROXIMATELY $1.340 BILLION OF WHICH $77.5 MILLION HAVE BEEN RESTORED.

ACCORDINGLY, IN ORDER TO RESTORE AND ASSURE THE FISCAL INTEGRITY OF THE GENERAL INSURANCE FUND, THE DEPARTMENT IS PROPOSING THAT THE PRESENT $500 MILLION CEILING ON APPROPRIATIONS FOR LOSSES BE LIFTED SO THAT SUCH LOSSES COULD BE FULLY FUNDED THROUGH THE APPROPRIATIONS PROCESS.

URBAN HOMESTEADING DEMONSTRATION

THE DEPARTMENT ALSO IS REQUESTING FOR FY 1977 AN INCREASE IN THE FUNDING AUTHORIZATION FOR THE URBAN HOMESTEADING DEMONSTRATION PROGRAM FROM $5 MILLION TO

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$25 MILLION. I BELIEVE THE URBAN HOMESTEADING DEMONSTRATION PROGRAM IS A PROMISING RESOURCE FOR THE REVITALIZATION OF OUR CITIES.

AS YOU KNOW, THE DEMONSTRATION PROGRAM INVOLVES THE TRANSFER OF HUD-ACQUIRED PROPERTIES TO COMMUNITIES FOR CONVEYANCE AT NO MORE THAN NOMINAL COST TO FAMILIES WHO AGREE TO REHABILITATE AND LIVE IN THESE PROPERTIES FOR AT LEAST THREE YEARS. AS A CONDITION OF PARTICIPATION, COMMUNITIES ARE REQUIRED TO DEVELOP COMPREHENSIVE PLANS TO REVITALIZE THE NEIGHBORHOODS IN WHICH THESE PROPERTIES ARE LOCATED BY PROVIDING INCREASED PRIVATE INVESTMENT AND IMPROVED PUBLIC SERVICES.

THE SUPPLEMENTAL AUTHORIZATION FOR THE DEMONSTRATION CONTAINED IN OUR PROPOSAL WOULD PERMIT US TO USE THIS RESOURCE MORE EXTENSIVELY AND THUS WOULD ENABLE US TO EVALUATE ITS LONG RANGE POTENTIAL MORE QUICKLY.

EXTENDING SECTION 8 CONTRACT TERMS

AS I NOTED EARLIER, THE ADMINISTRATION PROPOSAL INCLUDES, IN ADDITION TO PROPOSED FUNDING INCREASES FOR ASSISTED HOUSING, AN EXTENSION TO THIRTY YEARS OF THE TWENTY YEAR MAXIMUM STATUTORY SUBSIDY TERM FOR SECTION 8 NEW OR REHABILITATED UNITS UNDERTAKEN BY PRIVATE DEVELOPERS WITHOUT FEDERAL ASSISTANCE OF INSURANCE. THE ONLY EXCEPTION WOULD BE THOSE PROJECTS FINANCED PURSUANT TO THE HUD SECTION

244 CO-INSURANCE PROGRAM OR BY THE FARMERS HOME ADMINISTRATION. AS YOU KNOW, UNDER PRESENT LAW, THE TERM OF HOUSING ASSISTANCE PAYMENTS CONTRACTS FOR PRIVATELY DEVELOPED NEW AND REHABILITATED SECTION 8 UNITS MAY NOT EXCEED 20 YEARS.

WE BELIEVE THIS CHANGE WILL BE INSTRUMENTAL IN OVERCOMING WHAT HAS BEEN A MAJOR OBSTACLE TO SUCCESSFUL IMPLEMENTATION OF THE SECTION 8 PROGRAM--THE RELUCTANCE OF MANY LENDERS TO LEND UNDER THE PROGRAM WHEN THEIR INVESTMENT IS PROTECTED BY SECTION 8 ASSISTANCE FOR ONLY 20 YEARS. WITH A THIRTY-YEAR TERM, WE BELIEVE THAT MORE LENDERS WILL PARTICIPATE IN THE PROGRAM AND, THUS, PROVIDE A BOOST TO OUR EFFORTS TO MEET OUR HOUSING ASSISTANCE OBJECTIVES IN THIS AND SUCCEEDING FISCAL YEARS.

OTHER CONCERNS

I WOULD LIKE TO CLOSE TODAY WITH A FEW REMARKS ABOUT SEVERAL PENDING LEGISLATIVE PROPOSALS IN WHICH I HAVE A PARTICULAR INTEREST.

FIRST, I HAVE LOOKED VERY CLOSELY AT THE PROPOSAL OF CHAIRMAN ASHLEY AND OTHERS FOR A NATIONAL COMMISSION ON NEIGHBORHOODS. MR. CHAIRMAN, I WOULD LIKE TO SAY THAT I STRONGLY SUPPORT YOUR CONCERN FOR THE EFFECT FEDERAL PROGRAMS HAVE HAD ON OUR CITIES' NEIGHBORHOODS. I HAVE ASKED THE DEPARTMENT'S OFFICE OF POLICY DEVELOPMENT AND RESEARCH TO UNDERTAKE A STUDY OF THE WAYS IN WHICH FEDERAL PROGRAMS CAN HAVE A BENEFICIAL IMPACT ON OUR NEIGHBORHOODS, AND,

IN ADDITION, THE WAYS IN WHICH COMMUNITY INVOLVEMENT IN THE DEVELOPMENT OF THESE PROGRAMS CAN BE STIMULATED. I HAVE ASKED PD&R TO UNDERTAKE AN ANALYSIS OF THE BILLS INTRODUCED BY, AMONG OTHERS, THE DISTINGUISHED CHAIRMAN OF THIS SUBCOMMITTEE IN CONJUNCTION WITH ITS STUDY OF THE GENERAL PROBLEM OF OUR NEIGHBORHOODS.

BECAUSE I HAVE BEEN IN OFFICE ONLY THIRTY DAYS AND HAVE DEVOTED A CONSIDERABLE AMOUNT OF THAT PERIOD TO STAFFING AND BUDGETARY ISSUES, I WOULD HOPE THAT THE DEPARTMENT WOULD HAVE MORE TIME TO MAKE A DETERMINATION ON THESE BILLS, ESPECIALLY WHERE THE PROPOSED BILLS HAVE POTENTIALLY SIGNIFICANT BUDGETARY IMPLICATIONS FOR THE DEPARTMENT. I CAN ASSURE YOU, HOWEVER, THAT WE WILL PROVIDE YOU WITH OUR VIEWS AS SOON AS OUR STUDY IS COMPLETED.

AS YOU KNOW, MR. CHAIRMAN, ACTING FEDERAL INSURANCE ADMINISTRATOR ROBERT HUNTER TESTIFIED BEFORE THIS SUBCOMMITTEE ON FEBRUARY 16 ON THE DEPARTMENT'S PROPOSED ONE-YEAR EXTENSION OF THE RIOT REINSURANCE AND CRIME INSURANCE PROGRAMS. THESE PROGRAMS EXPIRE ON APRIL 30, 1977. AS MR. HUNTER STATED, THE DEPARTMENT'S REQUEST IS TO ALLOW US TIME TO REVIEW AND EVALUATE THESE PROGRAMS IN LINE WITH THE ADMINISTRATION'S HOUSING AND COMMUNITY DEVELOPMENT GOALS. I, THEREFORE, URGE THE SUBCOMMITTEE TO ACT QUICKLY ON THIS IMPORTANT LEGISLATION.

THIS CONCLUDES MY PREPARED STATEMENT. I HAVE WITH ME, MR. CHAIRMAN, SOME MEMBERS OF HUD CAREER STAFF WHO WILL ASSIST IN RESPONDING TO QUESTIONS.

THANK YOU.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FISCAL YEAR 1977 SUPPLEMENTAL ESTIMATES

for

Annual Contributions for Assisted Housing

Housing Payments

Payments for Operation of Low Income Housing Projects

Federal Housing Administration Fund

Urban Homesteading

Disaster Relief

Pay Increases

February 1977

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FISCAL YEAR 1977 SUPPLEMENTAL ESTIMATES

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HOUSING

Justification of Supplemental Estimates
Fiscal Year 1977

(Excerpt from House Document No. , dated February , 1977)

"ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING"

(Insert: Language and Quote)

SUMMARY OF BUDGET REQUEST

A 1977 supplemental is requested for the release of an additional $508.0 million in contract authority and $15,530.4 million in budget authority for 1977 in order to permit the Department to provide for an estimated 400,000 units under the Section 8 Lower Income Housing Assistance Payments and Public Housing programs.

EXPLANATION OF SUPPLEMENTAL REQUEST

The requirement for the proposed supplemental request during 1977 is attributable to a number of factors which include actual approval activity experience, legislative constraints and adjusted programmatic assumptions and proposals which are highlighted as follows:

1. Reduction to Balance of Prior Year Authority Available in 1977. The original 1977 estimates were based on a total level of 400,000 Section 8 approvals during 1976 and the Transition Quarter. Based upon this projected level of production activity, the 1977 Budget originally anticipated that an estimated $359.4 million in contract authority released in prior years would carry forward and be made for production and management activity during 1977--$343 million for use in the Section 8 program and $16.4 million in permanent authority for lease adjustments. Based upon accounting data for 1976 and the Transition Quarter activity, the actual authority available in 1977 from prior year release has been reduced to $206.8 million including only $148.9 million available for Section 8 production activity. The following table highlights the changes to the Budget estimate with respect to the actual availability of prior year balances:

CARRYOVER OF PRIOR YEAR CONTRACT AUTHORITY TO 1977
(Dollars in Thousands)

	SECTION 8 PROGRAM	PUBLIC HOUSING	TOTAL AVAILABLE
Original 1977 Budget estimate of prior year carryover....	$343,000	$16,400	$359,400
Reduction attributable to increased Sec. 8 approvals during 1976/TQ	-194,118	NA	-194,118
Carryover of Public Housing authority for unapproved bona fide and Indian units.....	NA	+72,789	+72,789
Less reduction attributable to accounting adjustment to prior year approvals.	NA	-31,274	-31,274
Subtotal, prior year authority available for 1977 program.....	148,882	57,915	206,797

As highlighted in the table, the total carryover of production authority available for Section 8 has been reduced from the 1977 estimate of $343 million to the actual availability of $148.9 million. This reduction--$194.1 million--is attributable to the higher level of production activity during 1976 and the Transition Quarter of 490,581 Section 8 approvals--an increase of 90,581 units over the budget estimate.

Under the Public Housing program, the original 1977 budget estimate assumed that no contract authority--for public housing production purposes--would carry over into 1977. However, an estimated $72.8 million in prior year authority representing unapproved bona fide projects--which received a "good faith" commitment prior to the January, 1973 moratorium--and approximately 3,500 Indian housing units was recorded as carried over into 1977 as well as $18.0 million in authority for the Section 23 leasing program.

Recently however, Departmental accounting staff in reviewing old records have determined that, as a result of past errors in the recording of adjustments to prior year Public Housing contracts, an estimated $31.3 million of the recorded Public Housing balances was already committed for the support of contract adjustments. Accounting staff are currently in the process of examining project records to determine a firm estimate of the actual adjustment requirements. Additionally, accounting procedures are being reviewed and corrected in order to ensure against a reoccurrance of this error. In the mean time, it has been necessary to remove this amount from anticipated availability.

In summary, the current 1977 budget estimate includes the availability of $206.8 million in prior year contract authority including $188.8 million for production activity--$148.9 million for Section 8 and $39.9 million for Public Housing--and $18.0 million to be used with the permanent authority available for leased adjustments.

The following table highlights a comparison between use of prior year authority as originally anticipated in the 1977 Budget and as currently planned for actual prior year authority:

	AVAILABILITY AND USE OF PRIOR AUTHOR. IN 1977			
	1977 BUDGET ESTIMATE		ACTUAL CARRYOVER	
	UNITS	CONTRACT AUTHORITY ($ in 000)	UNITS	CONTRACT AUTHORITY ($ in 000)
AUTHORITY AVAILABLE FROM PRIOR RELEASE:				
Prior year authority at start of 1977.....	NA	$359,400	NA	$206,797
Permanent authority available for re-use..	NA	5,500	NA	15,288
Total authority from prior years..	NA	364,900	NA	222,085
USE OF PRIOR AUTHORITY IN 1977:				
Section 8 Program:				
New and rehab, private..	31,400	134,700	20,065	78,282
New and rehab, state....	6,000	25,700	13,660	56,000
Existing.....	49,300	136,500	6,635	14,600
Property disp.....	6,000	16,600	...	...
Loan management.....	26,900	29,500	...	...
Subtotal, Sec. 8.....	119,600	343,000	40,360	148,882
Public Housing:				
Bona fides/other new....	...	...	9,480	26,078
Indian Housing.....	...	...	3,500	13,825
Lease adjustments.....	NA	21,900	NA	33,300
Subtotal, Public.....	...	21,900	12,980	73,203
TOTAL USE OF PRIOR RELEASE AUTHORITY IN 1977.....	119,600	364,900	53,340	222,085

In summary, the total units supported with prior year authorities has been reduced from the original estimate of 119,600 units to a revised total of 53,340 units, including 12,980 bona fide Public Housing and Indian Housing units.

2. Congressional Action on 1977 Budget Request. The 1977 Budget had requested the release of $850 million in new contract authority during 1977. This total was planned to include $805 million for Section 8 approval activity; $17 million to support 6,000 Indian Housing units; $8 million for amendments; $0.4 million for leased adjustments; and $20 million for public housing modernization activity.

Congressional action on the 1977 Appropriations Act reduced the total contract authority released to $675 million, of which $120 million had to be setaside for public housing production activites and $35 million for modernization purposes. As a result, not more than $520 million--the balance of new authority released--is available for production activity under the Section 8 program.

An additional factor contributing to the need for a supplemental is the requirement contained in the Housing Authorization Act of 1976 that the Secretary allocate contract authority on the basis of the mix in the local Housing Assistance Plans (HAPs) to the extent practicable. While the original 1977 budget assumed that approximately 32 percent of units assisted in 1977 would be new or substantial rehabilitation, the current estimate based upon HAPs defined need would require that 57 percent of the units assisted with authority released be new construction or substantial rehabilitation. Since new construction requires considerably more contract authority per unit when compared to existing units, this greater emphasis on new construction considerably reduces the total units which can be approved given the $520 million of new authority available for use in Section 8.

The following table compares the 1977 Budget estimate on the use of the original $850 million request with the current estimates on use of the $675 million released in the 1977 Appropriations Act.

	COMPARISON OF 1977 BUDGET AND ACTUAL 1977 RELEASE			
	ORIGINAL 1977 BUDGET		ACTUAL RELEASE IN 1977 ACT	
	UNITS	CONTRACT AUTHORITY ($ in 000)	UNITS	CONTRACT AUTHORITY ($ in 000)
Section 8:				
New or substantial rehabilitations:				
Private developer.	73,600	$315,700	86,135	$371,000
State (HFDA).....	14,000	60,200	...	...
Subtotal, Sec. 8 new and rehab.	87,600	375,900	86,135	371,000
Existing:				
Regular existing.....	115,700	320,500	67,725	149,000
Property disposition..	14,000	38,800	...	...
Loan management.....	63,100	69,400	...	...
Subtotal, Sec. 8 existing.....	192,800	428,700	67,725	149,000
Subtotal, Section 8	280,400	804,600	153,860	520,000
Public Housing:				
New construction:				
Conventional/Turnkey	...	...	15,020	41,300
Indian Housing.....	6,000	17,000	6,000	23,700
Amendments.....	NA	8,000	NA	20,000
Subtotal, Public new.....	6,000	25,000	21,020	85,000
Existing units.....	...	...	12,725	35,000
Subtotal, Public production.....	6,000	25,000	33,745	120,000
Management:				
Modernization.....	NA	20,000	NA	35,000
Lease adjustments.....	NA	400	NA	...
Subtotal, mgt.....	NA	20,400	NA	35,000
Subtotal, Public Housing.....	6,000	45,400	33,745	155,000
Total use of 1977 contract authority....	286,400	850,000	187,605	675,000

As is highlighted in the above table, the original 1977 Budget assumed that the $850 million in contract authority requested would support 280,400 Section 8 units and 6,000 Indian Housing units. This level of assistance when combined with the 119,600 units of Section 8 which were estimated for approval with prior year authority represented a total program of 400,000 units of Section 8 assistance and 6,000 Indian Housing units. However, the actual release of $675 million with its mandatory setasides and requirements is currently estimated to support a total of 187,605 units including 33,745 Public and Indian Housing units. This estimated activity, when added together with the current estimate for units assisted with prior year authority--53,340 units--would represent a total 1977 approval program of 240,945 Section 8 and Public Housing units.

As a result, the attainment of a level of 400,000 unit approvals in 1977 would require supplemental authority to support an additional 159,055 units.

3. Legislative Proposal. The estimated requirement for budget authority, as reflected in the proposed supplemental, assume the enactment of currently proposed legislation which would increase the maximum contract term allowable for privately sponsored new construction and substantial rehabilitation projects assisted under Section 8--excluding Section 202 projects--from the current maximum of 20 years to a revised maximum of 30 years. This proposal is designed to stimulate conventional financing under the program, accelerate the number of construction starts and increase the number of new units made available for occupancy by eligible families.

The amended legislation, as proposed, would be retroactive to include all prior year Section 8 approvals under the new construction and substantial rehabilitation components which have not, as yet, obtained conventional financing resulting in delays to actual start of construction. It is anticipated that sufficient authority already is available from prior year releases to accommodate amendments for all eligible/unfinanced unit approvals in the inventory at the end of the Transition Quarter.

The increased contract terms for eligible units approved during 1977 will require the release of an additional $4,161.4 million in budget authority which has been included within the supplemental request with contingency language to make it available only after the necessary legislation is enacted.

The following table highlights the estimated total number of Section 8 private new and substantial rehabilitation units affected by the proposed increase in term and the estimated increment in budget authority utilized during 1977:

SECTION 8 PROGRAM:	IMPACT OF INCREASE TO CONTRACT TERMS--1977 UNITS AFFECTED	ADDITIONAL BUDGET AUTHORITY (Dollars in Thousands)
Private New and Substantial Rehabilitation:		
Amendments to prior year approvals.....	97,278	+$3,237,030
1977 Unit Approvals:		
Available authority.....	20,065	+782,820
Proposed supplemental.....	106,720	+4,161,390
Total impact of term increase, 1977.....	224,063	+8,181,240

As highlighted in the table, the proposed "retroactive" increase in contract terms for private new construction and substantial rehabilitation units is expected to increase total budget authority--obligations--by an estimated $8.2 billion during 1977--including $4.2 billion requested within the supplemental.

PROGRAM ACTIVITY

The 1977 column of the prior Administration's 1978 Budget projects the approval of 235,800 Section 8 and Public Housing units during 1977--a reduction of 170,200 units from the original 1977 estimate. Assuming that additional budget authority is provided so that the full contract authority provided can be used, it is estimated that approximately 240,945 units could be supported with the contract authority currently available. This unit total includes 194,220 units under Section 8; 37,225 units of conventional public housing; and 9,500 units of Indian Housing.

The proposed supplemental contract authority would then support an additional 159,055 units under the Section 8 program and increase the total 1977 annual contributions production total to a 400,000 unit level. This total would include an estimated 353,275 units of Section 8 and 46,725 conventional and Indian housing units.

It should be noted that the total units assisted with authority released in the 1977 Appropriations Act and the proposed supplemental would be distributed between new and existing units according to the needs identified in the local Housing Assistance Plans. This distribution represents compliance with the 1976 Amendments to the Housing Act which require that authority released in 1977 be utilized "to the maximum extent practicable" to assist units in the mix determined by localities within their respective Housing Assistance Plans (HAPs). During 1977, the aggregate requirement is estimated at 57 percent of units under the new construction and substantial rehabilitation components and 43 percent under the existing component.

The following table compares actual 1976/Transition Quarter activity, estimated 1977 activity as reflected in the prior Administration's 1978 Budget, and the current estimate for 1977 including the proposed supplemental:

	ACTUAL 1976 a/	ESTIMATE 1977 AS INCLUDED IN 1978 BUDGET	CURRENT ESTIMATE 1977	INCREASE + DECREASE - CURRENT 1977 v BUD.
		(Dollars in the Thousands)		
UNIT APPROVALS:				
SECTION 8 PROGRAM:				
New & rehab.....	176,087	116,520	210,520	+94,000
Existing.....	203,046	72,555	142,755	+70,200
Loan management...	111,448	...	...	...
Total, Sec. 8...	490,581	189,075	353,275	+164,200
PUBLIC HOUSING:				
Conventional.....	...	15,020	15,020	...
Bona fides.....	6,369	9,480	9,480	...
Acquisition.....	12,883	...	...	...
Indian.....	6,888	9,500	9,500	...
Existing.....	...	12,725	12,725	...
Total, Public...	26,140	46,725	46,725	...
TOTAL UNITS.....	516,721	235,800	400,000	+164,200
UNIT STARTS				
Section 8 program.	34,335	110,000	110,000	...
Public	17,380	26,000	26,000	...
Indian.....	3,507	9,000	9,000	...
Total starts....	55,222	145,000	145,000	...
CONTRACT AUTHORITY RELEASED OR REQUESTED:				
Regular appropriation	$662,300	$675,000	$675,000	...
Proposed supplemental	...	...	508,043	+$508,043
Total.....	662,300	675,000	1,183,043	+508,043
BUDGET AUTHORITY RELEASED OR REQUESTED:				
Current:				
Regular approp...	17,000,000	14,870,400	14,870,400	...
Proposed supp....	...	...	15,530,405	+15,530,405
Permanent.....	1,051,204	15,288	15,288	...
Total.....	18,051,204	14,885,688	30,416,093	+15,530,405
TOTAL OBLIGATIONS....	29,236,172	20,524,446	40,074,745	+19,550,299

a/ 1976 column includes Transition Quarter activity.

PROGRAM DESCRIPTION

Section 8 Lower Income Housing Assistance Payments Program. This program, authorized by the United States Housing Act of 1937, as amended, is the major HUD program for providing Federally assisted rental housing.

The subsidy provided under the program covers the full cost of providing housing assistance, both debt service and operating expenses. Depending on community housing needs, the program can make use of the existing housing stock, stimulate rehabilitation of deteriorated and substandard housing units, or provide subsidies to tenants in newly constructed projects. In all cases, the tenant pays no more than 15 to 25 percent of adjusted income for housing.

1. Existing Housing. Under the existing housing program, a family determined eligible by the local Public Housing Agency (PHA) is given a Certificate of Family Participation and then may seek a suitable dwelling unit on the market, or may choose to remain in its present dwelling unit. Upon meeting program regulations pertaining to housing quality and rental schedules, the owner and family may sign a lease agreement subject to the approval of the PHA. A Housing Assistance Payments Contract is then executed between the PHA and the owner which provides that the owner receive a monthly payment equal to the difference between the rent payable to the owner by the family and the approved rent for the unit.

2. New Construction and Rehabilitation Housing. Under the new construction and substantial rehabilitation production methods, HUD currently issues a Notification of Fund Availability inviting submission of proposals for an estimated number of units from a particular area. Profit or nonprofit organizations and/or PHAs may respond by a specified deadline with proposals to develop all or part of the units requested. Proposals are reviewed by HUD and, if acceptable and not in conflict with any approved local Housing Assistance Plan, are ranked and the best proposals selected. Successful developers submit a Final Proposal and an Architect's Certification in lieu of HUD review of working drawings. If these are acceptable, HUD enters into an Agreement to Enter Into a Housing Assistance Payments Contract and construction or rehabilitation starts.

Upon acceptable completion, the Housing Assistance Payment Contract is executed between HUD and the owner. Under current procedures, when a proposal from a PHA/private owner is selected, HUD enters into an Annual Contributions Contract with the PHA and the PHA enters into a Housing Assistance Payments Contract with the owner. In either case, the private owner is responsible for selection of tenants and maintenance and operation of the units.

3. Section 8 Eligibility. Families whose incomes do not exceed 80 percent of the median income for the area in which they live are eligible for Section 8 assistance. However, the Secretary has the authority to adjust this ceiling where unusually high construction costs prevail or because of unusually high or low incomes. By law, at least 30 percent of the families to be assisted annually are required to have incomes below 50 percent of the median area income.

OTHER ASSISTANCE

The supplemental is proposed only for assistance to units under the Section 8 program. Adequate authority is currently available to assist Public Housing, modernization and lease adjustments.

USE OF CONTRACT AUTHORITY

The table on the following page highlights the availability and use of contract authority during 1976 and the Transition Quarter, and the proposed 1977 program.

85-157 O - 77 - 3

ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING
STATUS OF CONTRACT AUTHORITY

	ACTUAL 1976	TRANSITION QUARTER	ESTIMATE 1977
		(Dollars in Thousands)	
Authority available, start of period.....	$823,370	$804,239	$206,797
New authority enacted or proposed.....	662,300	...	675,000
Proposed supplemental.....	NA	NA	508,043
Prior year authority available for re-use.....	44,081	17,693	15,288
Total authority available.....	1,529,751	821,932	1,405,128
Use of Contract Authority			
Production:			
Section 8 program:			
Private new construction	187,073	89,077	409,511
PHA-Owner new.....	67,500	...	...
Section 202 new.....	...	32,915	230,345
State (HFDA) new.....	48,553	140,338	123,000
Private-rehabilitation..	26,228	18,905	85,000
State-rehabilitation....	12,042	4,703	15,000
Property disposition....	37	5,761	...
Existing.....	248,141	175,631	314,069
Loan management.....	62,026	95,988	...
Subtotal, Section 8...	651,600	563,318	1,176,925
Public Housing program:			
Conventional/Turnkey..	...	...	41,300
Bona fides.....	19,591	1,221	26,078
Indian Housing.....	17,757	7,313	37,525
Acquisition/rehab.....	211	21,379	...
Amendments.....	3,642	1,541	20,000
Existing public.....	...	...	35,000
Subtotal, Public Housing.....	41,201	31,454	159,903
Total, production.	692,801	594,772	1,336,828
Management:			
Modernization.....	15,018	5,074	35,000
Lease adjustments.....	17,693	15,288	33,300
Subtotal, management...	32,711	20,362	68,300
Total use of authority	725,512	615,135	1,405,128
Authority available, end of year.....	804,239	206,797	...

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HOUSING

Justification on Supplemental Estimates
Fiscal Year 1977

(Excerpts from the Budget of the United States Government, Appendix, Fiscal Year 1978, Part III, P. 874 and House Doc. No. 95- , dated February , 1977)

"HOUSING PAYMENTS"

(Supplemental now requested, additional authorizing legislation required)

"For an additional amount for Housing Payments", $439,500,000."

"This supplemental appropriation is required to meet the unfunded requirement for contractual payment commitments incurred in 1976, the transition quarter, and estimated in 1977. Payments for these cash deficits currently are being funded by utilizing the 1977 appropriation as authorized by section 5(c) of the Housing Act of 1937, as amended."

(Excerpt from House Doc. No.)

SUMMARY OF BUDGET REQUEST

The Department requests a supplemental appropriation for 1977 of $439.5 million. The supplemental request consists of three basic components:

--$211.2 million to meet unfunded contractual payment requirements of 1976 and the transition quarter, for program activity incurred in those periods, including $53.5 million of unfunded liabilities resulting from adjustments of prior year obligations;

---$82.3 million to meet payment requirements for 1977 resulting from the obligation of contract authority already released; and

--$146 million to meet increased payment requirements for 1977, related to the proposed supplemental for the release of additional contract authority for Annual Contributions for Assisted Housing.

NATURE OF ACCOUNT

The Housing Payments account is used to liquidate contractual payment requirements of the various separate subsidized housing programs, including Section 8 Lower Income Housing Assistance Payments, Public Housing, Section 235 Homeownership Assistance, Section 236 Rental Housing Assistance, Rent Supplement, College Housing Grants and Section 802 State Housing Finance and Development Agencies Grants.

Requirements for this account are computed on the basis of amounts legally due for payment in a given fiscal year. While the actual disbursement of funds may not take place until a future fiscal year, cash is required for the full amount contractually due.

EXPLANATION OF SUPPLEMENTAL REQUEST

The supplemental appropriation is based, primarily, on higher than anticipated requirements for the Section 8, Lower Income Housing Assistance Payments program resulting, essentially, from higher than anticipated contract reservations during fiscal year 1976 and the transition quarter; and the proposed 1977 supplemental for Annual Contributions for Assisted Housing.

This increased Section 8 reservations activity means more units are becoming eligible for payment through 1977, and at an earlier time, than was assumed previously. Of the additional units requiring liquidating cash, 51,000 represent Section 8 existing housing reservations related directly to the supplemental request for release of additional contract

authority for Annual Contributions for Assisted Housing. As indicated above, the liquidating requirement for these existing units is estimated at $146 million.

The total number of reservations for assisted housing now estimated for 1977, based on the release of additional contract authority, is 400,000 units--an increase of 164,200 units over the previous estimate of 235,800. None of the new and substantial rehabilitation reservations, resulting from the new authority, should require liquidating cash in 1977.

In the 1977 Appropriation Act the payments appropriation enacted was $95 million less than the budget estimate. The reduction was partially offset by Congressional authorization of the transfer of receipts--currently projected at $63 million--from the Rental Housing Assistance Fund. However, the Department was enjoined by court order in Underwood vs. Hills (a national class action suit) from effecting the transfer. Should this litigation result ultimately in the Department being required to implement a national program for the payment of tax and utility increases for Rental Housing Assistance projects, the 1977 supplemental would need to be increased accordingly.

Another factor causing increased payments is the need for the liquidation of contracts entered into under the Section 802, Interest Reduction Grant program for State Housing Finance and Development Agencies. These were required by the 1977 Appropriation Act to be made under the Housing Payments account. This liability was not included in the 1977 Budget request and, therefore, an increased payment requirement of $15 million in 1977 for this purpose contributes to the need for additional liquidating cash.

The following table shows the total payment requirements and resources available to liquidate these requirements:

	ACTUAL 1976	TRANSITION QUARTER	ESTIMATE 1977	TOTAL
		(Dollars in Thousands)		
Payments required to liquidate contracts	$2,267,347	$788,846	$3,266,000	$6,322,193
Less: Appropriations to liquidate contract authority (previously enacted)	-2,245,000	-600,000	-2,975,000	-5,820,000
Transfer from Rental Housing Assistance Fund	NA	NA	-62,693	-62,693
Total unfunded liquidation - supplemental appropriation required	22,347	188,846	228,307	439,500

A further explanation of the basic components comprising the $439.5 million supplemental appropriation request follows:

1. Unfunded Liquidation Requirements - 1976 and the Transition Quarter. The supplemental requirement to meet 1976 and transition quarter unfunded liabilities totals $211.2 million, including $53.5 million for adjustments of prior year obligations. These unfunded liabilities result, essentially, from underestimating Section 8 units becoming eligible for payment during those periods. This underestimation is partly due to actual unit approvals being over 90,000 more than estimated in the 1976 Budget.

The 1976 Housing Payments requirement, of course, was computed on the basis of the reduced number of units under reservation. Another key factor was a substantial shift in the mix of unit types approved during that period as compared to that estimated. The 1976 Budget estimated 150,000 existing units would be reserved for 1975, 1976 and the transition quarter. However, 369,868 units were actually reserved for the same period--an increase of 219,868 units.

The original fiscal year 1976 estimates were heavily weighted toward new construction and substantial rehabilitation. The actual results, as indicated above, reflect a reversal of this assumption. Since existing units require cash to liquidate the contractual obligations within a relatively short period of time from when they are approved, appropriation requirements accelerated accordingly.

This increase in Section 8 activity, during 1976 and the transition quarter, was offset somewhat by an overall decrease in the number of units eligible for payment under the other subsidy programs. However, even though the number of those units eligible for payment decreased, the 1976 payment requirements under the Section 236 program significantly exceeded the original estimates due to the implementation of the "Deep Subsidy" program authorized by the Housing and Community Development Act of 1974. Programs with significant decreases in actual activity, as compared to the budget estimates, include Section 235 and Public Housing. For the Section 235 program, the Department underestimated the number of program participants terminating their mortgages either by prepayment, or sale of the unit, or because of acquisition of the property, whereas, for the Public Housing program the Department overestimated the number of units coming under management during the year.

To maintain the integrity of the Housing Payment account and fully fund the contractual obligations incurred over the period July 1, 1975, through September 30, 1976, the supplemental amount requested is required.

2. Estimated Unfunded 1977 Liquidation Requirements -- Based on Obligation of Previously Released Contract Authority. An estimated $82.3 million is required to meet estimated unfunded liabilities in 1977 which result from contract authority previously released. The 1977 Budget for the Housing Payments appropriation was based on a lower number of Section 8 units eligible for payment at the end of the preceding fiscal period than actually carried into 1977. It was also based on a lower number of unit reservations being made under the Section 8 program in 1976 and the transition quarter. As indicated earlier actual unit reservations for that period, in fact, were some 90,000 units greater than estimated. In addition, the actual mix of units under payment included a greater number of existing units than originally estimated. Thus, the total number of units for payment and the required payments in 1977 are greater than that estimated in the 1977 Budget.

3. Additional 1977 Liquidation Requirements--Based on the Proposed Supplemental for Release of Annual Contributions Contract Authority. The proposed supplemental to provide additional contract authority for Annual Contributions for Assisted Housing to enable the Department to reach a reservation goal of 400,000 units requires an increase in the amount of the appropriation for the liquidation of any additional contracts entered into in 1977. The revised estimate of Section 8 unit reservations, which represents a 164,200 unit increase over the level projected for 1977 in the original 1978 Budget, will increase existing units by 70,200. An estimated 51,000 existing units are expected to be under payment in 1977. These units will require an estimated $146 million in additional appropriations to liquidate contract authority.

The following table reflects the units originally estimated to be eligible for payment in the 1976 and transition quarter appropriation request and the actual number of units eligible for payment at the end of 1976 and the transition quarter:

	AS OF SEPTEMBER 30, 1976		
	FY 1976 BUDGET ESTIMATE	ACTUAL	INCREASE+ DECREASE-
Lower Income Housing Assistance Payments (Section 8).....	85,000	273,266	+188,266
Homeownership Assistance (Section 235).....	447,000	330,784	-116,216
Rent Supplement.....	197,000	174,339	-22,661
Rental Housing Assistance (Section 236).....	512,000	447,126	-64,874
Public Housing.....	1,240,000	1,172,000	-68,000
Total.....	2,481,000	2,397,515	-83,485

The amount of appropriations required to liquidate the units reflected above and the actual appropriations are as follows:

	BUDGET ESTIMATE		ACTUAL		INCREASE+ DECREASE-	
	1976	TQ	1976	TQ	1976	TQ
Lower Income Housing Assistance Payments (Section 8).....	$94,000	$43,000	$301,846	$321,848	+$207,846	+$278,848
Homeownership Assistance (Section 235)....	260,000	66,000	170,075	28,969	-89,925	-37,031
Rent Supplement	225,000	58,000	212,652	58,081	-12,348	+81
Rental Housing Assistance (Section 236)....	475,000	122,000	525,356	121,799	+50,356	-201
Public Housing.....	1,172,000	305,000	1,039,241	256,123	-132,759	-48,877
College Housing....	19,000	6,000	18,177	2,026	-823	-3,974
Total.....	2,245,000	600,000	2,267,347	788,846	+22,347	+188,846 [a/]

a/ Part of the unfunded requirements of $188.8 million from the transition quarter includes $53.5 million in adjustments of prior year obligations which were not reflected on the books of account until 1977. These obligations were reflected in the accounting records subsequent to the submission of the 1976 [illegible].

The table below compares the 1977 estimates as reflected in the appropriation enacted for 1977 and the current estimate of 1977 requirements, including the impact of the proposed supplemental for the release of additional contract authority:

	1977 APPROPRIATION		CURRENT ESTIMATE		INCREASE+ DECREASE- APPROPRIATION vs. CURRENT ESTIMATE	
	UNITS	AMOUNT	UNITS	AMOUNT	UNITS	AMOUNT
		(Dollars in Thousands)				
Lower Income Housing Assistance Payments (Section 8).....	299,000	$754,000	526,000	$1,093,000	+227,000	+$339,000
Homeownership Assistance (Section 235).....	444,000	210,000	363,000	165,000	-81,000	-45,000
Rent Supplement.....	193,000	258,000	184,000	255,000	-9,000	-3,000
Rental Housing Assistance (Section 236).....	555,000	603,000	463,000	583,000	-92,000	-20,000
Public Housing.....	1,235,000	1,179,000	1,194,000	1,134,000	-41,000	-45,000
College Housing Grants.....	(403)	21,000	(430)	21,000	...	...
State Housing Finance/Development Agencies (Section 802).....	NA	...	(15,000)	15,000	(+15,000)	+15,000
Transfer from Rental Housing Assistance Fund...	NA	-50,000	NA	-62,693	NA	-12,693
Total.....	2,726,000	2,975,000	2,730,000	3,203,307	+4,000	+228,307 a

a/ Includes $82,307 thousand attributable to obligation of existing contract authority and $146,000 thousand attributable to proposed supplemental for additional contract authority for Annual Contributions for Assisted Housing.

BASIS OF CALCULATION OF PAYMENTS REQUIREMENTS

Requirements for the "Housing Payments" account are computed on the basis of contractual commitments to make payments rather than on the amount of disbursements. In the first housing subsidy program--the Public Housing program--the debt service on bonds becomes due at the anniversary date of the bond, and is included in the Housing Payments appropriation for that year. The actual payment, however, is made in two installments so that the second installment may fall in a subsequent fiscal year.

For the interest reduction programs enacted in the Housing and Urban Development Act of 1968, the full amount due for a year is also included in the appropriation, but there will be only a small disbursement lag, usually at the end of the year since payments are made monthly.

In the case of the Section 8 program, the full amount of the cash payment requirement is computed based upon review and approval of the annual budget of the administering public housing agency. In the case of existing housing, where payments will begin almost immediately, the full amount of liquidating cash is needed to provide for contractual payments through the end of the agency's first full fiscal year following the signing of the contract. Public Housing Agencies have fiscal years beginning at quarterly intervals throughout the Federal fiscal year. Thus, a contract signed in January with a PHA whose fiscal year starts in July would call for payments for the six months remaining in the first year and the twelve months of the first full fiscal year--a total of eighteen months for the first payment requirement. Subsequent to that, the operating budgets are approved annually and twelve months of payments approved. The purpose of this procedure is to assure the housing owner that sufficient liquidation cash will be available to meet the full contractual obligation on a timely basis.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HOUSING

Justification of Supplemental Estimates
Fiscal Year 1977

(Excerpt from House Document No. , dated February , 1977)

"PAYMENTS FOR OPERATION OF LOW INCOME HOUSING PROJECTS"

"For an additional amount for "Payments for Operations of Low Income Housing Projects", $20,000,000."

SUMMARY OF BUDGET REQUEST

A 1977 supplemental appropriation of $20 million is requested to fund the estimated impact of increased utility consumption in Public Housing Agency (PHA)-owned low income housing projects due to the recent severe weather conditions.

Under the Performance Funding System, the amount provided to PHAs for utility expenses can include an adjustment for increased consumption among which is energy used for heating. Program regulations permit the Department to fund 75 percent of excess utility consumption experienced. The remaining 25 percent would be funded by rental and other income of the PHAs.

EXPLANATION OF SUPPLEMENTAL REQUEST

The proposed 1977 supplemental appropriation is required to fund the higher utility consumption experienced this winter to heat PHA-owned units. The distribution of the $20 million to Public Housing Agencies, which have experienced higher utility consumption costs, is related directly to the annual funding cycles in effect for each of the agencies. Federal obligations are incurred prior to the beginning of the PHA fiscal year with PHA fiscal years beginning at quarterly intervals throughout the Federal fiscal year. Thus, the $20 million supplemental will go to meet the estimated 31 percent increase in utility consumption this winter for PHAs with fiscal years (1) beginning on January 1, 1976, and ending on December 31, 1976;

(2) beginning on April 1, 1976, and ending on March 31, 1977; and (3) beginning on July 1, 1976, and ending on June 30, 1977. The original subsidy estimates for these PHA fiscal years were funded from the 1976 appropriation. In addition, 1978 appropriations would be used to fund PHAs faced with increased utility costs this winter which have fiscal years beginning on October 1, 1976, and ending on September 30, 1977, and beginning on January 1, 1977, and ending on December 31, 1977.

Without the supplemental funds, PHAs would have to meet these unanticipated costs entirely from their own limited resources. This would be an unfair financial burden both to the PHA management and to tenants who would likely suffer from a curtailment of services such as maintenance which would lead to other problems as deterioration of the physical plant and demoralization of the tenants as well as the PHA staff. Also, it is quite possible that some PHAs will not have sufficient funds to pay their utility bills.

PROGRAM DESCRIPTIONS

Operating subsidies for Public Housing are provided to PHAs to assist in financing the operation of PHA-owned projects in accordance with Section 9 of the United States Housing Act of 1937, as amended. These operating subsidies are required to augment PHA income to permit PHAs to maintain adequate operating and maintenance services. The Performance Funding System (PFS) is used to calculate the operating subsidies provided to each PHA to operate its owned units. Each PHA receives no more subsidy than would be required to effectively operate a well-managed PHA of comparable size, location, and characteristics.

The Performance Funding System provides for computing the amount of operating subsidies required for utilities based upon utility rates and past average consumption based on the prior three year period. This method places a financial control on increases in consumption of utilities and thereby provides an incentive for PHAs to conserve energy. The actual subsidy provided to the PHA is adjusted to reflect actual increased or decreased utility rates experienced by the PHA during its fiscal year. If utility consumption decreased compared with the average consumption during the past three years, 25 percent of the savings due to decreased consumption are retained by the PHA and 75 percent of the savings are credited against subsequent payments of operating subsidies. If utility consumption increases, as is the case this winter due to the extremely cold weather, 75 percent is required to be funded from the appropriation for operating subsidies and the remaining 25 percent is funded by the PHA.

The following table compares actual program activity for 1976 and the transition quarter with estimated activity for 1977. The table also shows the changes between the original 1977 estimate and the 1977 revised estimate based on the proposed supplemental.

	ACTUAL 1976	TRANSITION QUARTER	1977 ESTIMATE IN 1978 BUDGET	1977 ESTIMATE REVISED ESTIMATE	INCREASE + DECREASE -
			(Dollars in Thousands)		
Contract Authority Released and Appropriation.....	$535,000	$80,000	$575,600	$575,600	...
Proposed Supplemental Appropriation for Increased Utility Consumption.....	...	...	...	20,000	+$20,000
Total Appropriation.	535,000	80,000	575,600	595,600	+20,000
Budget Outlays:					
Housing Payments a/..	330,091	-3,181	20,000	20,000	...
Regular Operating Subsidy Appropriation.....	177,881	127,586	507,000	507,000	...
Supplemental Request.	...	...	...	10,000	+10,000
Total Outlays.....	507,972	124,405	527,000	537,000	+10,000

a/ Operating subsidies funded from the "Housing Payments" account through 1975 are shown for comparability.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HOUSING

Justification of Supplemental Estimates
Fiscal Year 1977

(Excerpt from the Budget of the United States Government,
Appendix, Fiscal Year 1978, Part III P. 874)

"FEDERAL HOUSING ADMINISTRATION FUND"

(Supplemental now requested, additional authorizing legislation required)

"For an additional amount for Federal Housing Administration Fund, $1,801,344,000, to remain available until expended: Provided, That $15,000,000 shall be available for reimbursement to the Federal Housing Administration for losses incurred under the urban homesteading program (12 U.S.C. 1706e): Provided further, That $10,000,000 shall be made available only upon enactment into law of authorizing legislation."

"This supplemental would reimburse the Federal Housing Administration fund for losses sustained by the Special Risk Insurance fund and the General Insurance fund, and for losses on properties to be transferred to local governments under the Urban Homesteading demonstration."

SUMMARY OF BUDGET REQUEST

A 1977 supplemental appropriation of $1,801,344 thousand is requested to fund losses to the General Insurance fund and the Special Risk Insurance fund ($1,786.3 million) and to reimburse the Federal Housing Administration fund for losses on HUD-owned properties to be transferred to local governments under the Urban Homesteading Demonstration ($15 million). The justification for that portion of the supplemental request pertaining to the restoration of losses--$1,786.3 million--is presented in this section. The Urban Homesteading portion of the request is being treated separately in an accompanying justification.

EXPLANATION OF SUPPLEMENTAL REQUEST FOR RESTORATION OF LOSSES

The 1977 supplemental appropriation request of $1,801,344 thousand includes $1,786,344 thousand to restore losses to the Federal Housing Administration (FHA) fund incurred through September 30, 1976, in connection with mortgage claims and the acquisition and sale of properties which were insured originally under the General and Special Risk Insurance funds. The proposed appropriation will reduce cumulative Treasury borrowings in 1977 thereby reducing the interest due to the Treasury on such borrowings.

The following table summarizes the cumulative losses incurred by the General Insurance and Special Risk Insurance funds, the 1976 and 1977 appropriations enacted and the supplemental appropriation now requested for 1977.

	General Insurance Fund	Special Risk Insurance Fund	Total
	(Dollars in Thousands)		
Cumulative losses incurred through 9-30-76.....	$1,340,674	$723,170	$2,063,844
1976 Supplemental appropriation	-42,500	-100,000	-142,500
1977 Appropriation.....	-35,000	-100,000	-135,000
1977 Proposed supplemental appropriation.....	1,263,174	523,170	1,786,344

This supplemental appropriation will not increase budget authority since it will offset the need for additional borrowing which normally would be counted as budget authority. In addition, the appropriation would reduce the outstanding balance of Treasury borrowings and thereby reduce interest expense. If less than the full appropriation is provided by the Congress, the reduction can not be treated as a savings of budget authority to be utilized elsewhere. Any decrease in amounts appropriated will not effect a reduction in program activity or in the amount of losses already incurred, and, in fact would require additional Treasury borrowings (budget authority) in order to pay the insurance claims when they are demanded by the mortgagee. The net impact of any reduction actually will be an increase in budget authority requirements for the fund by an even greater amount and an increase in outlays for future years. Claims which would have been paid through the use of appropriated funds must be met by additional borrowing from the Treasury. Such borrowing will increase the Fund's interest costs--thus generating the need for even more borrowing since fees and premiums which would normally offset a portion of the borrowings would be required to pay the additional interest.

The table below presents the interest expense resulting from cumulative Treasury borrowings as budgeted for the 1976-1978 period and the estimated additional expense involved without the supplemental appropriation:

	1976	T.Q.	1977 ESTIMATE	1978 ESTIMATE
		(Dollars in Thousands)		
Interest expense as budgeted.....	$301,871	$87,567	$324,629	$342,629
Interest saved on repaid borrowings.....	...	...	28,000	56,000
Interest saved on additional borrowing avoided.....	...	...	36,000	72,000
Estimated interest expense without supplemental.....	301,871	87,567	388,629	470,629

The financial condition of the FHA fund is being jeopardized by the rising cost of Treasury borrowing. If the situation is permitted to continue unabated, interest cost will not only become the Fund's largest single expense item but will also pose a constant threat to the ability of the Fund to meet its cash requirements during a given fiscal year.

In order to address the problem the Department has in the past initiated a number of reforms aimed at minimizing losses--"as is" sales, tighter underwriting procedures, and use of Section 8 assistance for loan management/property disposition functions. The budget also includes a number of other proposals such as raising premiums and termination of actuarially unsound programs. These proposals by the prior Administration are now under study.

While any number of efforts will hopefully work towards stabilizing the Fund's financial position, they will not mitigate the problem of rising interest expense to any appreciable extent in the immediate future. The principles of good financial management dictate that an attempt be made to reduce interest cost and substantial assistance to the Fund and a return to fiscal viability can only be achieved through an appropriation such as that being sought at this time or through a forgiveness of Treasury borrowing outstanding.

FUND DESCRIPTIONS

a. General Insurance Fund. Although not the largest of the insurance funds in volume of activity, the General Insurance fund incorporates the greatest number of programs with almost 40 home and multifamily programs. It includes programs for the insurance of loans on property repairs and improvements; on basic and special purpose multifamily housing; on urban renewal, middle income and armed forces housing; and on war and defense housing. Insurance of loans for land development, group practice medical facilities and nonprofit hospitals are also financed from this fund. Also included is the insurance of supplemental loans for the financing of improvements and additions to multifamily projects, nursing homes and group practice medical facilities. The major program included in the fund is the Section 221 Low and Moderate Income Housing program.

b. Special Risk Insurance Fund. The Special Risk Insurance fund was created by the Housing and Urban Development Act of 1968 to finance mortgage insurance operations for: mortgages in older, declining urban areas which would not otherwise be eligible for mortgage insurance (Section 223(e)); on behalf of high-risk mortgagors who would not be eligible for FHA mortgage insurance but who, with housing counseling, could become acceptable credit risks (Section 237); on behalf of mortgagors receiving interest reduction payments (Sections 235 and 236); and on mortgages covering experimental housing where strict adherence to State or local building regulations is not observed (Section 233).

BASIS FOR REQUEST

The National Housing Act, as amended, provides an open authorization for appropriations to restore losses sustained as a result of mortgage insurance operations of the Special Risk Insurance fund. The Housing Authorization Act of 1976 provides authority for appropriations up to $500 million for the General Insurance fund to cover realized losses. Additional

authorizing legislation to provide additional appropriation authority will be required for the General Insurance fund. The following table presents the authorization balance remaining for the General Insurance fund and the amount of additional authorization necessary:

Authorization provided in the Housing Authorization Act of 1976	$500,000,000
Less portion of 1977 appropriation applied to GI fund	-35,000,000
Balance of appropriation authorization remaining for GI fund	465,000,000
Portion of supplemental request resulting from GI fund losses	1,263,174,000
Additional authorization required for the GI fund	798,174,000

The amount requested is computed on the basis of losses actually incurred through September 30, 1976. Losses are calculated by using the total amount paid as a result of an insurance claim and other expenses--taxes, maintenance, repairs, etc.--less the amount realized on the sale of the property. In addition, defaulted Title I notes which have been written off as losses ($206.6 million) and discounts absorbed on the sale of purchase money mortgages ($19.0 million) are included.

Losses under both funds have risen sharply in the past several years reflecting increasing activity under "high risk" programs such as Section 221, Section 235 and Section 223(e). The following tables reflect the recent history of sales of acquired properties and losses sustained on those sales.

SALE OF ACQUIRED PROPERTIES BY FISCAL YEAR

	Sales		Net Loss	
	SRI	GI	SRI	GI
	(Units)		(Dollars in Thousands)	
1961 - 1968	...	153,817	...	$336,353
1969	1	13,333	$5	29,112
1970	177	13,479	663	9,942
1971	1,438	11,027	6,226	15,814
1972	5,453	10,738	26,371	38,977
1973	11,193	21,767	58,703	54,399
1974	20,047	22,272	128,875	147,871
1975	26,525	28,561	200,328	223,361
1976	26,158	29,687	229,226	212,851
T.Q.	7,906	9,334	72,067	47,027
Total	98,898	314,015	722,464	1,115,707

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SALE OF ACQUIRED PROPERTIES BY SECTION--CUMULATIVE THROUGH SEPTEMBER 30, 1977

	Number of Units	Net Loss to Fund (Dollars in Thousands)
General Insurance Fund:		
Section 221 (homes).....	95,134	$704,141
Section 221 (multifamily)..	18,956	98,691
Section 608.....	57,290	70,026
Other.....	142,635	242,849
Total GI.....	314,015	1,115,707
Special Risk Insurance Fund:		
Section 236.....	4,681	42,977
Section 223(e)(homes).....	25,705	273,383
Section 235.....	67,752	400,198
Other.....	760	5,906
Total SRI.....	98,898	722,464

The rate at which claims are received under the various insurance programs is a factor over which the Department has little control. The relative condition of the national economy, in general, and the housing industry, in particular, is reflected in the flow of claims along local economic conditions such as those which adversely affected the aerospace industry in many of the western states several years ago.

The following tables demonstrate the trend of claims in recent years and the number of units and amount involved in claims received under selected General Insurance fund and Special Risk Insurance fund programs cumulatively since inception of the progams.

INSURANCE CLAIMS BY PERIOD

	Claims		Amount	
	SRI	GI	SRI	GI
	(Units)		(Dollars in Thousands)	
1961 - 1968.....	...	233,356	...	$2,189,844
1969.....	27	13,863	$265	144,523
1970.....	1,348	10,242	16,239	106,361
1971.....	8,591	20,291	122,016	250,964
1972.....	21,274	28,614	339,791	406,049
1973.....	32,621	43,165	574,261	575,455
1974.....	34,368	45,809	648,177	645,534
1975.....	35,803	60,195	693,861	866,966
1976.....	30,575	59,770	606,047	932,599
T.Q.....	5,889	9,144	135,497	11,386
Total.....	170,496	524,449	3,136,154	6,129,681

INSURANCE CLAIMS BY PROGRAM
CUMULATIVE THROUGH SEPTEMBER 30, 1976

	Claims (Units)	Amount (Dollars in Thousands)
GI:		
Section 221 (homes).....	106,389	$1,839,318
Section 221 (multifamily)..	129,389	1,779,637
Section 608.....	73,445	382,089
Other.....	215,226	2,128,637
Total GI.....	524,449	6,129,681
SRI:		
Section 236.....	55,390	849,093
Section 223(e)(homes).....	33,286	529,007
Section 235.....	79,816	1,726,336
Other.....	2,004	31,718
Total SRI.....	170,496	3,136,154

In order to meet its commitments under the mortgage and loan insurance programs, the Department has been forced to borrow money from the Treasury. Income derived from operations has not been sufficient to offset the substantial costs resulting from claims against the Special Risk Insurance and General Insurance funds. The table below presents the trends in Treasury borrowing and the concomitant interest expense over the past several years. The year-to-year increments have varied, but the balance of Treasury borrowing outstanding has grown steadily to a September 30, 1976, total of $4.9 billion.

FISCAL YEAR	TREASURY BORROWINGS			INTEREST COST		
	SRI	GI	TOTAL	SRI	GI	TOTAL
	(Dollars in Thousands)			(Dollars in Thousands)		
1969.....	...	$10,000 a/	$10,000 a/	...	$2,665	$2,665
1970.....	...	...	...	...	450	450
1971.....	$86,000	127,000	213,000	$1,910	2,972	4,882
1972.....	196,000	246,000	442,000	10,141	13,554	23,695
1973.....	528,000	448,000	976,000	28,777	33,745	62,522
1974.....	345,000	476,000	821,000	59,937	66,937	126,874
1975.....	485,000	730,268	1,215,268	95,504	107,468	202,972
1976.....	299,000	690,000	989,000	130,528	171,343	301,871
T.Q.	92,000	120,000	212,000	35,679	51,888	87,567
Total..	2,031,000	2,847,268	4,878,268	362,476	451,022	813,498

a/ Represents balance outstanding at year end.

EXPLANATION OF SUPPLEMENTAL REQUEST FOR URBAN HOMESTEADING

A $15 million supplemental appropriation is requested for the Urban Homesteading program. The principal objectives in implementing an Urban Homesteading program are to encourage investment in urban neighborhoods and to better utilize the existing housing stock in order to halt blight and preserve those neighborhoods. It is becoming increasingly important--in view of today's energy and construction resources situation--that available materials be efficiently utilized. The delivery of HUD properties for use in local urban homesteading programs has served as an incentive to localities to mobilize a range of resources--both public and private--to focus on the preservation of targeted neighborhoods.

Because of the rapid rate at which the initial group of HUD-owned properties were absorbed, the tremendous local enthusiasm for the demonstration, and the degree to which the program is leveraging private rehabilitation capital into marginal target neighborhoods, HUD is requesting that the authorization for appropriations for 1977 be increased from $5 million to $15 million.

The program was launched in October 1975, when HUD announced it would award about 1,000 structurally sound homes, worth $5 million, and another $5 million in rehabilitation loans to 23 cities selected from a total of 61 applicants. The cities themselves pledged public and private investments of more than $40 million as their contributions to the same objective. In developing comprehensive plans to revitalize the areas where the housing is located, the cities used an impressive range of techniques to secure private investment. Many of the cities also made extensive use of community development block grants in meshing an integrated program of neighborhood revitalization, including the upgrading of community services and facilities. The cities already have accepted 899 of the properties originally allocated to them, and almost 70 percent of these have been conveyed to local homesteaders, at little or no cost. In its first six months, homesteading generated more than $4 million in rehabilitation work in the target neighborhoods, exclusive of other neighborhood improvements.

The expanded program level of $15 million for Fiscal Year 1977 would allow approximately 3,000 additional home properties to be conveyed to the participating cities and represents the maximum reasonable program level based on the size of HUD's current inventory of homes in appropriate neighborhoods. At this program level, assistance could be provided to at least 10 additional cities that have expressed an interest in urban homesteading.

The program has been extremely successful, both in providing homeownership opportunities for a limited number of moderate-income families and in eliminating the blighting influence of boarded-up HUD properties. Cities have developed ambitious plans for the revitalization of homesteading project neighborhoods involving substantial public and private investments and have shown an impressive ability to develop creative variations on the homesteading theme.

PROGRAM DESCRIPTION

Section 810 of the Housing and Community Development Act of 1974 authorizes the Secretary to transfer without payment to a community with a homesteading plan approved by the Secretary, unoccupied one- to four-family residences to which the Secretary holds title. To reimburse the housing insurance funds for properties transferred pursuant to this section, there was authorized to be appropriated $5,000,000 for 1976. The program may proceed without the supplemental appropriation since the appropriation is solely to reimburse the FHA fund for losses incurred because of the operations of the program.

The properties transferred under Section 810 to the applicant community must be utilized in the approved homesteading program. To assure that homesteading will remain a local and not a Federal initiative, HUD has identified a minimum of program elements to be included in the plan. The legal elements as prescribed by statute are described as follows:

a. Provision for the conditional conveyance by the applicant community of unoccupied residential property to an individual or family for residential use without substantial consideration.

b. Equitable procedures for homesteader selection, giving special consideration to the homesteader's need for housing and his/her capacity to make or cause to be made necessary repairs and improvements.

c. The form of an agreement between the city and the homesteader requiring the recipient:

-- To occupy the property as his/her principal residence for not less than three years.

-- To make repairs required to meet minimum health and safety standards prior to occupancy.

-- To make the repairs and improvements necessary to meet the applicable local standards for decent, safe and sanitary housing within 18 months after occupying the property.

-- To permit reasonable inspections at reasonable times by public employees to determine compliance with the agreement during the three-year occupancy period.

d. Provision for revocation of the conditional conveyance from the city to the homesteader upon any material breach of the agreement between the city and the homesteader.

e. Provision for conveyance in fee simple of the real property from the city to the homesteader without consideration upon full compliance with the terms of the agreement between the city and the homesteader.

f. A coordinated approach toward neighborhood improvement which includes both the homestead program and the upgrading of community services and facilities.

In addition, in order for the Secretary to be assured that a city can receive Secretary-held properties for such a program and convey such properties to homesteaders, certain specified legal documents are required. Also required are a description of the entity administering the program; criteria to select homesteaders who have a probability of success without regard to race, creed, religion, sex, national origin, or marital status; a description of how the city will address potential code problems; a detailed description of the time schedule and management plan for implementation of the program including the level and type of local resources to be made available; a marketing plan including recruiting homesteaders, and advertising and showing available properties; a homestead support services plan, including the availability of financing for and assistance in contracting and supervising rehabilitation; and a plan for neighborhood improvement and upgrading of services and facilities, including plans to encourage other property owners in the target neighborhood in improving or rehabilitating their properties.

PROGRAM STATUS

Since the inception of the program in October 1975, 23 cities have been selected to participate in the program in efforts to improve and preserve existing housing stock and revitalize blighted neighborhoods. In FY 1976, the cities were initially allocated $5 million in HUD-held properties and $5 million in rehabilitation loans (Section 312). These loans, at 3 percent interest, were made available to the home purchasers to assist in financing rehabilitation of the homes. These allocations are shown in the table on page .

The Department extended the program for FY 1977, and announced an additional $6.25 million worth of housing and $8 million more in Section 312 loans. Of these amounts, $3.5 million under Section 810 and $4.4 million under Section 312 were made available to certain of the 23 cities already participating in the program. The additional allocations for these cities are also shown on page . A total of $2.5 million in HUD-acquired homes and $3.5 million in rehabilitation loans remains available for new cities that wish to participate in the program. New cities interested in participating in the program were requested to submit applications to HUD no later than January 21, 1977.

Approximately 4,000 properties will be transferred as of September 30, 1977, under the guidelines of the demonstration. As of January 5, 1977, 899 HUD properties had been conveyed to the participating cities, 764 homesteaders had been selected, 618 properties had been conditionally conveyed to homesteaders and 379 of the selected homesteaders had occupied their properties.

A contractor has been selected by the Department to conduct a three-year evaluation of the demonstration. Many of the participating cities have requested additional properties and an expansion of the demonstration as proposed would increase the likelihood that urban homesteading would have a more measurable impact in the target areas.

STATUS OR URBAN HOMESTEADING
AS OF JANUARY 5, 1977

	Section 810			Section 312		
	1976 Allocation	Transition Quarter and 1977 Authorization [a]	Revised Allocation	1976 Allocation	Transition Quarter and 1977 Authorization [a]	Revised Allocation
Boston, Massachusetts	$320,000	...	$320,000	$420,000	$200,000	$620,000
Jersey City, New Jersey	60,000	...	60,000	235,000	375,000	610,000
Freeport, New York	250,000	$160,000	410,000	100,000	50,000	150,000
Islip, New York	140,000	150,000	290,000	100,000	150,000	250,000
New York, New York	365,000	...	365,000	530,000	...	530,000
Baltimore, Maryland	120,000	175,000	295,000	120,000	200,000	320,000
Philadelphia, Pennsylvania	252,000	200,000	452,000	200,000	100,000	300,000
Wilmington, Delaware	200,000	150,000	350,000	200,000	200,000	400,000
Altanta, Georgia	280,000	150,000	430,000	378,000	400,000	778,000
Decatur, Georgia	200,000	150,000	350,000	200,000	300,000	500,000
Chicago, Illinois	259,102	400,000	659,102	500,000	500,000	1,000,000
Rockford, Illinois	250,000	100,000	350,000	200,000	200,000	400,000
Gary, Indiana	232,000	100,000	332,000	282,000	100,000	382,000
Indianapolis, Indiana	158,305	250,000	408,000	200,000	250,000	450,000
South Bend, Indiana	162,000	...	162,000	108,000	100,000	208,000
Minneapolis, Minnesota	212,000	350,000	562,000	60,000	150,000	210,000
Columbus, Ohio	132,000	200,000	332,000	132,000	200,000	332,000
Cincinnati, Ohio	140,000	50,000	190,000	80,000	...	80,000

STATUS OF URBAN HOMESTEADING (continued)

	Section 810			Section 312		
	1976 Allocation	Transition Quarter and 1977 Authorization a/	Revised Allocation	1976 Allocation	Transition Quarter and 1977 Authorization a/	Revised Allocation
Milwaukee, Wisconsin	$178,150	$200,000	$378,150	$85,000	$50,000	$135,000
Dallas, Texas	200,000	250,000	450,000	250,000	250,000	500,000
Kansas City, Missouri	250,000	50,000	200,000	200,000	100,000	300,000
Oakland, California	350,000	150,000	500,000	300,000	400,000	700,000
Tacoma, Washington	180,000	300,000	480,000	120,000	150,000	270,000
Total Allocated.....	4,890,557	3,535,000	8,425,557	5,000,000	4,425,000	9,425,000
Total Unallocated.....	109,443	2,715,000	2,824,443	...	3,575,000	3,575,000
Total.....	5,000,000	6,250,000	11,250,000	5,000,000	8,000,000	13,000,000

a/ Represents amounts authorized prior to requested increase in authorization.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FUNDS APPROPRIATED TO THE PRESIDENT

Justification of Supplemental Estimates
Fiscal Year 1977

(Excerpt from the Budget of the United States Government, Appendix, Fiscal Year 1978, Part III, P. 863, as amended by H. Doc. 95- , dated February , 1977)

"DISASTER RELIEF"

(Supplemental now requested, existing legislation)

"For an additional amount for "Disaster relief", $200,000,000, to remain available until expended: Provided, That not to exceed 3 per centum of the foregoing amount shall be available for administrative expenses.

"This supplemental is requested to enable the Federal Disaster Assistance Administration to carry out its responsibility to provide assistance for damages that result from disasters. Heavy disaster activity during the latter part of 1976 and the transition quarter has resulted in disaster assistance requirements greater than those anticipated at the time of the 1977 request. The authority to carry out these responsibilities has been delegated to the Secretary of Housing and Urban Development by Executive Order No. 11795."

SUMMARY OF BUDGET REQUEST

A 1977 supplemental appropriation of $100,000,000 was originally requested in the 1978 budget to fund disaster relief activities resulting from heavy disaster activity during the latter part of fiscal year 1976 and the transition quarter. Subsequent to the submission of the 1978 budget, severe weather conditions prevailing throughout the eastern part of the nation have resulted in an unanticipated increase in disaster declarations. The costs involved require that the proposed supplemental be amended by $100,000,000 up to a revised request of $200,000,000.

The following table summarizes available funds and estimated requirements for fiscal year 1977:

FUNDS AVAILABLE AND REQUIRED

	Amount (in Millions)
Funds Available	
Unobligated balance from prior periods	$65.8
Appropriation for 1977	100.0
Total available	165.8
Funds Required	
Funds required in 1977 for other than drought and severe weather assistance	165.8
Estimated cost of drought emergency assistance	100.0
Estimated cost of assistance required due to severe winter weather conditions	100.0
Total estimated 1977 requirements	365.8
Supplemental appropriation required	200.0

Drought Emergency Assistance. Prevailing conditions of drought in several States have resulted in emergency declarations involving Federal disaster assistance. It is currently estimated that this assistance will be provided in up to 20 States. Such drought assistance involves primarily Federal funds for hay and animal transportation, and for livestock feed.

Severe Weather Conditions. Severe winter weather conditions throughout the eastern part of the nation have resulted in the need for Federal assistance. It is currently estimated that Federal funds will be provided for relief in about 10 States. Major assistance to date has been disaster unemployment assistance, amounting to an estimated $59 million in Florida, Maryland, Virginia, New York and New Jersey. In addition to the likelihood of this assistance being provided in other States, Federal assistance in clearing transportation arteries, in providing health services, and in providing for the public health and safety has also been required.

PROGRAM DESCRIPTION

The President's Disaster Relief program is designed to supplement the efforts and available resources of State and local governments and voluntary relief organizations. The President's declaration of a "major disaster" or an "emergency" authorizes Federal assistance under the Disaster Relief Act of 1974 and triggers other Federal disaster relief programs. The Federal response is coordinated by the Federal Disaster Assistance Administration (FDAA) of the Department of Housing and Urban Development.

By Executive Order 11795, the President delegated the primary responsibility for administering the Act to the Secretary of Housing and Urban Development. The Secretary, in turn, has assigned program management responsibility to the Administrator of the Federal Disaster Assistance Administration.

When a disaster threatens or occurs, local authorities take immediate steps to warn and evacuate citizens, alleviate suffering, and protect life and property. If additional help is needed, the Governor may direct execution of the State's emergency plan, use State police or National Guardsmen, or commit other State resources as the situation demands. Federal establishments, particularly military installations which are located in or near the disaster area, may provide immediate lifesaving assistance, and other Federal agencies may be able to provide assistance under their own statutory authorities. However, if the situation is beyond the capabilities of local and State forces, supplemented by limited assistance of Federal forces on the scene, the Governor may request that the President declare a "major disaster" or an "emergency."

A "major disaster" is defined in the Disaster Relief Act of 1974, Public Law 93-288, as any "hurricane, tornado, storm, flood, high water, wind-driven water, tidal wave, tsunami, earthquake, volcanic eruption, landslide, mudslide, snowstorm, drought, fire explosion, or other catastrophe in any part of the United States which, in the determination of the President, causes damage of sufficient severity and magnitude to warrant major disaster assistance above and beyond emergency services by the Federal Government to supplement the efforts and available resources of States, local governments, and private relief organizations in alleviating the damage, loss, hardship or suffering caused by a disaster."

An "emergency" is defined as any of the various types of natural disasters included in the definition of a "major disaster" which requires Federal emergency assistance to supplement State and local efforts to save lives and protect property, public health and safety or to avert or lessen the threat of a disaster.

A Presidential declaration of a "major disaster" or an "emergency" makes a broad range of assistance available to individuals, State and local governments. This help may include:

To Individuals

-- Temporary housing for disaster victims whose homes are uninhabitable until other housing resources are available. No rental is charged during the first 12 months of occupancy;

-- Minimum essential repairs to owner-occupied residences in lieu of other types of temporary housing resources, so that families can return quickly to their damaged homes;

-- Temporary assistance with mortgage or rental payments for persons faced with loss of their residences because of disaster-created financial hardship for a period not to exceed 12 months;

-- Disaster unemployment assistance and job placement assistance for those unemployed as a result of a major disaster;

-- Individual and family grants of up to $5,000 to meet disaster-related necessary expenses or serious needs of those adversely affected by a major disaster when they are unable to meet such expenses or needs through other programs or other means;

-- Legal services to low-income families and individuals;

-- Consumer counseling and assistance in obtaining insurance benefits;

-- Crisis counseling and referrals to appropriate mental health agencies to relieve disaster caused mental health problems;

To States and Local Governments

-- Clearance of debris on public or private lands or waters;

-- Emergency protective measures for the preservation of life and property;

-- Repair or replacement of roads, streets, and bridges;

-- Repair or replacement of water control and facilities (dikes, levees, irrigation works, and drainage facilities);

-- Repair or replacement of public buildings and related equipment;

-- Repair or replacement of public utilities;

-- Repair or restoration to predisaster condition of public facilities damaged while under construction;

-- Repair or restoration of recreational facilities and parks; and

-- Repair or replacement of private nonprofit educational, utility, emergency, medical, and custodial care facilities.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

PAY INCREASES

Justifications of Supplemental Estimates
Fiscal Year 1977

(Excerpt from Part IV, Appendix to the Budget of the United States Government, Fiscal Year 1978, p. 895)

"DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Management and administration: "Salaries and expenses, Department of Housing and Urban Development," $15,363,000, of which, $8,135,000 shall be provided by transfer from the various funds of the Federal Housing Administration."

SUMMARY OF BUDGET REQUEST

Additional funds are requested to meet the costs associated with the pay increase for Federal employees effected in October 1976 pursuant to Executive Order 11941.

The total funds requested in appropriation and transfer authorities is $15,363,000. Of this total, $7,228,000 is for an increased appropriation. The balance, $8,135,000, is for increased transfer authority from the Federal Housing Administration (FHA).

The total effect of the pay raise in 1977 is an increase of $16,080,000 in personal services costs. However, $717,000, the difference between that total and the supplemental authority requested, is being absorbed through administrative actions which do not require Congressional approval.

The Salaries and Expense account has been apportioned by the Office of Management and Budget on the basis which indicates a need for supplemental funding, and the Congress has been so notified.

The following table identifies the amounts required for the pay increase by account and the proposed means of financing the increase.

SUMMARY OF INCREASED PAY COSTS AND FINANCING PLAN - FISCAL YEAR 1977
($000)

ITEM	TOTAL INCREASE	TO BE ABSORBED THROUGH ADMINISTRATIVE ACTION	CONGRESSIONAL ACTION REQUESTED		
			TOTAL	APPROPRIATION INCREASE	FHA TRANSFER INCREASE
Salaries and Expenses, HUD.....	$15,363	...	$15,363	$7,228	$8,135
Government National Mortgage Association.....	50	50	...	...	...
New Communities.....	116	116	...	...	...
Riot Reinsurance and Crime Insurance.....	12	12	...	...	...
Federal Disaster Assistance Administration.....	274	274	...	...	...
Disaster Assistance.....	69	69	...	...	...
Other Funds.....	196	196	...	...	...
TOTAL.....	16,080	717	15,363	7,228	8,135

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

February 22, 1977

Honorable Thomas P. O'Neill, Jr.
Speaker
House of Representatives
Washington, D. C. 20515

Dear Mr. Speaker:

I am enclosing proposed legislation to increase funding authorizations in the current fiscal year for the Section 8 housing assistance payments program under the United States Housing Act of 1937, for public housing operating subsidies pursuant to that Act, and for the urban homesteading program authorized by section 810 of the Housing and Community Development Act of 1974. Additionally, the proposal would authorize appropriations to cover all losses sustained by the FHA General Insurance Fund established pursuant to section 519 of the National Housing Act, and would authorize housing assistance payments contracts for periods of up to thirty years (increased from the present twenty-year limit) in the case of private Section 8 new construction or substantial rehabilitation the financing of which, with several exceptions, is not federally assisted. Also enclosed for your convenience are a section-by-section summary and an explanation and justification of the proposal.

This proposed legislation is designed, in part, to assure adequate funding authorizations for the public housing, Section 8 and urban homesteading programs in the current fiscal year. To this end, the proposal would increase from $850,000,000 to $1,228,050,000 the amount of additional annual contributions contract authority provided for housing assistance under the 1937 Act on October 1, 1976. I believe this increase is essential to provide the level of funding necessary to enable the Department to meet its commitment toward assisting in this fiscal year 400,000 units of housing for lower-income

Secondly, it would increase, from $576,000,000 to $595,600,000, the amount authorized on or after October 1, 1976 for operating subsidies for public housing projects under the 1937 Act. This increase reflects the additional amount of operating subsidies vital to assist public housing authorities in meeting operating costs attributable to the escalating utility costs and consumption resulting from the severe weather conditions experienced this winter.

The proposal also would increase, from $5,000,000 to $15,000,000, the amount of appropriations authorized for the urban homesteading program in fiscal year 1977. The proposed increase would make possible an immediate and major increase in the use of this demonstration program as a resource for neighborhood preservation and restoration.

The proposed extension of the maximum contract term for housing assistance payments in the case of privately financed and insured Section 8 housing is designed to increase lender confidence and participation in the Section 8 program. As the enclosed explanatory material indicates, a major impediment to the availability of conventional financing has been the unwillingness of lenders to depend upon a twenty-year subsidy contract term as adequate protection for their investment.

The proposed open-ended authorization of appropriations for the FHA General Insurance Fund is designed to enable losses sustained by the Fund to be fully covered through the appropriations process.

The provisions of the enclosed proposal are reflected in the Administration's revised fiscal year 1978 Budget. Its timely enactment will provide the resources and authorities which I believe are essential to enable the Department to begin major efforts to improve, and to address immediate concerns in, its housing assistance programs during this fiscal year. In the very near future, I expect to submit to the Congress separate legislation proposing authorizations and changes to existing authorities for fiscal year 1978.

I ask that the enclosed bill be referred to the appropriate Committee and urge its early enactment. The

Office of Management and Budget has advised us that it has no objection to the submission of this legislation to the Congress and that its enactment would be in accord with the program of the President.

Sincerely,

Patricia Roberts Harris

Enclosures

A BILL

To authorize additional funds for housing assistance for lower-income Americans in fiscal year 1977, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Supplemental Housing Assistance Authorization Act of 1977".

AMENDMENTS TO THE UNITED STATES HOUSING ACT OF 1937

SEC. 2. (a) The first sentence of section 5(c) of the United States Housing Act of 1937 is amended by striking out "and by $850,000,000 on October 1, 1976" and inserting in lieu thereof "and by $1,228,050,000 on October 1, 1976".

(b) Section 8(e)(1) of such Act is amended by striking out "two hundred and forty months" in the first sentence and inserting in lieu thereof "three hundred and sixty months, except that such term may not exceed two hundred and forty months in the case of a project financed with assistance of a loan from, or which is insured, guaranteed or intended for purchase by, the Federal government, other than pursuant to section 244 of the National Housing Act or title V of the Housing Act of 1949."

(c) Section 9(c) of such Act is amended by striking out "and not to exceed $576,000,000 on or after October 1, 1976" and inserting in lieu thereof "and not to exceed $595,600,000 on or after October 1, 1976".

GENERAL INSURANCE FUND

SEC. 3. Section 519(f) of the National Housing Act is amended to read as follows:

"(f) There are authorized to be appropriated such sums as may be needed to cover losses sustained by the General Insurance Fund."

URBAN HOMESTEADING DEMONSTRATION

SEC. 4. Section 810(g) of the Housing and Community Development Act of 1974 is amended by striking out "not to exceed $5,000,000 for fiscal year 1977" and inserting in lieu thereof "not to exceed $15,000,000 for fiscal year 1977".

SECTION-BY-SECTION SUMMARY

Short Title

Section 1 of the bill would provide that the measure may be cited as the "Supplemental Housing Assistance Authorization Act of 1977".

Amendments to the U. S. Housing Act of 1937

Section 2(a) would increase from $850,000,000 to $1,228,050,000 the amount of additional annual contributions contract authority provided, subject to release in an appropriation Act, under section 5(c) of the United States Housing Act of 1937 (hereinafter the "1937 Act") on October 1, 1976.

Section 2(b) would amend section 8(e)(1) of the 1937 Act to extend to thirty years (three hundred and sixty months) the present twenty year (two hundred and forty months) limit on the term of contracts for housing assistance payments for private new construction or substantial rehabilitation under Section 8 of the 1937 Act. However, the present twenty year limit would be retained for a project financed with assistance of a loan from, or which is insured, guaranteed or intended for purchase by, the Federal government, other than pursuant to section 244 of the National Housing Act or title V of the Housing Act of 1949.

Section 2(c) would increase, from $576,000,000 to $595,600,000 the maximum amount authorized to be appropriated on or after October 1, 1976 for operating subsidies for public housing projects under the 1937 Act.

General Insurance Fund

Section 3 of the bill would amend section 519 of the National Housing Act to replace the present authorization for appropriations (not to exceed $500 million) for losses sustained by the FHA General Insurance Fund created by that section with an authorization which would allow such sums as may be necessary to be appropriated to cover such losses.

Urban Homesteading Demonstration

Section 4 of the bill would amend section 810 of the Housing and Community Development Act of 1974 to increase, from $5,000,000 to $15,000,000, the amount of appropriations authorized in fiscal year 1977 for the urban homesteading demonstration program authorized by that section.

Explanation and Justification

This proposed legislation would provide increased funding authorizations in the current fiscal year for the Section 8 housing assistance payments program under the United States Housing Act of 1937, for public housing operating subsidies pursuant to that Act, and for the urban homesteading program authorized by section 810 of the Housing and Community Development Act of 1974. Further, the measure would authorize appropriations to cover all losses sustained in connection with various mortgage insurance programs of the Federal Housing Administration whose operations are charged to the General Insurance Fund established under section 519 of the National Housing Act. Additionally, the bill would authorize Section 8 housing assistance payments contracts for periods of up to thirty years (increased from the present twenty-year limit) in the case of private Section 8 new construction or substantial rehabilitation. However, the present twenty-year limit would be retained for a project financed with assistance of a loan from, or which is insured, guaranteed or intended for purchase by, the Federal government, other than pursuant to section 244 of the National Housing Act (co-insurance) or title V of the Housing Act of 1949 (Farmers Home Administration).

This proposal initiates a prompt and major effort to improve our housing assistance programs. By assuring the availability of adequate resources and authorities during the current fiscal year, the bill would increase immediately and significantly the capacity of the Department of Housing and Urban Development to contribute -- in the current fiscal year -- to achievement of the national housing goal of "a decent home and a suitable living environment for every American family." The provisions of the bill are reflected in the Administration's revised fiscal year 1978 Budget transmitted to Congress on February 22, 1977.

Increased Annual Contributions Contract Authority

Section 2(a) of the bill would increase the amount of additional annual contributions contract authority for the public housing and Section 8 housing assistance payments programs provided, subject to release in an appropriation Act, for fiscal year 1977 under section 5(c) of the United States Housing Act of 1937 (hereinafter the "1937 Act"). The $850,000,000 of additional contract authority presently authorized for release on October 1, 1976 would be increased by $378,050,000, to a new total of $1,228,050,000.

This increase is designed to provide enough funds so that the Department can begin to assist during this fiscal year all 400,000 units of housing for lower-income Americans to which the Department is committed. Presently available contract authority (i.e., released in an appropriation Act) will provide funds sufficient to assist only about 235,800 units. Section 2(a) would add enough contract authority to permit the Department to achieve its 400,000 unit objective for fiscal year 1977.

More specifically, the additional contract authority proposed in section 2(a) would make it possible to increase Section 8 activity in fiscal year 1977 from the current estimated total of 189,075 new, rehabilitated and existing assisted units to a new total of approximately 353,275 units, of which 185,065 units would be new, 25,455 units would be rehabilitated and 142,755 units would be existing. This would represent an 87 percent increase in Section 8 assisted units. When coupled with the 46,725 units scheduled for the public housing program, the total number of additional units to be assisted can reach the proposed 400,000 unit level.

Because the Department of Housing and Urban Development-Independent Agencies Appropriation Act, 1977, P.L. 94-378, released $675 million of the $850 million of fiscal year 1977 contract authority authorized by the Housing Authorization Act of 1976, P.L. 94-375, $175 million of contract authority remains authorized but not released. If that amount were to be released as authorized, $20 million would be required, under the terms of the authorizing statute, to be reserved exclusively for public housing, and $25 million for public housing modernization. The $130 million ($175 million authorized minus $45 million set-aside) remainder would be available for Section 8 funding. Accordingly, the $508.05 million of additional funds required for the Section 8 program to reach a level of 400,000 units (including over 45,000 public housing units) requires the authorization increase of $378.05 million ($508.05 million minus $130 million) of additional contract authority for fiscal year 1977 reflected in section 2(a).

Thirty-Year Term for Private Section 8 New Construction and Substantial Rehabilitation

Section 2(b) of the bill would extend the maximum subsidy contract term for Section 8 new construction or substantial rehabilitation undertaken by private developers. Under present law (section 8(e)(1) of the 1937 Act), the term of housing

assistance payments contracts for privately developed new and rehabilitated Section 8 units may not exceed twenty years. However, contracts are statutorily authorized for up to forty years if the project involved is owned by, or is financed by a loan or loan guarantee from, a State or local agency or the Farmers Home Adminstration. The amendment would retain the present twenty-year maximum term for projects financed with direct Federal loans or with loans which are insured, guaranteed or intended for purchase by the Federal government, except pursuant to the co-insurance authority contained in section 244 of the National Housing Act. It also would retain the present forty-year authorization for projects aided by State or local agencies or the Farmers Home Administration, while lengthening the present twenty-year limit on all other projects to thirty years.

The proposal is designed to overcome a major obstacle to successful implementation of the Section 8 program -- the reluctance of many lenders to lend money for the long periods typical of permanent financing of multifamily housing when their investment is protected by Section 8 assistance for only twenty years.

Some lenders have not been willing to grant even thirty-year mortgages when the cash flow from housing units may be questionable beyond the twentieth year. And when building owners are forced to enter into a twenty-year mortgage term, their debt service costs are often so high that a reasonable return for fair market rentals become impossible.

A thirty-year subsidy contract term will induce more conventional lenders to enter the market and make more capital available for presently unfinanced units. An ancillary benefit will be a reduction in FHA insurance liability and a resulting reduction in the staffing cost incurred by HUD for that purpose.

Increased Funding for Operating Subsidies

Section 2(c) would increase, from $576 million to $595.6 million, the amount authorized to be appropriated on or after October 1, 1976 for public housing operating subsidies. This increase in current fiscal year funding of operating subsidies is designed to alleviate the severe hardships in public housing projects around the country caused by escalating utility costs and consumption due to the unusually harsh winter. The recent severe weather has caused an escalation in costs beyond anything that had been forecast and included in

the estimates for fiscal year 1977 that resulted in the present authorization.

Part of the cost of this winter's utility costs will be chargeable to the fiscal year 1977 appropriation and part to fiscal year 1978. This depends upon the ending dates of Public Housing Agency (PHA) fiscal years since payment is made after costs have been incurred.

The increased funding proposed in section 2(c) will fund excess utility costs for PHAs with fiscal years ending December 1976 and March and June 1977 for costs incurred this winter.

Our current estimate of the increase chargeable to fiscal year 1977 requires the $19.6 million increase in authorization reflected in section 2(c).

General Insurance Fund

Section 3 of the bill would authorize the appropriation of such sums as may be necessary to cover losses incurred by the FHA General Insurance Fund. At present, the appropriation authorization for such losses is limited to $500 million, even though the total of losses incurred by the Fund is over twice that amount.

The FHA General Insurance Fund has accumulated a total of $6.1 billion in insurance claims on 524,449 units of housing and 948,448 Title I property improvement and mobile home loans as of September 30, 1976. A total of 314,015 acquired and assigned housing units have been sold at a loss of $1,115 million and approximately $206 million of the Title I notes have been written off as losses. In addition, the General Insurance Fund has realized over $18 million in losses through discounts on sale of Purchase Money Mortgages. Cumulative General Insurance Fund losses from all sources therefore total approximately $1,340 million, of which $77.5 million have been restored.

Replacing the present $500 million authorization with the authorization contained in section 3 would assure that these losses could be fully funded through the appropriations process, and would make feasible restoration of the fiscal integrity of the Fund.

Urban Homesteading Demonstration

The urban homesteading program authorized by section 810 of the Housing and Community Development Act of 1974, P.L. 93-383, represents one of the most promising resources for neighborhood preservation and restoration. Section 4 of

the bill would increase, from the present $5 million to $15 million, the amount authorized to be appropriated for the program for fiscal year 1977. This funding is used to reimburse the appropriate FHA insurance fund for properties transferred for use in the program. The tripling of authorized funding will make possible an immediate and dramatic increase in the use of this urban revitalization initiative.

Mr. ASHLEY. Thank you, Madam Secretary. We understand fully the fact that you have not been on the job as long as will be the case down the road, and 8 years has been suggested, so to the extent that you want to make use of the talent assembled behind you, feel perfectly free to do so.

Secretary HARRIS. Mr. Chairman, may I say that I have discovered in working with this staff of career people that it is a considerable amount of devoted and dedicated talent, and I have enjoyed working with them over the last month.

Mr. ASHLEY. Well, I am pleased to say that at least as of Sunday, that dedication and devotion has paid off a little bit. I should say that the remuneration will reflect their dedication and commitment. [Laughter.]

Madam Chairman, we have heard a report today that a substantial amount of section 8 funds have been committed to projects which may never proceed to construction or may do so only after an unreasonably long period of time.

What is your estimate of the magnitude of the section 8 funds in these categories, and what do you propose to do to free these funds so they can be used more expeditiously?

Secretary HARRIS. We are conducting now an investigation of the quality of the reservations that we have. Our initial examination indicates that a substantial portion, if not all of the present reservations, are likely to go to starts. Now, what we are looking at, Mr. Chairman, is how to reduce the amount of time between reservations and starts.

Also among the proposals before you here today in our legislative package is a proposal to change the period for subsidies for the section 8 program, because we believe that one of the reasons we have had such difficulty moving from reservations to starts has been the unwillingness of conventional lenders to finance section 8 new construction when the guarantee of the subsidy is 20 years.

Even when there has been a private willingness to finance, the cost has been such that we have been unable to get the housing in place at a cost which is acceptable to us. So we think, if you see fit to agree with us on the 30-year extension, that that will convert a number of reservations to starts.

Mr. ASHLEY. Well, I guess I agree with that to some extent, at least that is the basic idea in going from 20 to 30 years. I am not sure that there should not be some other avenues explored, with respect to the problem. That was implicit in my question.

I am not sure that by regulation there should be some means of assurance that commitments or reservations actually go to construction.

Secretary HARRIS. Well, again we are looking at some of the blockages that we have found. For example, one of the reasons for delay, and this is a relatively new program as housing programs go, is the lack of appraisers necessary for receiving FHA financing. The problem is one of just not meeting the requirements of staff in our area offices.

Now we are taking a new look at staffing patterns, taking a new look at the possibility of retraining people to do tasks that they have not been doing before. We have a number of people who are basically architects who might be able to be more useful in both the appraisal and evaluation process.

Mr. ASHLEY. Well, correct me if I am wrong, but my understanding is that a reservation is in the nature of a binding, legal agreement. And I am wondering how long that commitment reads. It is one thing for a developer to get a reservation—if it is totally to his benefit, he can sit on it and decide at the end of the term whether he is going to go forward or not. Now how long are we talking about? And I am wondering if that is the kind of contract we want to be entering into. Is it necessary to do that? What are some possible constraints so we can make sure that people get housed, rather than allow builders the opportunity to sit on the reservations and either go forward or not go forward?

Secretary HARRIS. Mr. Chairman, one of the instructions I have given the new Assistant Secretary for Housing-designate, is that we look at exactly that question. Also one of the things we are going to be doing in the next 4 years, when it is my expectation I will be the Secretary of HUD, is to make certain that we examine more carefully at the point of reservation the ability of the developer to move from that reservation to a spade in the ground.

I have said this so often at the Department that I am beginning to sound like a broken record. It is not enough to examine just the question of whether the developer is competent. We must also look at whether he is prepared to go from the point of reservation to the point of, as I have said, a spade in the ground.

Mr. ASHLEY. Exactly. You know to the extent that there are reservations out that are not going to be acted on and people are being denied these reservations, and as a result of that, people are not being housed. It is just that simple. And we have looked at this problem from our vantage point since the inception of the section 8 program, and speaking for myself, and I think other members of the subcommittee, we regard this as a real problem we would like to see addressed administratively rather than legislatively for a variety of reasons.

Secretary HARRIS. May I venture to say that the present condition is an administrative lapse, in my opinion. It is taking the front end of the horse, and not remembering that it has to have four legs, and has to be fed. We must have the whole animal. We just are not putting the entire animal together when we have reservations, and I am asking—and we will be moving to this very shortly—that our goals management system include a longitudinal examination of reservations, starts, and completions. When we examine how we are performing with respect to those components, it is clear they must be examined together and we must have a time spread; we must know what the distance between those points is and understand why, and determine whether it is really necessary.

Mr. ASHLEY. Well, that is well stated, Madam Secretary. And frankly, we are going to have some information along these lines, hopefully by the time we markup, which as you know, is very soon. I would like information for the record, hopefully that can be gotten to us by tomorrow morning, with respect to the latest statistics on progress under section 8 construction and rehabilitation programs, how many units have been completed, how many units have been started, what percentage of the new units approved under section 8 are designed for the elderly. I don't ask for an answer now, Madam Secretary, I would ask that that information which has got to be readily

available be in our hands just as quickly as possible, certainly no later than tomorrow.

Now, I would also like to have your estimate of the extent to which new and rehabilitated units to be assisted under the section 8 supplemental will be financed through—and you've got five categories, mortgages; loans made by State housing finance agencies; and last, by private lenders and not purchased by Ginnie Mae; conventional mortgages; loans made by State housing finance agencies; and lastly, by Farmers Home Administration loans, through the Farmers Home Administration loans.

Secretary HARRIS. Mr. Chairman, I think I can answer one part of that, which is the number under State housing finance agencies. We project about 33,000 this year. But I don't have the other figures. Let me see if Mr. Kliman can answer that.

Mr. KLIMAN. There is some information on the amount we have done to date: October 1 through January 31, there have been 11,750 reservations, including 8,183 section 8; there have been 7,626 section 8 starts through December 31. There is a lag time in getting the program going in any given fiscal year, due to delays in the allocations process. If you will have your staff provide us with the details of this request, we will try to provide as much as we can. I am not sure if all of that will be available. For example, the Department's proposal involves going to conventional financing during fiscal year 1977. To the extent that we actually succeed in conventional financing, there would be no GNMA financing.

Mr. ASHLEY. Let me ask just one final question. Going to your testimony, you are requesting an extension to 30 years of the 20-year maximum statutory subsidy for section 8 new or rehabilitated units undertaken by private developers without Federal assistance or insurance. This strikes me as being unnecessary in the nature of a tradeoff.

If there was legitimacy at all for establishing the 20-year period of obligation, then when we go to 30 years, we are doing so for a reason. It wasn't there when we considered this back in the 1974 legislation, and this tradeoff may be necessary.

What you are saying, it seems to me, is that this is necessary in order to provide inducements and assurances to private lenders that otherwise aren't satisfied. The tradeoff, of course, is that the period of Federal obligations and responsibilities is extended by one-third, and I am wondering what budget impact this is going to have. I am wondering in short, Madam Secretary, as to the efficacy of the proposed tradeoff.

Secretary HARRIS. Mr. Chairman, if I could answer that question obliquely at the beginning, I should like to do so. You suggest that perhaps there are reasons now that did not exist in 1974 for this. I am not certain about that. I would suggest that unless we intend to have the Federal Government take over under FHA insurance all of the section 8 projects that are insured by FHA at the end of 20 years, or unless we make an assumption that is even less possible, that all of the people who live in section 8 units will have an income that no longer requires subsidy, the reality is that at the end of 20 years, the Federal Government probably is going to have to extend the subsidy, because at the end of 20 years we are not going to be able to cut off the Federal Government's moral responsibilities under the program.

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And I would submit to you that if that is the case, we will not be able to cut off the Federal Government's financial responsibility. Therefore, what I would suggest is that we really have been cloaking an obligation that we will in fact assume at the end of 20 years.

The reason we come to you now with this request is that it is clear to us that in order to have debt service costs that are acceptable under this program, with conventional financing, we must have, as you say, the additional assurances, not at the end of the 20 years, but now at the time that the units are to be financed. We are asking for a present recognition of what will undoubtedly be a future commitment. In addition, there is the present need to persuade conventional lenders to come into this program and to expedite the achievement of the goal that we share, getting houses on the ground.

The budget impact is, of course, the difference between the budget authority spread out over 30 years, as opposed to the budget authority spread over 20 years.

Mr. ASHLEY. I can hear what you are saying. For my purposes, frankly, I will want to know—and this goes back to the information that I asked for a moment ago—what do you project in the way of the use of the State housing finance agencies with respect to the additional units that will be made available by virtue of the supplemental appropriation?

In other words, are these State housing finance agencies going to be playing a larger role than had been anticipated back in 1974? Maybe they are a more logical instrument of Federal subsidy policy and programs, and if so, we want to be able to assess that.

Secretary HARRIS. Well, Mr. Chairman, one way I can get a debate around the table at HUD when I call the program staff together, as I do each week, is to raise the question of the cost and role of the State housing finance agencies.

The reality is, because of the 40-year financing, it does have a significant impact on the budget authority figure. And, in addition, there are hidden financing costs because of the tax-exempt financing available.

We project only 20,000 units next year of State housing finance units. The reason we have 20,000 units is that we are convinced that we can move more quickly from housing reservations to housing starts with State housing finance agencies.

I would submit, in response to the suggestion in your question that we are far from an agreement at HUD or in this administration, that the way to go is primarily through the State housing finance agencies. However, this is a debatable question. We see State housing finance agencies as a tool which is available to us in our efforts to get housing on the ground.

Mr. ASHLEY. Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman, and before I go into any questions, let me just say that I am looking forward to this session, as I have in the past, Mr. Chairman, to working with you in an effort to resolve some of the major policy questions we are scheduled to consider this year.

I would also like to welcome you, Secretary Harris, in your initial appearance before this subcommittee.

As we all know, we will be interested in solving the same problems, hopefully, in the same ways. I trust the problems will be few. In any

case, I wish you the best of luck as Secretary of the Department of Housing and Urban Development, and make an offer that my door is always open to listen and discuss and try to be helpful in any matters affecting housing and community development.

My remarks would not be complete, if I did not note that you follow into office a Secretary, who, I think performed excellently in her brief time at the Department. Secretary Hills did much to get section 8 off the ground and strengthen the Department you now head. This is evidenced by the fact that you are sitting here today seeking a supplemental authorization for section 8, when less than a year ago the Appropriations Committee was saying the Department could not utilize their full original authorization.

Secretary Harris, I believe you have a tough act to follow, but I am sure you have the ability, and I am confident you will do well as the Secretary of HUD. And for myself and for all the minority members of the subcommittee, I welcome you to the Housing and Community Development Subcommittee.

Secretary HARRIS. Thank you, sir.

Mr. BROWN. If I may follow up on a question that Chairman Ashley was asking? It involves this whole issue of the State housing agencies. I have been contacted—and I am sure other members have been contacted by State housing authorities—urging that they receive a set-aside of section 8 funding.

Could you outline or would you care to comment, at this time, concerning your sentiments toward legislative set-aside?

By and large, we on the minority side have opposed set-asides, and of course, when the State agencies came to me to talk about it, I indicated to them that I was really not predisposed to reverse the position of the past and advocate set-asides. However, they make a fairly strong pitch for it. Of course, if your 30-year terms for the section 8 program goes into effect, then the distortions probably will not exist to the same extent.

But what about your position on the State agency issue, and also on set-asides, generally?

Secretary HARRIS. Well, generally, I prefer that we not have set-asides. I would hope that this subcommittee and the Congress would allow us the discretion—within the policy guidelines set by the Congress—to meet the housing goals in the manner best calculated to house our citizens,

State housing finance agencies are among the tools we would expect to utilize to achieve the housing goals of the Congress. We have 33,000 units that we expect to reserve for State housing finance agencies in fiscal year 1977; 20,000 of these are in the supplemental, and we have the carryover of the additional numbers.

Now, of these 33,000 it is my understanding that there will be very quick reservations of about 28,000 units. We don't believe there is any need for a set-aside in view of our interest in moving in this direction.

I would point out to you that State housing finance agencies are far from universal in this country, and they are all not equally operational. There are some housing finance agencies that are prepared immediately to move to reservations and then to starts; there are others that would not. I would hope that you would trust our good faith in meeting the bona fide requests of State housing agencies in view of the provision

that we have made, both in the supplemental for fiscal year 1977 and in the fiscal year 1978 budget itself.

Mr. BROWN. I feel it incumbent to say that, if the past is prolog, you probably would receive more support on this side of the aisle than the other with respect to your position on set-asides.

Let me just ask on further question, because I know there are others who want to ask questions. I was interested in your urban homesteading request in the supplemental authorization. You want to increase it from the $5 million to $15 million, which is a threefold increase; yet you have indicated that the supplemental—this request for supplemental authorization is intended to constitute only—and I think I am using your words—an immediate response to the most severe deficiencies.

I kind of question if this falls into this category. But in any case, the urban homesteading program requires a substantial commitment of funds by local communities since the area involved must receive many community services. Are the cities in a position, do you think, to be able to have the local funds ncessary to effectively utilize additional authority in the urban homesteading program?

Secretary HARRIS. We have presently participating in the urban homesteading program 23 cities. In the next phase, which this authorization is to finance, there are 28 additional cities, and they have indicated an immediate wish for urban homestead units.

I don't know whether Ms. Philips is here or not. If you would like to hear the details of the next cut of the 28 cities, Ms. Philips from our policy development and research office is here and can give you that information, if you would like to have more details.

Mr. BROWN. Well, I think maybe it could be furnished for the record. Obviously, if the cities are talking about it, then they are indicating they have the funds necessary to engage in the comprehensive plans for revitalization of the neighborhoods, and I didn't realize that was the case.

Secretary HARRIS. We are still in very few cities, 23 now plus 28 probable additions, or 51 cities. And we do not provide a large number of units. The $15 million would include about 3,000 units, if my memory serves me correctly, and that is not a lot of housing. But it is clear that those 28 cities are prepared to take not only the amounts allocated to them but also at least in one instance of which I know, prepared to take even more than we are able at this time to allocate.

Mr. BROWN. Thank you very much.

Thank you, Mr. Chairman.

[In response to the question asked above by Congressman Brown on the urban homesteading program, the following information was submitted by Secretary Harris for the record:]

REPLY RECEIVED FROM SECRETARY HARRIS REGARDING THE URBAN HOMESTEADING PROGRAM

The Invitation to Participate in an Urban Homesteading Demonstration, to which the applicant cities responded, stated that an urban homesteading program should not stand by itself, but must be integrated into a program of neighborhood revitalization. It also indicated that HUD was interested in homesteading programs in cities that were willing to specify the neighborhoods in which they would coordinate conservation efforts and provide the public services and amenities commensurate with the need to arrest decline and encourage private invest-

ment. The active participation of the private sector, especially in the area of interim and permanent mortgage financing, in a City's homesteading demonstration was also stated as being important to the formulation of a balanced demonstration plan.

Our past experiences with the 23 demonstration cities selected in the first round of competition in October 1975 indicates enthusiastic support of the demonstration and a considerable amount of local public and private dollars committed to support their programs. In the first year of the Urban Homesteading Demonstration, just over $52 million in public and private investment capital, exclusive of the value of the Section 810 properties, had been committed to the preservation of the target neighborhoods. Specifically, more than $14 million in rehabilitation loan funds, exclusive of Section 312, had been committed to homesteaders by private lenders; $2.5 million in Section 312 loan commitments had been made to homesteaders and other homeowners in the target neighborhoods; more than $17.5 million of local monies, exclusive of Community Development Block Grant (CDBG) allocations, had been committed to supportive programs and neighborhood improvements; while an additional $18 million in CDBG funds had been committed to capital improvements and the delivery of supportive services to Urban Homesteading neighborhoods.

Early review of the second round cities indicates a similar pattern of commitment from both CDBG and private sources to the demonstration program.

Mr. ASHLEY. Mr. Moorhead.

Mr. MOORHEAD. Thank you, Mr. Chairman. And I want to join with you and the ranking minority member in welcoming Secretary Harris to the Housing and Community Development Subcommittee. We are delighted with your appointment. We look forward to working with you. We know you are going to do a good job. And I assure you, you will get full cooperation from this subcommittee.

Having said that, I have to ask some questions that in your statement bothers me. The first is on page 2 of your prepared statement. You say that while housing is improved, "low-income assisted housing has not shown adequate improvement." And then you say, on the first page of your testimony, that you found the Department which was meeting numerical goals but not actually producing units represented by the numbers.

And then throughout the statement you lay such heavy stress on the section 8 program. In 1974 we in this subcommittee were faced with the proposition that if we wanted to have any housing program, we had better support section 8, because that was the only action that was going to be approved. And on page 4 you refer again to the 400,000 units of housing under section 8.

It seems to me I remember hearing that 400,000 repeated year after year, and yet we never got there.

My question to you, Madam Secretary, is, maybe section 8 is good, but it has not met those objectives that you have, that low-income housing has not come up to your standard, and we are producing numerical units but not actual starts. And granted that you have only been in office for 30 days, I would hope you would also be looking at other alternatives to the section 8 program which has not, at least, produced housing as quickly as we had been promised when we passed that legislation in 1974.

Do you have any comment on that?

Secretary HARRIS. First of all, Congressman Moorhead, we are not limiting our reservations, or new construction, to section 8. We intend to have public housing units in the mix. We have now in the reservation mill 33,000 units of public housing which we are beginning to process. We have brought our people to Washington for training and

will continue such training activity to prepare staff to process public housing under the new regulations.

There was, as I need not tell you, an unhappy moratorium on processing of public housing. We intend to continue public housing in fiscal year 1978, as we will indicate to you. We do not have a supplemental for public housing because we have funds for public housing which we will be utilizing to achieve the 33,000 public housing units in fiscal year 1977 as far as reservations are concerned.

At the time I was designated as the President's nominee for this position, I took a hard look at section 8, and while I might not have been an advocate of section 8 at its inception, it seems to me that the assisted housing sector in this country has been beset by a stop and go mentality that I would like to eliminate. I think that if we can improve the program so that it does in fact reach low- and moderate-income people in greater numbers, section 8 can work. I have said in other circles that the program it may not be perfect, but it is almost all we have at this moment, and because it is so new, I would rather move toward perfecting it than toward eliminating it. We are examining our procedures to be sure that the use of section 8, and the operation of the housing assistance plans, makes it possible for us to secure housing for low- and moderate-income persons.

Mr. MOORHEAD. Well, Madam Secretary, I think you have answered my question, but just to button it up, if I support your request for increased funding for section 8, for an extension of that, I hope that that would not be interpreted by either you or me as saying that you are following the tradition that section 8 is forever the only housing program that you are going to be advocating; is that correct?

Secretary HARRIS. That is correct. And I think we make that clear by our commitment to public housing units within the housing goals that we establish. So we have already moved away from any notion that section 8 is the only housing device that we will utilize.

Mr. MOORHEAD. I thank you.

I do notice you do have additional authorization requests for public housing subsidies, so I realize you are not wiping that out, and I am not saying that is a perfect program. But I do think that it is important.

Now, Madam Secretary, maybe you would like to have Mr. Kliman help on this question, which has to do with the National Institute of Building Sciences. This was established, as I recall, in the act of 1974. It was a long time, a year and a half even, before people were named to the Board. And it has since then received nothing but the barest of funding, exclusively through your research and development program, and only in an amount that can just barely keep it alive. And I would like to have your recommendation as to whether the proper procedure is to try to go directly for funding to the Office of Management and Budget, which in the previous administration was not sympathetic, or whether we should ask for additional funds for your research and development program with the understanding that it would be to give adequate initial funding to this semipublic, semiprivate institution, which is, I think, so important, particularly when we think of research and money for new techniques to conserve energy.

Have you any advice for us at this time, you or Mr. Kliman?

Secretary HARRIS. I have had occasion to examine the question that you have raised.

As you know, the administration's budget makes no change in the Ford budget with respect to NIBS, as I have in my new bureaucratic role come to learn to call it. As a result, the seed money the Department provides for this institution will continue to come out of the PD&R budget. In fiscal year 1976 the Department provided $125,000, and it has provided $15,000 so far in fiscal year 1977. Presently, $5 million is authorized in fiscal year 1976 and fiscal year 1977. The National Institute of Building Sciences will continue to receive seed money out of the Office of Policy Development and Research budget. At the same time, I intend to review the details of the Department's research budget to see both how much support it can provide to the National Institute of Building Sciences and whether or not PD&R is the most appropriate source of the funding.

Mr. MOORHEAD [presiding]. $125,000 out of a $5 million authorization is what I would call minimal, Madam Secretary.

Mr. St Germain?

Mr. ST GERMAIN. Thank you.

I, too, want to welcome the new Secretary and to state that we look forward to working with you. We hope that the work will be a cooperative effort. If you check your basket, you will find that you have received a great deal of correspondence from this Member already, and you will continue to. I am just looking forward to some replies. I appreciate your 30-day factor, but some of these questions I have been holding onto for 8 years.

Secretary HARRIS. Well, I think you have received some replies, haven't you?

Mr. ST GERMAIN. They are beginning to arrive, yes. That is why I say that I look forward to a cooperative, joint effort, working with you.

I wonder if Mr. Kliman might not come to the microphone, if you don't mind, Madam Secretary.

Secretary HARRIS. Not at all.

Mr. ST GERMAIN. Concerning some of these numbers, which we certainly don't expect you to have at your fingertips even 7 years from now.

Secretary HARRIS. I am not sure Mr. Kliman agrees. He keeps telling me I ought to know these things.

Mr. ST GERMAIN. How many starts did you say we have as of this date under section 8, Mr. Kliman?

Mr. KLIMAN. In this fiscal year, to date, the starts have been 7,626. That is for the first quarter of the year.

Mr. ST GERMAIN. How about last year.

Mr. KLIMAN. Approximately 34,000 units. I can check that in just 1 second.

The starts were 14,287 in 1976 and 20,048 in the transition quarter, or 34,335 total.

Mr. ST GERMAIN. So we have, approximately, 41,000 to 42,000 starts, to date. Of those, do you know how many are new construction and how many are rehabs?

Mr. KLIMAN. The great majority of them are new construction. In

1976 and the transition quarter about 2,000 of them were rehabilitation starts. On the starts in fiscal year 1977, to date, 1,239 were rehabs. The balance were all new construction.

Mr. St Germain. 1,239 were rehabs and the balance would, therefore, be approximately 18,700.

Mr. Kliman. In 1977 it is 6,387 new construction and 1,239 substantial rehab, for a total of 7,626. In 1976 and the transition quarter, out of the 34,000 approximately 2,000 were rehabs, leaving 32,000 new construction.

Mr. St Germain. Madam Secretary, I am troubled by one thing. On the one hand, we are saying that you are recommending a 30-year authority rather than 20 years. On the other hand, you are saying to us, we need additional authority for additional units. I am having trouble in my own mind resolving this. It seems to me that they are in juxtaposition. If in fact the builders, and the developers, are there, ready, willing, and able, to the extent that we need more authority for the balance of this year for a supplemental authorization, then is it in fact—or can it in fact be corroborated that this additional 10 years, which would be an increase from 20 to 30 years, is necessary?

Secretary Harris. We have checked around the country on this question in an effort to ascertain why it is we are unable to move last year's reservations to starts, and we discovered that in many instances it is, insofar as conventional financing is concerned, a question of whether the conventional financer wishes to obligate himself to a 30-year mortgage where there is a 20-year term for the Federal Government's commitment to the subsidy. We are reasonably confident on the basis of our analysis of this question and our conversations that the 30-year term would help to shake loose the conventional financing that we seek.

Mr. St Germain. Have you that impression, and has this educated impression come from conversations with a number of qualified, ready-willing-and-able conventional lenders? Or is this what you are being told by the developers who have these reservations?

Because, you see, one of the problems I foresaw with the section 8 program ab initio was the fact that as opposed to previous programs like the 236 where the commitment was attached to the property, it no longer is the case. Isn't 90 days now that they have to fill that apartment, after which the developer or the owner loses his or her or their supplement?

Secretary Harris. Well, we are administratively dealing with that. We are going to provide a longer period for the financing of vacant units so that we can avoid that degree of insecurity.

May I say, if I may use this opportunity, that in addition to the 30-year subsidy that we are seeking, we are also going to be implementing similar administrative changes that we think will also make it more likely that conventional financing will be available.

With respect to your question of with whom we had held conversations, you mentioned developers and financing institutions, and my answer would be, both.

Mr. St Germain. By these administrative changes, you are talking about a longer-term attachment of the subsidy to the unit?

Secretary Harris. That is the 30 years.

Mr. St Germain. I am talking now, Madam Secretary, not about the 20 or 30 years, but rather I am talking about the period of time during which the owner receives a subsidy when that unit is vacant.

Secretary Harris. Yes, I am saying that we will increase that period. We will no longer have a 60-day cutoff. We will extend that. My memory is that it is to a year for the first vacancy, and then after the occupation we can extend it. If there is a subsequent vacancy in that unit, we will be able to extend the period of subsidy, assuming bona fide efforts to fill the unit.

Mr. St Germain. So that we are essentially getting back to the idea of the 236.

Secretary Harris. Shall we say that what we are trying to do in the Department is to find the problems in the section 8 program.

Mr. St Germain. Well, Madam Secretary, that's the problem that I foresaw, as I say, ab initio, from the very beginning.

Madam Secretary, when the State finance agencies came to see you—and I happen to be one of those fortunate individuals who has a very successful State finance agency. They have done exceptional work. And they are ready, willing and able, with open arms, to gobble up more units if you would provide them. We tried to have them transferred from other regions earlier this year, or at the end of last year.

One of the observations that they made is that, absent the set-aside, they have to go through the usual regional allocation, and once the allocation goes to the region, then it comes to the district office, and they contend that this is what creates a road block, timewise. They are concerned about the time element. And frankly as one who works very closely with his constituency in this area, I can attest to the fact that when we go thruogh that regional office the gears grind very slowly. I sometimes have trouble getting people at the other end of the line. They are in conferences, they are here, they are there, they are everywhere.

Those units that are allocated directly to the State agency, believe me, they utilize them immediately. They have people ready, willing and able who would not have the problem that Chairman Ashley mentioned at the very beginning of reservations being granted and no spades in the ground. Our spades are in the ground immediately, and the fact that many States don't have State agencies functioning in this manner, I think, should not militate against those that have had the foresight to create these agencies, to commit themselves, so they can do the job as I think you would like to see it done.

So my question is, do you not agree that it is a great timesaver when there is a direct allocation set aside to the State agencies?

Secretary Harris. It is a timesaver if you have a Department that is a timewaster. We believe we are going to end the time-consuming problems that presently exist. The President has agreed to send over to the Senate the names of people to occupy the Under Secretary and Assistant Secretary positions, who have themselves been on the other end in most instances of this process, and one of the reasons I was committed to each of those persons for the positions that I hope they will occupy is that each expressed to me the concern that you have expressed about the time period required to move the Department.

Now, we are all committed from the Secretary straight through to the Assistant Secretary level, without question, to this. I have dis-

covered that the career people who have been occupying those positions in an acting capacity are also committed to ending the time lag.

We have, under the chairmanship of the Under Secretary-designate, a task force working now on administrative managerial changes that will make it possible for us to expedite the performance of our mission as a Department; and I assure you that nothing has higher priority for me than ending both the reality and the reputation that our Department has for costing people money, because that's the other side of it—costing people money through unconscionable delays.

Mr. ST GERMAIN. Madam Secretary, I want to wish you all the luck in the world. But I have sat here—this is my 17th year—and I have heard this story time and time again, and your career people who have been in office for quite a while will tell you the same thing. You are understaffed; you will continue to be understaffed in the field offices where the work has to be done, where you need the appraisers, where you need the architects, where you need the technical people to review the plans. There is no way you are going to change that and God bless President Carter, he is gone to all the Departments and said we are going to cut down. And there have to be cuts and there are a lot of cuts that are warranted.

However, in HUD, in your regional offices, and particularly in your district offices where the nitty-gritty work is done, you have been short all these many years. You have added programs—not you, but the Department has added program after program after program, but they have not added personnel to cope with these programs. Why was 235 and 236 a bust? Why were there such scandals all over the country? Because they did not have the adequate personnel and they did sloppy work to crank it out and push it out. Certainly you don't want to do that.

And then the alternative, if you are going to do it properly, Madam Secretary, I wish you a lot of luck, but you just don't have the personnel trained properly out there in the field, and it is going to take 2 or 3 or 4 years to get it, even if everyone agreed to give you those personnel that you need.

Secretary HARRIS. Congressman St German, may I say that the first aid you have given me is this transcript which I will show to the OMB, I am sure at some future date, as support for a position that I am certain I will be taking about personnel.

We have, within the 4 weeks that I have been at HUD, begun to address this question; and in the FHA Commissioners' segment or department, Mr. Burstein has already begun to examine questions of how we can retrain people already in place to do some of the tasks we have to do. It is our preliminary judgment that it will not take 2 or 3 years, that it can be done in a shorter time frame, because we start with people with some comprehension of our mission.

We do not at this moment know the degree to which we can be successful in this retaining, and I must say that we have a kind of assembly process. We will be able to retrain if you give us the 30 years, so that we will have less requirement for FHA personnel; and we are making certain assumptions that program redirections will make it possible to do this task.

We are already addressing it within the Department; we have started in the last 4 weeks.

Mr. ST GERMAIN. I apologize to my colleagues for going over my time limit, and I assure you I will do everything I can to help you.

Mr. MOORHEAD. On a bipartisan basis, I say, good luck with OMB. Mr. Stanton?

Mr. STANTON. Thank you very much. I wish to yield very quickly to Mr. McKinney, who has to leave.

Mr. MCKINNEY. Madam Secretary, I just want to apologize. I have to leave. We seem to be having some trouble getting an assassinations committee together; and I would just wish you well and tell you as a confirmed urbanist I am expecting great things from you. You will never have enough money to satisfy me, but as long as we can work together and expedite, I am delighted to see you and I compliment you on some of the old faces I see around you and some of the new faces, like Bob Embry thatI hear you have hired. I look forward to perhaps what you said coming through—that those who were at the terrible dilatory end of the process may now devote their lives to making the process a little less dilatory.

Last but not least, I hope that imagination will reign supreme, starting tomorrow when I guess I am down there at 11 a.m., to ask you for some imaginative projects. Thank you.

Secretary HARRIS. Thank you.

Mr. STANTON. Madam Secretary, I can't help but reiterate the comments expressed by the gentleman from Rhode Island, Mr. St Germain, a couple of minutes ago. I think he did a very good job in conveying to you the problems that lie down the road, and especially to point out the problems that come with asking for additional units at the same time you are asking for an increase in the contract term from 20 to 30 years.

I would like to get specific for just a minute. When the cutbacks came last year in section 8 in the State of Ohio, it was necessary for them in allocating units to the 18 counties which makeup the nonmetropolitan areas in Ohio, to limit that allocation of units to, 100 units of 202, 84 units of rehab, and no units at all of section 8.

There also were no units allocated to the State's housing authority; none at all.

So, as you approach your goal of 165,000 additional units, I would ask that you take a look—and you probably plan to—at those areas of the county in which the demand is greatest, and that a formula can be worked out to get these units out where they have the best chance of being put to use as quickly as possible.

The one question I have, once again using my own State as an example, is where will these units be administered from. These units were handled out of the HUD office in Columbus. Last fall there was a change, and I believe effective December 1 the allocation of units, and so forth, was transferred to the FHA office in Cleveland. Now, I hear there's been another change and there's a hold on, so people out there aren't really sure which office will administer the program. I wonder if you can enlighten me on this.

Secretary HARRIS. I think you refer to different things, which may look like the same thing. One, I believe, was the conversion to the full service insuring offices, which took place before I took office. I think that has been completed with respect to your region.

I did put a hold on similar changes with respect to two regions in which there had not been a change because I wanted an opportunity to take a look at whether or not this was the appropriate utilization of resources.

As I indicated in my comments to Congressman St Germain a minute ago, we are looking at a different approach, and I did not want to proceed with pending reorganization of full service offices until I had been able to look at where we were going.

And I think those are the two conditions. So, the hold does not affect your area.

Mr. STANTON. Thank you very much.

Mr. MOORHEAD. Mr. Mitchell

Mr. MITCHELL. Madam Secretary, it is good to see you, and I, too, welcome you to the committee. I assume that splendid array of talent and expertise behind you has already advised you that I cannot be listed among the staunch supporters of section 8. I opposed it in the beginning; I continue to oppose it.

I hope you can bzreak down my opposition. $850 million authorized and appropriated last fall, right, for section 8?

Secretary HARRIS. $675 million was appropriated.

Mr. MITCHELL. Now, of that amount—and I know it has just started moving—how much has in any sense been obligated by reservation or by anything?

Secretary HARRIS. I will ask Mr. Kliman to respond to that.

Mr. KLIMAN. Approximately $30 million for housing purposes.

Mr. MITCHELL. Of the $675 million from last fall?

Mr. KLIMAN. That is correct. That goes along with those relatively low unit reservation numbers that I recited earlier.

Mr. MITCHELL. All right, that is $30 million. Now, given the horrendous amounts of impedimentia that you referred to in your testimony, in this program, how can you anticipate a spendout rate that will enbrace the whole $675 million in this coming year? In other words, I am really asking for justification for the supplemental. Past performance has indicated it has not been spent.

Secretary HARRIS. Well, Congressman Mitchell, we are at the stage of reserving; and while we are trying to shorten the time between reservation and start insofar as new construction or substantial rehab is concerned, the units that were reserved last year could not possibly be at the point of start. However, we cannot move any housing from the point of reservation to start unless we reserve.

We believe that we ought to look to the development of a base of starts at some point, but we are not yet at that point.

We can't do that if we don't start to reserve them. Once we get them reserved, then we can expect to be moving to the payout point, which is the point of obligation.

Mr. MITCHELL. Madam Secretary, I hope you can understand my concern. It was articulated I think by Congressman Moorhead. We have been hearing 400,000 units for so long, it just gives me some concern.

In your manner of deciding operating subsidies for public housing, and such subsidies are absolutely desirable, am I right in assuming that now they are limited to covering only increased utility costs?

Secretary HARRIS. That is correct.

Mr. MITCHELL. Do you at any time anticipate an increase, let us say, in terms of maintenance One of the problems with public housing has been that we haven't provided money for maintenance.

Another problem has been the matter of security. We built public housing—and very poorly—and we put it in the worst areas, and then we did not provide any security. Surely, now, it would be appropriate to anticipate security and maintenance expense somewhere down the line for public housing.

Secretary HARRIS. I would not want to make any statements that would commit anybody to any figures. But let me say, in fiscal year 1979, we will have the first opportunity to put together the Carter budget for housing. And may I say, without committing myself to any figures or any budgetary allocations, that this Secretary of HUD shares completely the point of view that you have expressed. We have failed to recognize the realities of maintenance in any building and particularly the problem of maintenance and improvement in a building that is in an area which is subject to perhaps more problems than the Watergate, and I might say that, having had an office in that building, even their elevators get out of whack sometimes, and we should not begrudge public housing the amount of money it takes to deal with such problems.

Mr. MITCHELL. Not only do the elevators get out of whack, all curious kinds of things happen in the Watergate.

Secretary HARRIS. And we have increased it $665 million in fiscal year 1978. We did increase it in fiscal year 1978 budget, but I do not claim that that is——

Mr. MITCHELL. What percentage increase is that over fiscal year 1977?

Mr. KLIMAN. The original Ford budget request was $612 million. The revised budget will increase it to $665 million; I guess that is approximately a 9-percent increase, a little under.

Mr. MITCHELL. OK. Has my time expired? Do I have time for another question?

Mr. MOORHEAD. The Chair will recognize the gentleman for 1 additional minute.

Mr. MITCHELL. I do appreciate it, because I do want to impress my friend, the Madam Secretary, that I am indeed a friend and staunch supporter of certain aspects of HUD programs, homesteading being one. It is quite a thrilling experience to see what is happening in my city with homesteading.

However, the problem is that the homesteading operation, as now conducted, acts effectively to preclude many of the poor from participating in it. The problem is that when you go into homesteading, you sometimes have to bring shells, just shells, up to housing code standards. And in my own city we have investments of up to $50,000 to $60,000 in homesteading rehabilitation, which means that this program very largely precludes participation by the poor, the working poor.

I can't ask you to make a commitment now, but I do hope you would take this problem under study, and find some method by means of which we can get the poor and the working poor to more effectively participate in homesteading. It is a good program, but it should not be reserved for just middle-class persons.

Thank you very much. My time has expired.

Mr. ASHLEY [presiding]. Mr. Patterson?

Mr. PATTERSON. Thank you, Mr. Chairman.

Madam Secretary, it is a pleasure to have you here this afternoon and listen to your testimony. As one of the newer members of the committee and the subcommittee, I have had the pleasure of being here for about 2 years now, and many things still confuse me about my job. So, I really admire you in coming before our subcommittee and doing such an able and adequate job after only 30 days.

I want to agree with much of what has been said by my colleagues on the subcommittee with regard to section 8 housing and, therefore, I won't repeat any questions along those lines.

Furthermore, I would like to indicate that this is one of the most complete justifications that I have seen in terms of the backup data and the material which you have provided us with; and so I have just a few questions.

I think that you have justified your requests very well today.

I would like to, if I may, address an issue, that is becoming increasingly more important, I think, nationwide. It is very important to southern California, where I come from. Eighty-five percent of the people cannot afford to buy a home in southern California, and it is probably about that nationally these days; whereas in the 1950's and 1960's it was more like 40 percent who couldn't afford to buy a home. And yet, we have in southern California people waiting in line to buy a home for days or going through a lottery system to buy certain homes in upper-middle income areas. And then they turn them over 2 or 3 weeks later at a rather large profit.

It seems to me that such a practice is not in the public interest, nor in the long-term private interests of any individual or anyone concerned about housing. And I call that to your attention as something you can begin to peruse and thing about.

And, a little bit on that line, I will ask a question with regard to your position and that of the administration with regard to the "revival" that we hear about, not the tent-type revival, but FHA's revival. This particular agency is just about nonoperative in many respects now, and conventional financing seems to be the mode. Yet, as I referred to the 1950's and 1960's when it was operating in full swing, one out of four houses were processed by FHA.

Do you see FHA or some other creation under your jurisdiction in HUD coming to light in the next year or two?

Secretary HARRIS. Congressman Patterson, we have a study in HUD on the future of the FHA. I have not been able to give it full and thoughtful attention, and I am unable to say what the future of FHA will be. I expect that we soon will have a position which is a mature and considered position on this matter.

Mr. PATTERSON. I thank you. I have no further questions, and yield back the balance of my time.

Mr. ASHLEY. Mr. Wylie?

Mr. WYLIE. Thank you, Mr. Chairman.

Madam Secretary, I too want to welcome you here and say it is quite an honor for me. Thank you very much for coming. I say that and mention that in Columbus, Ohio, I represent a district which I think at the time was the largest single project approved in the United States under the new section 8 program, some $13 million. So I am one of

those who thinks the section 8 program is all right, at least up until now.

I wonder, as you suggest in your plan for a 30-year section 8 contract, if that calls for the change to be retroactive to prior approval.

Secretary HARRIS. It calls for the change to be retroactive to unfinanced prior approvals, those which are still in what I call, and I think my colleagues at HUD call the pipeline, with the exceptions that are eliminated from the proposal, such as the 244 coinsurance.

Mr. WYLIE. Well, don't you think that might not be going beyond what is necessary? And the reason I say that, isn't it possible that a large number of those projects could be completed where there has been a feasibility study already rendered, and preliminary work and data has already been accepted or approved?

Secretary HARRIS. It is our information that there is still a significant number of previously reserved units that would go to starts faster were this enacted and made retroactive to those units.

You see, we are talking about the thousands reserved in the last fiscal year, as well as the carryover from other fiscal years. A significant number are still in the pipeline which we think we would be able to shake loose with the 30-year subsidy. And that is why we have asked that it be made retroactive.

Mr. WYLIE. How close to actual groundbreaking does the pipeline extend?

Secretary HARRIS. Well, I hope it extends to some very closely. My examination of this began before I came into the Department. This was one of the first questions I addressed as the nominee designate and it is clear to me that we are still a big distance from starts with a goodly portion of the pipeline.

As a matter of fact, this proposal came from my demand—it literally was that, and I usually request—but my demand that I be told how we could shake the units in the pipeline loose. This was the proposal that came. And I think it's essential that it be retroactive, because to start now means that we are starting with 7,000 reservations at this moment and the reservations that would go to make up the balance of the new construction within the 400,000 units for this year.

So if it is to be meaningful, it ought to be retroactive.

Mr. WYLIE. Well, it seems to me as if contracts have already been entered into for conventional financing in most cases, and I speak of the Columbus project there, so that everyone is understanding, or understands what their commitments are. And the additional 10 years would not make all that much difference, or shouldn't make all that much difference.

I think the agreements have already been entered into—or am I missing something there—so that there isn't any way that anybody could get out of the contract to go ahead with the projects.

Secretary HARRIS. Sixty percent, if my memory serves me correctly, of the developers expect to go FHA and that is a very slow method. We believe that if conventional financing were available to these developers, they would go the conventional financing route.

Mr. WYLIE. I see. Thank you. Now, you are in one breath asking for additional section 8 money in this supplemental request, and in the next breath, in effect, saying that you need a 10-year extension

to 30 years, which would seem to be a little bit inconsistent to me. In other words, why do you need the additional money if the section 8 program hasn't been all that successful, or has not been moving ahead as rapidly as we would have anticipated?

Secretary HARRIS. We have a great pentup interest in performance under section 8 program as is manifested by the level of reservations in fiscal year 1976 and the transition quarter. It is clear that if we can secure financing, we can move from those reservations to housing on the ground.

As I have said earlier, I believe that 400,000 units ultimately in construction on an annual basis is a number we ought to be able to provide for in the assisted housing program. The only way we can ever hope to have 400,000 units per year is to be sure we have reserved enough to have 400,000 units a year.

If we do have the authorization for the additional units above 235,000, then we will reach a point when we have fewer than 400,000 available to us for the building or the provision of assisted housing.

Mr. WYLIE. Thank you very much. Could I ask just one more short question, Mr. Chairman?

Mr. ASHLEY. Surely.

Mr. WYLIE. Everything in your statement is focused on lower income Americans, to which the Department is committed and that statement appears on page 4. Wht is the current definition of a "low-income American?"

Secretary HARRIS. My memory is it is approximately 80 percent of median or below.

Mr. WYLIE. In an SMSA area?

Secretary HARRIS. Yes.

Mr. WYLIE. Thank you very much.

Thank you, Mr. Chairman.

Mr. ASHLEY. Mr. AuCoin?

Mr. AUCOIN. Thank you, Mr. Chairman.

Madam Secretary, welcome to the committee. I think the Secretary knows the esteem in which I hold her, and I want to personally tell you how pleased I am to be able to sit on this side of the table in this committee, and look upon the head of HUD and the agency for once not in an adversary relationship. I am not sure I can say that of OMB yet, but with regard to HUD, I really feel that way.

And I am very excited about the change that you have and the opportunity that you and the administration has to effect in-housing policies in the coming years. And I do wish you well.

I am particularly pleased with the number of specifics in your statement here. And I am under the disadvantage of having arrived late from another committee meeting, and so I have not completely read your statement. I do want to say for the record that I think the homesteading demonstration program is on worthy of increased commitment and support and I compliment you for what you have done along those lines.

And then with regard to section 8, allow me, if I may, to make a couple of observations. No. 1, I am pleased to see that you are asking the Congress for increased funding authorization for this very, very troubled program. And I am also very pleased to hear what I thought

I heard you say a few minutes ago about some of the administrative steps you intend to take to help give confidence to section 8.

Because it seems to me that what we have on our hands is a program where everybody administratively for the last 8 years has been talking about that is the only bird that is going to fly when it comes to housing, and it is fraught with problems. And one of those is the administration and rules and regulations is backing it up and does not give great confidence to the program itself. Consequently, we are really hurting for housing as a national policy.

Did I understand you to say, Madam Secretary, that among the administrative changes you intend to take would be not to only adhere to the letter, but also the spirit of the language of last year's housing act on the providing of section 8 funds on vacant units from an increase from 90 days to 1 year, but also those funds for those vacant units would also be available to subsequently vacant units. Did I understand you to say that?

Secretary HARRIS. Yes. I don't have the regulation before me, but we are planning to have a realistic approach to the vacant units in section 8 housing. And in addition, we, of course, will continue to be certain that good-faith efforts are being made to fill these units.

May I say, we are not particularly fearful about this, because we think that the demand is there, and there will not be excessive vacancies.

Mr. AUCOIN. Well, this is a particular issue with me, and it illustrates the problem I have had with HUD in the past, and I am sure we won't see much of it in the future. And that is, this subcommittee, in legislating, and HUD sitting on its hands and pocket vetoing, I guess, the full impact of what we're trying to legislate. This language that I just referred to on vacant units was legislated. I authored the language in the last Congress, and it wasn't until you arrived that I got any indication at all that the agency intended to make good on that language. I am pleased with your arrival for that reason, as well.

In your discussion with Congressman St Germain, you referred to many of these past problems. I want to get into that for a second, as well. I completely agree with my colleague from Rhode Island. I think the problems you have out in the regions is absolutely staggering. I know you know that, too, because I know you told your President that you are a starved agency, and that is where the starvation is.

And it seems to me to carry the argument, or the discussion, back to where it started when you began the exchange with Congressman St Germain that you are really committed to the number of units that you have committed yourself to, and you look at the amount of work that you have got to do internally to get something through, and in effect, achieve with speed, that you would not turn your shoulder lightly on a set-aside for State agencies, which, for example in the State of Oregon, as they have in Rhode Island, have demonstrated that they can deliver. It just seems to me, Madam Secretary, that the briefing I got when I arrived at the committee, if that was accurate, that you are saying that you are not very enthusiastic about that set-aside idea, I wish you would reconsider, because you have got some reorgani-

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zation problems and you have got some streamlining problems, and I would hope to see your target in units not achieved while you are making your brave attempts to reorganize and bring greater efficiency out in the field.

In the State of Oregon 70 percent of the section 8 units that have been constructed or rehabilitated come through the State agency, and I don't think it is really wise, especially if we are committed to targets as ambitious as you have stated and which I applaud you for, to turn our backs on the set-aside for State agencies.

Now, am I accurate in my impression of what you have said about set-asides, and if so, would you argue with me on that count for a moment or two?

Secretary HARRIS. I would not want to argue with you, Congressman, but may I suggest that set-asides are not required. And my response to the set-aside question was that we need to have discretion to use all of the tools available to us.

Now, we have 33,000 units programed this year—that is, in fiscal year 1977—for State housing finance agencies. We understand that when this committee and the Congress approve our supplemental, there is a present demand for 28,000 units. That means that we have 5,000 units to peddle, and if you are right, they will be quickly peddled. If indeed the other aspects of our section 8 program do not meet our expectations and are not carried to reservation, we are not precluded from adding to the units available to State housing finance agencies. It costs us in total units, but we have the ability to do what the Congressman is suggesting. I would hope that the Congressman would not want to set aside more than we have programed. I assure you of our good faith in wishing to use this tool, because we do believe it is an effective one for getting housing in place.

Mr. AUCOIN. Well, I appreciate the Secretary's statement, and I can say to her that I can accept your good faith far more easily than I could accept a similar statement not too long ago. And I try not to be partisan in saying that.

Let me ask one other question. You have mentioned that your Department is not looking at section 8 as the only tool by which we achieve our housing goals, or goals for shelter for the American people. And I compliment you for that, as well. And I am wondering if you personally have had an opportunity to review your present regulations dealing with section 23 which state that no leases under section 23 will be renewed beyond June 30, 1978. It seems to me that section 23 might be an additional tool.

I know in the city of Portland there are 900 families under that program currently that HUD has told the local housing authority people that if this regulation goes into effect and is terminated, there are no section 8 funds that can be transferred to put those 900 families in Government-assisted housing.

I am wondering if the Secretary has taken a close look at that regulation and perhaps a need to repeal it. So you have an additional tool of the kind you described.

Secretary HARRIS. I have not had a chance to look at this particular program or the regulation. As you may or may not know, I have said that once the budget process, this round of the budget process, is completed, I intend to read the regulations that are in place and

indeed expect to put on my bedside table this weekend to replace "Sleeping Murder" the regulations of our Department of 24 CFR. But I will look into that.

Mr. AUCOIN. I can't tell you how much sympathy I have for your reading it. Let me strongly encourage the Secretary to look at the regulation I refer to as well as the letter I sent as of, I think, a day ago. Because if you're looking for additional tools, I think you will find that is a good one, and it could even serve as a good benchmark to measure the progress of section 8. And I urge you to do so.

My time has expired. Let me just welcome you to the committee, and I am very pleased to look forward to the next 2 years in working with you.

Mr. ASHLEY. Mrs. Spellman.

Mrs. SPELLMAN. I, too, would like to extend my welcome, and I don't even have to say how delighted I am to see you. It gives us great hope that some things will be happening. As we know, many things must happen if we are ever really going to address problems.

I was particularly happy to hear Mr. St Germain and Mr. AuCoin talk about the personnel factor, because we hear so much about having too many Federal employees, and yet where we need them to really provide the services that need to be provided in this Nation, all too often they are not there. So I think that is mighty important.

I know I personally started a column in my last newsletter calling attention to the beautiful bureaucrats. I think bureaucrats can be beautiful, and we need them, and they are the people that make the system work. My very first example was a HUD employee, Harry Staller, who then was moved out of this area and promoted to the regional office. These are not the people that say, it can't be done, but are the ones who figure how it can be done.

Now, there are some things that concern me, and I am only going to address myself to two at this point. We almost had a crisis in our district recently. Existing housing and existing apartments wanted to convert to section 8, and we suddenly found ourselves faced with quite a few in my district who were applying. In one case, we would have had 800 units ultimately, 600 applied for and 200 in the mill. I could not help thinking that was going in the wrong direction—that we are going to be bringing large numbers of people together, people with problems, and with no facilities in that particular area to take care of them. It seems to me, if we are going to address the needs of poor people, we have just got to stop going backward and saying we are going to put them altogether and get them out of the way. Instead, we must help intersperse lower income individuals and families throughout communities. I thought that was the direction we should go. We did, and I am glad to say HUD respected that. Those in government in our county, that is Prince Georges, felt that the original application would not be a proper way to go, and what we really needed was to scatter families of these large projects in all of our communities.

Now, No. 1, I would like to know just what the policy will be on these kinds of projects? Are we going to attempt to scatter people about the community so that they can benefit from living in among other people rather than put them altogether in large enclaves?

Secretary HARRIS. We are committed to racial and economic and social mix in the programs that we are responsible for. It seems to me that the way the programs have been developed, it is possible to achieve this. I am not familiar with the developments of which you speak, but it seems to me there is every reason to be concerned about deghettoizing, both from the economic point of view and from a racial point of view, as much of our housing in this country as we can.

Mrs. SPELLMAN. I am delighted to hear you say that. Some of the people who helped oppose that kind of development were people who had come from another, earlier public housing development, one which became so bad that they really didn't feel they could raise their families properly. We have since torn it down. There was just no rehabilitating it. Here were people who had finally worked their way out of debt and were in housing they were paying for, and all of a sudden it was about to fall apart. These were the folks who did a superb job in spelling out what the problems would be, the problems they had escaped from.

Second, I am very much in favor of subsidizing families themselves instead of subsidizing the owners of the apartments. The finders-keepers certificate program makes very, very good sense. However, it isn't working well enough because families are not being accepted. The income limits are simply too low.

How can we make that program really work? What can we do to put teeth into it so that we do have effective scattering of families—families able to find decent housing in good communities without having to be labeled?

Secretary HARRIS. We have an experimental program going at this moment, an experimental housing allowance program, and I have not seen the report on that. I do want to suggest that I think that for the moment we do not have an alternative to an increase in the housing supply itself. Despite the fact that in some places there are vacant apartment units and the owners will not take the people who are participants in the housing assistance program, the ACC portion of it, still in many places there is a shortage of housing at the fair market rents which, I think, we would still be required to insist upon. And so we must have a construction and acquisition program in order to be certain that there is some rough equivalency between the demand and supply. I know of at least one city where there are as many people with the housing certificates still on the housing market as there are people in section 8 housing. Now, that is a situation that seems to me to call for the construction of section 8 units, simply to house those 2,500 people.

How we educate owners of apartments except by the kind of counseling we have not been able to do yet, I don't know, but certainly, that is one of the things we want to look at: the elimination of prejudice against those who receive assistance through no fault of their own and through what I think are excellent programs. It is another kind of prejudice that exists.

Mrs. SPELLMAN. My time has expired. But do you think that through legislation we might require a percentage to be mixed in among all of the various apartment units?

Secretary HARRIS. I think this is one of the things we would like the opportunity to look at, how to make the housing assistance program

work better on the open market as well as in the new construction and acquisition programs.

Mr. ASHLEY. Mr. Evans.

Mr. EVANS of Delaware. Thank you. Mr. Chairman. Secretary Harris, I would like to add my voice to the chorus of very bipartisan cooperation here and the spirit that we all have to work together. I look forward to doing that.

I would like to manifest that spirit of cooperation perhaps with a suggestion now that you may or may not be aware of concerning section 8 rental subsidies.

It seems to me that at times the formulas we set preclude assistance to the very people we want to assist, specifically, my own frame of reference being Wilmington, Del., where I live. There are a number of individuals there in the county as well as the city who are looking for help in finding adequate housing, in finding rentals that they can afford that meet the standards that we set. In Wilmington, I think, we do that adequately, but in the county, there are really few if any units available for the individulas who are seeking that assistance.

I just wonder whether or not that might be true of other areas, as well, or whether this is just a scattered instance that might not be prevalent across the country.

Secretary HARRIS. As I suggested in my response to Mrs. Spellman, the existence of people with a need who cannot find housing is not limited to either Prince Georges County or to the Wilmington environment, and this is one of the issues that we must address in a long-range housing policy. It is one of the reasons why I remain committed to a housing construction program under section 8, even though there are those who say, put people on the open market with housing certificates and that ought to be enough.

I think frequently it is a question of the absence of an adequate housing supply, and we have to be very thoughtful and careful in determining when that is the case, and when it is, in being helpful in either substantial rehabilitation or construction to increase the real housing supply for the people who have a need for shelter.

Mr. EVANS [Delaware]. I would hope also that you would take a look at the housing that was in existence and perhaps take a look at redefining those formulas in a specific standard metropolitan statistical area or a market of that SMSA.

Secretary HARRIS. Yes; we are going to be looking at questions like fair market rent and reasonable rent, and I assume that's one of the things you have in mind.

Mr. EVANS of Delaware. Absolutely. Thank you, Madam Secretary. I look forward to working with you.

Secretary HARRIS. Thank you.

Mr. EVANS of Delaware. Thank you, Mr. Chairman.

Mr. ASHLEY. Mr. Tsongas.

Mr. TSONGAS. I have been sitting here a long time.

Madam Secretary, I was not on this subcommittee last year until the very end, so I don't pretend to possess any expertise. But just some comments, if I can, because most of the questions have been asked already.

It seems to me that the most important function of your agency is not housing but rather urban development, and housing is only a

component of the larger issues in the cities. I would think if you would change your title around of your agency—but it doesn't lend itself to an acronym. I think of the issue not only in terms of the New York's and Detroit's and Cleveland's, which have enormous problems, but also the smaller cities—and I represent two of them in Massachusetts that have undergone decay as long as I have been alive, in fact, much longer. And the question is, how do you bring them back, or indeed, do you bring them back?

And the problem seems to be an insensitivity on the part of the suburbs and others to the plight of the cities, thinking, well, that is their problem, and somehow it will never touch us.

So I see housing as important only if we can come to grips with a perspective over the long term of who is going to live downtown. What's it going to look like in its entirety rather than a situation of, we are just going to build housing units without any sense of what the long-term objectives are.

What that leads to, in my mind, is an experience I had last Friday where I attended a ribbon cutting of an elderly housing development in one of my cities in which they took an old mill, a shoe mill, and converted it to elderly housing, and many of the people who worked in that mill will end up living there, which is far more, I think, consistent with what has been happening in the cities. We rehabilitate with a sense of history and give the people pride in their cities, but in no way add to the sense of what downtown areas and what the urban core is all about.

My question is, when housing units are discussed—and I guess we are going to do the same thing here on this committee—is to step back and rather than simply argue, well, we want to increase the number of units, to ask the longer range questions about what does it all lead to. And I think before those questions are answered, that everything else is sort of stopgap.

And I look forward to working with the chairman. I serve as task force chairman on the Northeast-Midwest Economic Advancement Coalition, looking into community development funds, again trying to provide the perspective. And I am very pleased with some of the initiatives that are coming out of your Department.

Do you have any plans to articulate in the ways that I have been describing—you know, what do you see 25 years from now? How does your Department intend to move? What will Lowell, Mass., or Lawrence, Mass., or Wilmington, Del., look like 25 years from now, and how do these programs fit into that?

I think that might be helpful.

Secretary HARRIS. I obviously cannot give you a blueprint for any of those cities. But it seems to me that there can be no question about the validity of your statement, that a housing program alone has no meaning, that it must be connected with a concept of the city as a vibrant place, as a viable place, as a safe place, an enjoyable place for people to live. Just as man cannot live by bread alone, cities cannot be restored by housing and rehabilitation alone.

We will be talking on Thursday about our new community development block grant program. I hope that at that time you will agree with us that there are components of development that must accompany housing and the past concepts of community development supported

by the Federal block grant program. I believe that the agency I represent, the Department of Housing and Urban Development, has had an almost self-defeating single focus on the housing aspect of the Department's responsibility, and that what is seen as lack of achievement is largely due to the fact that neither we nor the Congress has adequately addressed the components of the urban development segment.

I will say that I am happy that we were not called the Urban Growth and Housing Department, which, however, is one of the concerns we ought to have.

Mr. TSONGAS. A final point, and I look forward to pursuing other issues with you——

Mr. ASHLEY. Will the gentleman yield?

Mr. TSONGAS. Yes.

Mr. ASHLEY. I might say, however, that the Department does have some responsibility for urban growth policy, if I can remind the Secretary of not just a piece of legislation but a statute that has been on the books since 1970, and I would refer to part A of title VII of the Housing Act of that year which does in fact fasten responsibility, if not directly, indirectly on the Secretary with respect to formulation of an evolving national growth and development process.

Secretary HARRIS. I am very much aware. It was only the acronymic propensity of this Government that makes me happy that despite our responsibility, we did not get that title.

Mr. TSONGAS. I am not sure where this is all going to end, but two final points. One is, I am very pleased with Mr. Embry's hopeful appointment. I listened to him last year and was very impressed as someone who has done the kind of thing that I think we are into in my district.

The second thing is, as we look into again the whole question of the cities, it's going to have to be a multiagency working effort because, for example, the public works bill, the public works grants of last year had no relationship whatsoever to any concept, any long-term concept of what we are doing to the cities. So I don't envy your task. Clearly, some of this is going to have to be done if the cities are going to survive, and if they don't survive, then really, what have we?

But I look forward to working with you.

Mr. ASHLEY. Mr. Lundine?

Mr. LUNDINE. Well, I would like to turn away from the subjects that you have been talking about and ask you how seriously you take HUD's middle name. Let me say that I believe firmly that there are housing problems in America that are not restricted to urban areas. I say that from a perspective—I would add parenthetically—of coming to this committee from being a mayor. So, I have no anticity bias, but I am impressed with the number of housing problems that I have found in my recently acquired rural district.

In that connection, I would be interested, with regard to your supplemental authorization request, in whether you have given any consideration to increasing the number of section 8 units, now at about 10,000 I believe, to be administered in conjunction with the Farmers Home Administration section 515 rental program?

Secretary HARRIS. I have not myself addressed that question in the time I have been at the Department, but I could raise that question with Mr. Burstein, if you would indulge me.

Mr. BURSTEIN. Maybe Mr. Kliman has the figures on how many of those 10,000 units have been utilized by the Farmers Home Administration.

Mr. KLIMAN. None of the supplemental is for increasing the Farmers Home set-aside. The purpose of the supplemental is to provide additional free units over and above the number of set-asides that we already have. I don't believe that more than a few of the 10,000 has actually been used at this point, although it has been allocated to Agriculture.

Mr. LUNDINE. In other words, the additional units would still be available for that purpose if there was that requirement?

Mr. KLIMAN. Yes.

Mr. LUNDINE. I would like to conclude by saying it is terribly important that we make certain that rural housing needs are not ignored in this particular area, and that in fact, the needs of rural communities in general are not ignored. I hope we can continue to focus on the larger issue. I would suggest that with respect to growth policy, there are some rural communities with an infrastructure capable of absorbing some of the growth and of attending to some of the problems that we are currently experiencing.

Secretary HARRIS. May I say first to the Congressman that 20 to 25 precent of all authority must go to rural areas by law, and we do look at that.

However, may I also say that while I see urban development as a major responsibility of the Department, which has not perhaps been met as widely and as rigorously in the past as I would hope we could proceed to deal with it in the future, I do not consider the housing component to be limited to urban centers. We are the Housing Department, and our cooperation with the Farmers Home Administration is part of that responsibility and a major part of our responsibility is evaluating the degree to which we have met our housing responsibility to nonurban areas.

Mr. LUNDINE. Thank you.

Mr. ASHLEY. Madam Secretary, we appreciate very much your testimony this afternoon, and we will look forward to seeing you—as a matter of fact, it is going to be on Thursday. We again thank you for being with us. We look forward to your testimony on matters relating to fiscal 1978 at that time.

This subcommittee will now stand in adjournment.

[The following are written questions submitted by Chairman Ashley to Secretary Harris, along with Secretary Harris' answers:]

Section 8 Program

Q. What is the source of financing of housing units assisted under the Section 8 program?

A. When applying for Section 8 assistance, sponsors are asked to indicate what source of financing they intend to utilize. A survey of responses indicates the following:

	Private Sponsor	State Agency
Percent Intending to Use Federally Insured or Guaranteed Financing.....	60%	10%
Percent Intending to Use Tax-Exempt Bonds.....	6%	76%
Percent Intending to Use Conventional Financing....	34%	14%

This data is not conclusive, however, since sponsors can change their intended source of financing after the submission of the Section 8 application. The Department does not have actual information on the method of financing for units under construction.

The problem of getting financing is a major problem which we are addressing with our legislative proposal to increase the term to 30 years. In this way, we hope to tap conventional sources for this program.

Section 8 Program

Q. How much support has been provided to Section 8 units by the use of GNMA Tandem?

A. A survey made in July 1976 showed that of the approved Section 8 units in the processing pipeline, 32,349 units had received a commitment from GNMA for Tandem Assistance. This would amount to approximately 37 percent of the total private sponsor units approved through fiscal year 1976. It should be noted that the number of units approved under Section 8 in 1976 for which sponsors will ultimately apply for assistance under Tandem could be much larger than the percentage shown. Sponsors of many of the units approved under Section 8 late in fiscal 1976 had not applied for Tandem at the time of the July survey.

A new survey which would reflect GNMA support of Section 8 units through February 1977 is now planned. Results of the new survey should be available in early March 1977.

REVISED 2/15/77

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING

--Budget Estimates for 1977 and 1978--

The following tables highlight the 1977 and 1978 program levels for the Annual Contributions for Assisted Housing account based upon the final mark received from the Office of Management and Budget. This Mark provided for the following:

1977 PROGRAM:

1. Increased contract terms--retroactive--for all Section 8 new construction and substantial rehabilitation units with the exception of Section 8/202 units which will continue at 20 year terms;

2. Budget will reflect average unit costs contained in the Budget of the prior Administration rather than the Department's revised estimates;

3. Budget will include 30,000 units of State Agency (HFDA) new construction and 3,660 units of substantial rehabilitation; and

4. Total supplemental request of $508.0 million in contract authority and $15,530.4 million in budget authority.

1978 PROGRAM:

1. Unit costs will remain at the same level as reflected in the 1977 estimates;

2. Budget will include 20,000 units of State Agency (HFDA) new construction; and

3. Budget will include 55,000 units of loan management under the Section 8 existing housing program.

Based upon the above directives from the Office of Management and Budget, the attached tables highlight the 1977 and 1978 program estimates:

1977 PROGRAM:

Table I. Total program for FY 1977 including use of prior year authority and the proposed supplemental.

Table I-A. Use of prior year authority during 1977.

Table I-B. Use of prior year authority by source year--1974 and 1976.

Table I-C. Use of $675 million in contract authority released in 1977 Appropriations Act.

Table I-D. Use of proposed FY 1977 Supplemental.

1978 PROGRAM:

Table II. Total Annual Contributions for Assisted Housing program level in 1978. Including the release of $1,232.1 million in additional contract authority and $32,755.0 million in budget authority.

Office of the Secretary
Office of Budget
February 15, 1977

TABLE I
REVISED 2/15/77

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING

--Proposed Program Level for FY 1977--

	TOTAL UNITS	UNIT COST	CONTRACT AUTHORITY ($ in 000)	TERM	BUDGET AUTHORITY ($ in 000)
SECTION 8 PROGRAM:					
New & Rehab:					
Private:					
Private-New	85,280	$3,900	$332,611	30	$9,978,360
Section 202-New	50,075	4,600	230,345	20*	4,606,900
FmHA-New	10,000	3,900	39,000	30	1,170,000
Areawide-New	9,070	3,900	35,400	30	1,062,000
New Communities-New	640	3,900	2,500	30	75,000
Private-Rehab (Demo.)	21,795	3,900	85,000	30	2,550,000
Subtotal, Private	176,860	NA	724,856	NA	19,442,260
Plus: Adjustments to contracts on prior approvals	(97,278)	NA	NA	NA	3,237,030
Subtotal, Sec. 8 Priv.	176,860	NA	724,856	NA	22,679,290
State-Agency:					
HFDA-New	30,000	4,100	123,000	40	4,920,000
HFDA-Rehab	3,660	4,100	15,000	40	600,000
Subtotal, HFDA	33,660	NA	138,000	NA	5,520,000
Total, Sec. 8 New/Reh.	210,520	NA	862,856	NA	28,199,290
Existing:					
Regular existing	136,120	2,200	299,469	15	4,492,035
Areawides	6,635	2,200	14,600	15	219,000
Total, Existing	142,755	NA	314,069	NA	4,711,035
Total, Section 8	353,275	NA	1,176,925	NA	32,910,325
PUBLIC HOUSING PROGRAM:					
New & Rehab:					
Conventional/Turnkey	15,020	2,750	41,300	40	1,652,000
Bona fides/Other	9,480	2,750	26,078	40	1,043,120
Indian Housing	9,500	3,950	37,525	40	1,501,000
Amendments	NA	NA	20,000	40	800,000
Total, PH New & Rehab.	34,000	NA	124,903	NA	4,996,120
Existing Public Housing	12,725	2,750	35,000	40	1,400,000
Total, Public H. Prod.	46,725	NA	159,903	NA	6,396,120
Modernization	NA	NA	35,000	21	735,000
Lease Adjustments	NA	NA	33,300	1	33,300
Total, PH Mgt.	NA	NA	68,300	NA	768,300
Total, Public Housing	46,725	NA	228,203	NA	7,164,420
TOTAL, 1977 PROGRAM	400,000	NA	1,405,128	NA	40,074,745
(Supplemental Included)	(159,055)	(NA)	(508,043)	(NA)	(15,530,405)

TABLE I-A
REVISED 2/15/77

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING

--Use of Prior Year Authority in 1977--

	NUMBER OF UNITS	UNIT COST	TOTAL CONTRACT AUTHORITY ($ in 000)	CONTRACT TERM	TOTAL BUDGET AUTHORITY ($ in 000)
SECTION 8 PROGRAM:					
New & Rehab:					
Private Devel. New.....	5,350	$3,900	$20,882	30	$626,490
Areawide-New.....	5,740	3,900	22,400	30	672,000
HFDA-New.....	10,000	4,100	41,000	40	1,640,000
Rehab Demonstration:					
Private-Rehab.....	8,975	3,900	35,000	30	1,050,000
HFDA-Rehab.....	3,660	4,100	15,000	40	600,000
Subtotal, Sec. 8 New & Rehab.....	33,725	NA	134,282	NA	4,588,490
Amendment of contract term for prior new approvals.....	(97,278)	(NA)	(NA)	(NA)	3,237,030
Subtotal, Sec. 8 New & Rehab.....	33,735	NA	134,282	NA	7,825,520
Existing:					
Areawides.....	6,635	2,200	14,600	15	219,000
Total, Sec. 8.....	40,360	NA	148,882	NA	8,044,520
PUBLIC HOUSING PROGRAM:					
New & Rehab:					
Bona fides/Other.....	9,480	2,750	26,078	40	1,043,120
Indian Housing.....	3,500	3,950	13,825	40	553,000
Subtotal, Public Housing Production....	12,980	NA	39,903	NA	1,596,120
Management:					
Lease Adjustments.....	NA	NA	33,300	1	33,300
Total, Public Housing..	12,980	NA	73,203	NA	1,629,420
TOTAL USE OF PRIOR YEAR AUTHORITIES.....	53,340	NA	222,085	NA	9,673,940

Note: See attached table I-B on use of prior year authority by source year--1974 and 1976.

OFFICE OF THE SECRETARY
OFFICE OF BUDGET
FEBRUARY 15, 1977

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING

--Use of Prior Year Authority in 1977 by Source--

	USE OF 1974 AUTHORITY IN 1977					USE OF 1976 AUTHORITY IN 1977				
SECTION 8:	TOTAL UNITS	UNIT COST	CONTRACT AUTHORITY ($ in 000)	TERM	BUDGET AUTHORITY ($ in 000)	UNITS	COST	CONTRACT AUTHORITY ($ in 000)	TERM	BUDGET AUTHORITY ($ in 000)
New & Rehab:										
Private-New.....	5,350	$3,900	$20,882	30	$626,490	...	NA	...	NA	...
Areawide-New.....	...	NA	...	NA	...	5,740	$3,900	$22,400	30	$672,000
HFDA-New.....	10,000	4,100	41,000	40	1,640,000	...	NA	...	NA	...
Rehab Demo:										
Private-Rehab.....	...	NA	...	NA	...	8,975	3,900	35,000	30	1,050,000
HFDA-Rehab.....	...	NA	...	NA	...	3,660	4,100	15,000	40	600,000
Subtotal, Sec. 8 New Approvals....	15,350	NA	61,882	NA	2,266,490	18,375	NA	72,400	NA	2,322,000
Authority to amend prior approval terms.....	NA	NA	NA	NA	2,248,190	NA	NA	NA	NA	988,840
Total, Sec. 8 New & Rehab.....	15,350	NA	61,882	NA	4,514,680	NA	NA	NA	NA	3,310,840
Existing-Areawides...	...	NA	...	NA	...	6,635	2,200	14,600	15	219,000
Total, Sec. 8.....	15,350	NA	61,882	NA	4,514,680	25,010	NA	87,000	NA	3,529,840
PUBLIC HOUSING:										
Bona fides/Other.....	1,635	2,750	4,495	40	179,800	7,845	2,750	21,582	40	863,320
Indian Housing.....	1,893	3,950	7,476	40	299,040	1,607	3,950	6,349	40	253,960
Lease Adjustments....	NA	NA	33,300	1	33,300	NA	NA	...	NA	...
Total, Public H.....	3,528	NA	45,271	NA	512,140	9,452	NA	27,931	NA	1,117,280
TOTAL USE OF PRIOR AUTHORITY.....	18,878	NA	107,153	NA	5,026,820	34,462	NA	114,931	NA	4,647,120

TABLE I-B
REVISED 2/15/77

TABLE I-C
REVISED 2/15/77

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING

--Use of Authority Released in 1977 Act--

	NUMBER OF UNITS	UNIT COST	TOTAL CONTRACT AUTHORITY ($ in 000)	CONTRACT TERM	TOTAL BUDGET AUTHORITY ($ in 000)
SECTION 8 PROGRAM:					
New & Rehab:					
Private Devel. New.....	9,270	$3,900	$36,155	30	$1,084,650
Sec. 202 New (Elderly)..	50,075	4,600	230,345	20	4,606,900
FmHA New.....	10,000	3,900	39,000	30	1,170,000
New Communities-New.....	640	3,900	2,500	30	75,000
Areawide-New.....	3,330	3,900	13,000	30	390,000
Private-Rehab (Demo)....	12,820	3,900	50,000	30	1,500,000
Subtotal, Section 8 New & Rehab.....	86,135	NA	371,000	NA	8,826,550
Existing.....	67,725	2,200	149,000	15	2,235,000
Total, Section 8.....	153,860	NA	520,000	NA	11,061,550
PUBLIC HOUSING PROGRAM:					
New & Rehab:					
Conventional/Turnkey....	15,020	2,750	41,300	40	1,652,000
Indian Housing.....	6,000	3,950	23,700	40	948,000
Amendments.....	NA	NA	20,000	40	800,000
Subtotal, Public Housing New & Rehab...	21,020	NA	85,000	NA	3,400,000
Existing.....	12,725	2,750	35,000	40	1,400,000
Subtotal, Public Housing Production....	33,745	NA	120,000	NA	4,800,000
Modernization.....	NA	NA	35,000	21	735,000
Total, Public Housing..	33,745	NA	155,000	NA	5,535,000
TOTAL USE OF 1977 AUTHORITY.....	187,605	NA	675,000	NA	16,596,550
RELEASED IN 1977 ACT....	NA	NA	675,000	NA	14,870,400
ADDITIONAL AUTHORITY NEEDED IN SUPPLEMENTAL.	NA	NA	...	NA	1,726,150

NOTE: Units assisted with 1977 authority are displayed on basis of HAPs mix--57%/43%.

TABLE I-D
REVISED 2/15/77

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING

--Estimated Supplemental Requirement in 1977--

	NUMBER OF UNITS	UNIT COST	TOTAL CONTRACT AUTHORITY ($ in 000)	CONTRACT TERM	TOTAL BUDGET AUTHORITY ($ in 000)
SECTION 8 PROGRAM:					
New & Rehab:					
Private Devel. New.....	70,660	$3,900	$275,574	30	$8,267,220
HFDA-New.....	20,000	4,100	82,000	40	3,280,000
Subtotal, Section 8 New & Rehab.....	90,660	NA	357,574	NA	11,547,220
Existing.....	68,395	2,200	150,469	15	2,257,035
Subtotal, Sec. 8 Appr..	159,055	NA	508,043	NA	13,804,255
PLUS: Additional Authority to allow full use of 1977 Act contract authority...	NA	NA	...	NA	1,726,150
TOTAL SUPPLEMENTAL.....	159,055	NA	508,043	NA	15,530,405

Note: Authority released in Supplemental will be utilized to assist units based upon a HAPs mix.

Office of the Secretary
Office of Budget
February 15, 1977

TABLE II
REVISED 2/15/77

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING

--Proposed Program for FY 1978--

	NUMBER OF UNITS	UNIT COST	TOTAL CONTRACT AUTHORITY ($ in 000)	CONTRACT TERM	TOTAL BUDGET AUTHORITY ($ in 000)
SECTION 8 PROGRAM:					
New & Rehab:					
Private Devel. New.....	103,400	$3,900	403,260	30	$12,097,800
Sec. 202 (Elderly) New..	25,600	4,600	117,760	20*	2,355,200
Private-Rehab.....	23,000	3,900	89,700	30	2,691,000
Subtotal, Sec. 8 Priv. New & Rehab.....	152,000	NA	610,720	30	17,144,000
HFDA-New & Rehab.....	20,000	4,100	82,000	40	3,280,000
Total, Sec. 8 New/Rehab	172,000	NA	692,720	NA	20,424,000
Existing:					
Regular Existing.....	117,000	2,200	257,400	15	3,861,000
Loan Management.....	55,000	1,560	85,800	15	1,287,000
Total, Sec. 8 Existing.	172,000	1,995	343,200	NA	5,148,000
Total, Section 8.....	344,000	NA	1,035,920	NA	25,572,000
PUBLIC HOUSING PROGRAM:					
New & Rehab:					
Conventional/Turnkey....	50,000	2,750	137,500	40	5,500,000
Indian Housing.....	6,000	3,950	23,700	40	948,000
Total, Public Prod.....	56,000	NA	161,200	40	6,448,000
Management:					
Modernization.....	NA	NA	35,000	21	735,000
Lease Adjustments.....	NA	NA	33,300	1	33,300
Total, Public H. Mgt...	NA	NA	68,300	NA	768,300
Total, Public Housing...	56,000	NA	229,500	NA	7,216,300
TOTAL, FY 1978 PROGRAM....	400,000	NA	1,265,420	NA	32,788,300
Authority Includes:					
Current Authority.....	NA	NA	1,232,120	NA	32,755,000
Permanent Authority....	NA	NA	33,300	NA	33,300

APPENDIX I

THE FOLLOWING LETTER WAS RECEIVED FROM THE "COUNCIL OF STATE HOUSING AGENCIES" FOR INCLUSION IN THE RECORD

COUNCIL OF STATE HOUSING AGENCIES
KENNETH G. HANCE, JR., *President*
(VIRGINIA HOUSING DEVELOPMENT AUTHORITY)
Richmond Plaza • 111 South Sixth Street
Richmond, Virginia 23219

February 25, 1977

The Honorable Henry S. Reuss
Chairman
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman Reuss:

I am writing on behalf of the Council of State Housing Agencies to request your support of the Administration's supplemental appropriation request for $508 million in contract authority and $15.5 billion in budget authority primarily for the Section 8 Housing Assistance Payments Program. This requires additional authorization of $378,050,000 in contract authority. Secretary Harris has indicated in her testimony before the Housing Subcommittees that State HFAs would receive sufficient contract and budget authority for 33,000 units from this appropriation. Of these units, the State HFAs have indicated that approximately 25,000 can be under construction by October 1, 1977 if the funds are available by April 1, 1977.

To date, State HFAs have been the single most active producer of new housing under the Section 8 program accounting for 53% of the new and substantially rehabilitated construction starts. With the favorable conditions which presently exist for borrowing in the tax-exempt bond market State HFAs have the ability to continue producing at an increased rate in FY 1977 if they are provided the necessary Section 8 contract and budget authority.

The contract and budget authority requested above would counteract a miscalculation by the previous HUD Administration. In projecting its need for Section 8 contract authority for FY 1977, HUD estimated that it would have twice the amount of contract authority available to it as carry-over authority from previous fiscal years than the amount it actually

1800 M STREET, NORTHWEST/SUITE 400 SOUTH/WASHINGTON, D.C. 20036/PHONE: (202) 466-8990

had. Therefore, it is impossible for the present HUD Administration to reach the 400,000 unit goal in FY 1977, and State HFA projects have been virtually eliminated.

The unsatisfactory economic condition of the nation, as it is reflected in high unemployment rates, generally, and in the construction industry in particular, is one of the major problems facing the 95th Congress and the Carter Administration. The construction of Section 8 units financed by State HFAs from this appropriation would be an early stimulus to the construction sector of the economy.

It is our understanding that the Administration's request was approved by the Subcommittee on Housing and Community Development and that it will come before your full committee next week. It is our hope that you will support the necessary authorization so HUD, and the State HFAs in conjunction with the HUD programs, may continue to provide the low and moderate income housing needed. Furthermore, we request the inclusion of language within the House report in support of the Administration's designation of sufficient contract and budget authority for 33,000 units in FY 1977.

Sincerely,

Kenneth G. Hance, Jr.

Kenneth G. Hance, Jr.
President

APPENDIX II

THE FOLLOWING MATERIAL REGARDING THE EXTENSION OF THE URBAN RIOT REINSURANCE AND CRIME INSURANCE PROGRAMS WAS SUBMITTED FOR INCLUSION IN THE RECORD

TOWN OF ISLIP
COMMUNITY DEVELOPMENT AGENCY

Frank R. Jones
Chairman
Michael Lo Grande
William J. Kent

Howard S. Quinn
Executive Director

February 18, 1977

Representative Thomas L. Ashley, Chairman
Housing Subcommittee
Banking, Finance and Urban Affairs
U. S. Congress Office Building
Washington, D. C.

Dear Congressman Ashley:

I am writing to seek your support for broadening the Urban Homesteading Program authorized under the Housing and Community Development Act of 1974 to include vacated VA properties as well as FHA foreclosures.

The Town of Islip is one of the 23 Urban Homesteading Demonstration Cities participating in returning FHA foreclosed homes to occupancy. In our community development target area of Central Islip, through the Homesteading Program, we are rehabilitating 22 formerly vacant and deteriorating residences, and providing decent shelter for moderate income families.

We view the Homesteading Program as an integral part of our neighborhood preservation efforts. Homesteading restores neighborhood confidence by showing rapid results. It can help stem the spread of blight and deterioration. It counters the sense of frustration and hoplessness that boarded and rotting buildings convey. It brings in new families with new hopes and aspirations, and it envigorates other area residents to invest in their properties.

Homesteading is not a panacea for neighborhood decay. But it is an important instrument to be used along with other tools to bring new life and vigor to declining communities.

For these reasons, I believe that the current Urban Homesteading Demonstration Program should be expanded to include VA as well as FHA properties. Currently, the Town of Islip receives FHA foreclosures without charge, and these homes have been refurbished and reoccupied. However, in our target area

we have also been plagued by VA foreclosures. While we are in the process of homesteading two FHA properties on a block, two VA properties stand boarded, limiting the positive impact of our efforts.

Homesteading, to be most successful, must include both VA and FHA properties. The VA gives the Town no consideration in the sale of its properties; the VA has no affirmative policy of assisting us in our community development efforts. It is somewhat ironic that the disposition policies of foreclosed VA homes can diminish the positive impact of FHA foreclosure policies. Obviously, a coordinated federal policy is called for, and I hope that you can consider this in drafting amendments to the Community Development Act.

Sincerely,

Howard S. Quinn

HSQ/bv

Howard S. Quinn
Executive Director,
Community Development

P. S. In passing, I would also like to reiterate our strong endorsement of HR 126, introduced by Congressman Ambro, which would permit towns with incorporated communities to receive funds as entitlement cities.

Kemper Insurance Companies
Long Grove, IL 60049 · 312 | 540-2000

February 25, 1977

The Honorable Thomas L. Ashley
Chairman, Housing Subcommittee
Committee on Banking, Finance and Urban Affairs
U. S. House of Representatives
Washington, D.C. 20515

Dear Congressman Ashley:

FEDERAL RIOT REINSURANCE PROGRAM

As you know, your subcommittee is currently considering the extension of the federal riot reinsurance program. Although we have not formally testified on this particular matter, I did want you to know our company's views. I respectfully request that this statement be made part of the official record of the hearings on the Property and Crime Insurance Programs under the administrative jurisdiction of the Federal Insurance Administration.

We believe the issue of whether or not to extend the life of the federal riot reinsurance program involves three questions:

1) Is it still necessary for the federal government to provide riot reinsurance to private insurance companies so that coverage for this peril will be made available to consumers who want or need it?

2) Is the riot reinsurance law necessary to guarantee that FAIR plans will continue in existence where needed?

3) What impact would discontinuance have on the general availability of property insurance in the nation's urban areas?

Before answering these questions, the riot program should be put in clear perspective. It was enacted in 1968 to meet two specific needs disclosed by the President's National Advisory Panel on Insurance. First, since rioting was almost commonplace in our cities, insurance against this peril was in short supply. Because riot coverage is generally only available as part of broader property insurance policies, such as those covering homeowners and commercial property, these policies were scarce for urban, particularly inner city, residents and property owners. Secondly, not only were consumers having difficulty obtaining property insurance, insurance companies themselves were encountering trouble buying reinsurance to protect themselves against writing this insurance.

The Riot Reinsurance Program solved the problem of unavailability of coverage for riot by guaranteeing reinsurance, albeit at high cost, to insurers. And it provided impetus to insurers to write urban property insurance by making the availability of this reinsurance contingent upon participation in FAIR plans. These plans, urged by the industry itself, write property insurance for all comers, conditioned only on the fact that the property to be insured meets basic insurance standards. It is imperative to note, however, that no state was forced to enact a FAIR plan. This was left entirely to state discretion. However, if a state did create a FAIR plan, the Federal Insurance Administration would have the right of oversight. Knowing the federal bureaucracy, it's not surprising that the FIA has exploited this slim regulatory opportunity.

With this background, let me address the three basic questions involved in the legislative decision before your Committee:

1. First, it is our belief it is no longer necessary for the federal government to provide riot reinsurance to private companies. Many years have passed since the riot threat was extreme. The likelihood of major riots has become remote. Just how remote can be illustrated by the experience of the Kemper Insurance Companies. Kemper is the eleventh largest property-casualty organization in the nation. We have subscribed to the riot program since its inception. Yet, we have not had a "riot" loss that would be covered by the federal program since 1970.

   We believe our experience to be fairly typical. This is probably why more than $100,000,000 has been accumulated in the federal reinsurance fund.

   One might logically ask why Kemper and over 400 insurance companies continue to subscribe to the Federal Riot Reinsurance Program, if, in fact, a need for the program does not exist. Professional reinsurers exclude from the reinsurance they provide to their primary insurer clients coverage for "riot" reinsurance of a kind that is available through the federal program. If the federal program were allowed to expire, we believe professional reinsurers would restore normal riot reinsurance coverage to their reinsurance contracts. This view has been confirmed by executives at the Kemper Reinsurance Company, a major American reinsurer.

   In summary, the potential for the type of riot defined by the federal program is extremely low and private reinsurers would undoubtedly provide reinsurance if the federal government did not. Surely primary insurers would continue offering this coverage.

2. We believe FAIR plans will remain in existence if the riot program is allowed to expire. This view is shared by the person who is perhaps the nation's expert on this program, George Bernstein, former Federal Insurance Administrator and architect of the existing mechanism. In testimony to your Committee on February 4, he said: "It is likely that these laws will be amended to continue the FAIR Plans regardless of the status of the federal program."

   We re-emphasize that terminating the riot reinsurance plan should not be confused with termination of FAIR plans. As Bernstein points out, "...no one has proposed federal legislation to mandate termination of state FAIR plans. As previously indicated, these plans will probably continue, even in the absence of the federal program."

Our legislative people believe that in the nine states in which FAIR plans are dependent for authorization upon the existing federal legislation, state legislatures would move expeditiously to amend their FAIR plan enabling laws to permit operation without the federal statute. The only circumstance we can envision in which a legislature would not enact amendatory legislation would be where a legislature concludes there is no future need for the FAIR plan, an extremely unlikely eventuality.

It has been suggested that some insurance companies might lobby against continuation of FAIR plans in some states, once the federal legislation has expired. This simply isn't logical. The industry has long supported these residual market mechanisms. Several were in effect prior to enactment of the federal riot program, in areas where there was a demonstrable need. And the industry has supported the creation of similar pools in other insurance lines to preserve a market for consumers who want but have difficulty getting various kinds of insurance for economic or personal reasons.

3. We do not believe that elimination of the riot program will have any adverse impact on the general availability of property insurance in urban areas. First, and most importantly, the FAIR plans will remain in existence. Secondly, reinsurance, probably with a broader coverage definition in some respects, will be available from the private reinsurance market. Third, the threat of riot is virtually imperceptible now in contrast to the period when this program was enacted. Fourth, any need for a "federal security blanket" as a psychological inducement to companies to write insurance in the cities is nothing more than a rather obvious placebo.

   Some are attempting to make the argument that the riot reinsurance program has something to do with preventing "redlining." There is absolutely no relationship between the two. It is undoubtedly true that many insurers attempt to avoid writing what they consider poor insurance risks. To the extent poor risks are aggregated in any one place, a geographical pattern emerges. The answer is to assure that residual market mechanisms are in place to insure those who need coverage for property or other exposures which meet at least minimum insurance standards. In the case of urban property, the FAIR plans are the appropriate remedy and will operate without the riot program.

Some insurers may be reluctant to allow this legislation to expire because of the $100,000,000 reserve which has been amassed by the federal government from the reinsurance premiums paid by insurers. If the program were to lapse, those funds would no longer be available in the case of riot losses...and it's difficult to relinquish any claim to a hundred million dollars, no matter how remote the chance of it ever being used. Our view is that we paid for the reinsurance, had it as protection during the years we felt we needed it, and are willing to give up any claim to it.

However, as long as the program remains on the books, we would be remiss not to buy the reinsurance. The premium we are now charged is at bargain rates due to the huge reserve which has accumulated -- and the fact that the riot potential is minimal.

While the Carter Administration's request to extend this program for one year to give it time for analysis seems reasonable, we do not think that is necessary because we are certain that the Administration will reach the same conclusions we have and hope the Congress does -- the program is obsolete and should be removed from the books.

Allowing this program to expire will result in $100,000,000 in revenue going to government's general fund; elimination of a number of unnecessary federal jobs; reaffirmation of the states' ability to operate their FAIR plans without "federal oversight;" and a demonstration that Congress can terminate programs when they have outlived their usefulness with the savings accruing to American taxpayers.

Respectfully,

Steven H. Lesnik

Steven H. Lesnik
Vice President, Public Affairs

Statement of the

American Mutual Insurance Alliance

filed with

The Subcommittee on Housing and Community Development

of the

House Banking, Finance and Urban Affairs Committee

on the

Extension of Urban Riot Reinsurance and

Crime Insurance Programs

February 25, 1977

The American Mutual Insurance Alliance is the major national trade association representing more than one-hundred mutual property and casualty insurance companies. Our members provide property and casualty coverages in all fifty states and the District of Columbia. We respectfully request that this statement be made a part of the official record of the hearings on the Extension of Urban Riot Reinsurance and Crime Insurance Programs.

Representatives of the American Mutual Insurance Alliance have appeared before this subcommittee on numerous occasions to support the efforts of Congress to provide basic fire and crime protection for residents of urban areas. Our companies have been strong supporters of state FAIR Plans. The extensive insurance protection available to inner-city residents and property owners through the FAIR Plan is a tribute to past cooperative efforts of the insurance industry and state and federal officials.

We would like to address two issues in this statement: (1) The application of the Full Insurance Availability System to FAIR Plans; (2) The extension of FAIR Plans into other areas, i.e. Homeowners Policy.

In the course of recent testimony before the Subcommittee a number of witnesses urged that states give more careful consideration to Full Insurance Availability mechanism as a way to provide property insurance coverage for the residual market. Full

Insurance Availability is a creation of the Federal Insurance Administration. Its genesis can be traced to a FIA report (Sept. 1974) which states that under Full Insurance Availability all insurable risks would be able to purchase insurance from the insurer of their choice and would not be forced into separate, less adequate, and more costly FAIR Plan markets. Advantages of the Full Insurance Availability System were said to comprise of the following:

1. Availability to Consumers
2. Equitable Sharing Among Insurers of Profits and Losses
3. State Public Information Centers
4. Open Competition Ratemaking
5. Absence of Federal Role

Under the Full Insurance Availability System (FIAS), as proposed by the Federal Insurance Administration, all consumers who would be insurable as defined under state law would be assured access to all of the coverages offered by the private insurance market in those lines of insurance which were covered by the state's mandate of Full Insurance Availability. Any consumer could apply to any insurance company through its regular insurance channels and would be assured of equitable treatment and access to full coverage.

Each insurance company, at its option, would be authorized to cede to a Statewide Reinsurance Exchange all or a portion of the

risks it did not choose to retain fully for its own account. The Statewide Reinsurance Exchange would equitably distribute losses and would incorporate procedures to assure that each company makes maximum use of its capacity to write insurance. All companies licensed to do business in the state in the lines of insurance covered by the FIAS would be required to participate in financial results of the Exchange.

While on the surface the approach gave all appearances of being highly desirable, a closer analysis quickly dispelled this feeling. FIAS would radically restructure underwriting practices of the companies since it would force them to "take all comers." The proposal would seek to enact essentially the so-called Canadian Facility, which has already doubled the size of the residual market in Canada, and substitute a plethora of new problems for those it purported to solve. The Full Insurance Availability System would essentially substitute for the underwriting function a reinsurance approach, heretofore a sophisticated device utilized only for large risks or by professionals in top company management, to moderate or eliminate the effect of catastrophes on company solvency.

There are a number of reasons, discussed below, why we feel the Full Insurance Availability System approach should not be enacted.

Elimination of Underwriting

As we have already said, the FIAS would require that all insurers accept all applicants, and would prevent their being cancelled or non-renewed, so long as the risk met the approved objective standards uniformly applied by the insurer and regulated and supervised by the state insurance department and premium payments were current. Most states properly pride themselves on the competitive insurance market they have developed over the years by carefully considered legislative and administrative action. Part of this competition is the function of service; the other part is the ability of management, in part through the application of sophisticated classification plans and underwriting judgement, to afford their customers price advantages through better risk-selecting techniques. In eliminating underwriting (the ability to select the kinds of business an insurer writes) and substituting the judgment of the regulator for company management, many of these market characteristics disappear.

In a report entitled "Competition in Property and Liability Insurance in New York State" (March, 1973), the New York Insurance Department concurred that elimination of underwriting would create more problems than it would solve. In its report, the Department states:

"There are, however, great problems with such a proposition. If insurance companies were required to write a policy for

everyone who applied, they would naturally want to set things up so that certain people would not apply. As long as insurers retain control over their distribution systems, it would not be difficult for them to defeat the purpose of a law requiring them to accept all applicants. They would still control the products they sold, their marketing methods, the locations of their offices, the timing and targets of their advertising campaigns, and the selection of their sales employees and independent producers.

"Some of the ways of selecting customers through manipulation of the distribution system, such as by totally withdrawing from markets or areas, are visible and measurable. Other ways, especially through pressures on employees and agents to submit applications for insurance only on behalf of so-called good risks, could produce particularly subtle and anti-social patterns of behavior.

"Accordingly, a bare requirement that insurers write a policy for everyone who applies for one would not abolish selectivity, but could make it much more difficult to deal with. It could have the effect, not of opening up choices for applicants, but of closing them off, and of hiding the idiosyncrasies of selectivity even deeper within the complexities of the distribution system.

"Moreover, a requirement that insurers accept all

applicants would not abolish the need for residual markets. The residual markets have grown beyond their original purpose of providing a source of insurance for people who otherwise couldn't obtain it at all. Instead, to some extent, they have become mechanisms for subsidizing the cost of insurance for many people who otherwise might find the price more than they could afford. This function of residual markets is likely to continue and grow more important in the future."

Cost Implications

There are two likely serious effects of the cost implications of FIAS -- one, short run; the other, long run.

In the short run, the system would result in a vast influx of business to low cost insurers. It is common knowledge that prices of insurance are lower in some insurers than in others. It is also common knowledge which of the insurers provide the lower prices. Not all entrants into the marketplace, however, can secure the lowest price policy today, since they do not meet the risk standards for such low prices. The FIAS concept however, would eliminate risk standards and would require each insurer to take all applicants. Thus, the short run effect would be to legislatively-concentrate insurance business on the books of lowcost insurers.

Insurance company prices must ultimately reflect outgo or expenses. As lowcost insurers are forced to insure high-cost

risks, the long run effect can only be that their outgo will increase and their income needs will go up. Thus a stabilization or uniformity of rates will ultimately be produced and price competition for insurance will disappear. We submit this is bad public policy.

Subsidization of Risk

In many states, the FAIR Plan experience indicates a rate higher than that for the voluntary market. To the extent that the actual plan rate is higher, the difference amounts to a subsidy the plan risk is paying for itself. In other words to this extent, the plan risk is "paying its own way". This subsidy would be eliminated under the FIAS approach, and would be transferred to the voluntary market.

Furthermore, in most states there is what some call a "three-tier" market for property insurance. One tier would be the preferred voluntary market, the second tier would be the FAIR plan, and the third tier would be the voluntary market for exceptional risks, provided at higher rates than the preferred market. By reason of its increased loss characteristics, the third tier market now pays substantially higher rates than the preferred market. The point is that whatever the increase it is the measurement of the subsidy which the third-tier market pays for itself. The FIAS approach would eliminate this third-tier market and it would thus force the preferred voluntary market to

pick up payment of this subsidy, too.

Size of Residual Market

There is a strong possibility that the proposed FIAS would increase the population of the "residual market", rather than reduce it. At present, producers usually are the ones who identify those insured who should be placed in the FAIR Plan. Under the present system, they have an incentive to try to place customers in the voluntary market, part of which results from higher commission on voluntary business. This incentive would be eliminated under the FIAS approach and producers would become order clerks.

Government Controls and Insurer Abuses

The severe restrictions implicit in the FIAS approach seem to us to make inevitable elaborate controls over the marketing, underwriting and rating of insurance.

There have been attempts by under-financed insurers to utilize industry assets to their own advantage. The total restructuring of the market response provided for in the FIAS, is bound to result in more, not less government control over an industry which is already suffering from excessive control.

Claim Practices

The FIAS approach would encourage poor claims settlement practices. For most insurers, most of the money being paid to or on behalf of

FAIR Plans would come from the entire industry, not from their own coffers. This will produce a strong temptation to buy off claims with little or no investigation and will encourage the excessive or careless distribution of industry funds. To the extent this occurs, the result will be increased insurance rates.

Effect on Producers

Producers are likely to find less, not more, market facilities available to them under a FIAS. They are also likely to lose their historic ownership of the business. Presently, an agent or broker can place business with an insurer of his choice to provide his customers with the best coverage and price available. Producers can replace such business with other insurers without restriction. However, under the FIAS approach, companies would be required to renew policies and thus producers, no longer representing such insurers, would lose control of such business and incur a resulting loss of income.

And there could be different effects on commission, one of which would affect policy holders, and the other of which affect producers. Presently, the provision for acquisition expenses in FAIR Plan rates is lower than the provision in voluntary rates. If a change to a FIAS were to result in business now insured through the FAIR Plan, being remunerated to producers at the standard commission rate, then the effect on the insurance purchaser would be an increase of premium. On the other hand, it is

likely that company management would seek to lower, not increase commissions under a FIAS approach. To the extent this occurs, producers would find their overall insurance income less than it is today. Either of these alternatives would appear undesirable.

We recognize the industry's responsibility to guarantee, without fail, the availability of coverage against the perils of Fire and Extended Coverages at affordable rates, to provide for immediate coverage, to provide for a method to pay premiums easily, to give efficient, economical service and to adjust claims fairly and equitably. The American Mutual Insurance Alliance is willing to do their part in discharging this responsibility.

Inclusion of Homeowners Coverage in Fair Plans

The Federal Insurance Administration has been a proponent for the inclusion of homeowners coverage in the FAIR Plans and has encouraged state insurance regulators to mandate the protection in the state plans. Presently, several states are considering the inclusion of homeowners coverage in their FAIR Plans. We oppose such a program. The mandation of homeowners coverage as "essential insurance" would create serious problems at one of the most critical periods in insurance history. The FAIR Plans have consistently operated at a loss and inclusion of homeowners could increase these deficits. Their operating loss since inception through the second quarter of 1976 is $260 million. Let us examine a few important considerations:

1. FAIR Plans were designed to provide a specific response to a specific need.

   (a) The Hughes Panel Report titled "Meeting The Insurance Crisis of Our Cities," to the President's National Advisory Panel on Insurance in Riot-Affected Areas stated the needs and responses as follows:

   - "Insurance is essential to revitalize our cities. It is the cornerstone of credit."

   - "This program should help property owners obtain fire and extended coverage, vandalism and malicious mischief and burglary and theft insurance."

   (b) The Report of the House Committee on Banking and Currency on the Housing and Urban Development Act of 1968 describes this part of the Act:

   - "...would set forth congressional findings that the supply of private investment and credit in inner city areas resulting from an unavailability of property insurance is accelerating the deterioration of such areas..."

   - "Section 1203 ...would define... (2) essential property insurance to mean insurance against direct

loss to property as defined and limited in standard fire and extended coverage policies as approved by the state insurance authority and the Secretary and insurance for such types, classes and locations of property against the perils of vandalism, malicious mischief, burglary or theft as the Secretary shall designate."

2. The states, in enacting their FAIR Plan laws, accepted these purposes and incorporated them into state law. For illustration the state of New Jersey law says:

- "It is hereby declared that an adequate market for fire and extended coverage insurance is necessary to attract private capital to central city areas.

- "Essential property insurance means insurance against direct loss to property as defined and limited in the standard fire policy and extended coverage endorsement thereon... and insurance for such types, classes and locations of property against the perils of vandalism, malicious mischief, burglary or theft or such classes of insurance as the commissioner may designate in order to comply with Federal legislation to obtain Federal reinsurance."

3. FAIR Plans have complied with the purpose and coverage needs as defined and limited in Federal legislative history, Federal law and state law. Vandalism and malicious mischief coverage was added when the FIA required this extension, pursuant to its statutory authority.

4. Discussions and testimony before the Hughes Panel did not disclose any need for multiple line policies to solve the insurance availability problems in the inner city.

In Chapter 11 of the report, the Hughes Panel surveyed the major types of property insurance and concluded its discussion of package policies as follows:

- "Package policies are most commonly used to insure low hazard property and are less important in blighted areas of a city than in other areas or the suburbs. One of the reasons is that companies carefully assess the basic coverages in blighted areas and are unwilling to add coverages that may increase exposure without a truly commensurate premium."

5. FAIR Plan legislative history, federal and state legislation have not established an unlimited legal right for <u>every</u> property owner to have <u>any</u> kind of insurance made available to him.

FAIR Plans, by its name, sets the standards - fair access to insurance requirements. The FAIR Plan mechanism as constructed at the federal and state levels provides:

(a) That every property owner in areas of FAIR Plan application is guaranteed a physical inspection of his property, without cost, at his request, even without a corresponding application for insurance.

(b) That a responsible owner of insurable property will be provided fire, extended coverage and vandalism and malicious mischief coverages at a price commensurate with the hazards in the risk itself, as disclosed by the inspection.

(c) That the owner will be informed of the reasons his property will not be insured; will be insured at standard cost; or, will be insured at increased cost - all with a right of appeal.

If, for the sake of the argument, it is conceded that FAIR Plans do provide a legal right to fire, extended coverage and vandalism and malicious mischief insurance, such right is limited by the following pre-conditions:

a) Responsible ownership.

b) Insurable property.

c) Rate which reflects hazard.

d) A need for such coverage related to the economic viability of the inner city.

6. The proposition that Homeowners coverage be included in FAIR Plans is diametrically opposed to the philosophy, intent and mechanism of the FAIR Plan structure.

The Homeowners program provides for insurance on a multiple line basis which can be divided:

a) Fire and allied lines

b) Crime

c) Liability

and is different in basic characteristics from the coverages in the mono-line (fire and allied lines) structure of the FAIR Plan program.

7. If it can be argued that the FAIR Plan structure contemplates even an extremely limited legal right to the mono-line coverages, there was some finding of fact to lend credence and purpose to the conclusion.

On the other hand, there are no findings of fact that liability insurance is necessary to prevent the further deterioration of the inner cities; and, the final determination as respects crime insurance, was deferred by the Hughes Panel because crime insurance

presented unique problems not amendable to the proposed mono-line FAIR Plan structure.

8. The inclusion of Homeowners coverages in the FAIR Plan program creates, inferentially, the same rights - however limited - to additional coverages without any findings of fact as respects liability coverage; and contrary to congressional findings of fact as respects crime insurance as stated in the report of the Federal Insurance Administrator to Congress in July of 1970.

9. There is no basis on which any argument can be made that availability of liability insurance to the owner of a one or two family dwelling is necessary to the economic welfare of the inner city.

10. There are two variables which must be balanced in order to provide insurance in the market place. The risk to be assumed must be acceptable to the underwriter in terms of insurability at a price commensurate with the risk assumed. On the other hand the purchaser of insurance considers the cost of transfer of risk of loss in relation to the economic value of the property or peril to be insured.

The FAIR Plan structure attempts to control both variables - insurability and price - as it relates to fire, extended coverage and malicious mischief. To the extent

that this has been accomplished, FAIR Plans have created an artificial market uniquely adapted to a stated socio-economic purpose. The additional costs of this artificial market are being absorbed by the insurance companies and will, ultimately, be subsidized by all policyholders, stockholders or both.

It has already been decided at federal level that crime insurance cannot be made available even within the frame work of the artificial market created by the FAIR Plans.

Thus, the federal government has provided a socialized form of insurance based on an arbitrary, non-economic, price structure and unrealistic coverage restrictions, coupled with an available subsidy of $250 million which, in the ultimate, is a taxpayer subsidy.

The existence of the Federal Crime Program demonstrates that there is no economic way, even within the artificial market of a FAIR Plan, in which crime insurance - an integral part of the Homeowners coverage - can be made available by the insurance industry in the twenty states with acknowledged high crime risk areas - including the state of Rhode Island. The fact of these high crime risk areas in these twenty states was a matter of federal determination based on federal criteria.

In summary, the integrated coverage, indivisible premium multiple line Homeowners program cannot be incorporated into a FAIR Plan because:

1. The additional coverages cannot be supported under the legislative findings of fact and statement of purpose in FAIR Plan legislation.

2. There is no evidence that liability insurance should be made a matter of right, however limited that right may be in the FAIR Plan.

3. There is a precedent demonstrating that the private industry cannot - even under the artificial market conditions of a FAIR Plan - insure against crime losses in high risk areas.

4. The indivisible pricing structure cannot be altered to produce a price commensurate with the exposures in the essential coverages and, there is no unsubsidized economically sound rate adequate for high crime exposures.

We appreciate the opportunity to have presented our views to the Subcommittee on the operation of the Federal Riot Reinsurance Coverage Program. We hope these comments are helpful to the Subcommittee in its review of the program, which expires April 30, 1977.

# # #

[Whereupon, at 4:30 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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