Housing

REMARKS OF SENATOR WALTER F. MONDALE
NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS
NEW YORK DECEMBER 12, 1967

URBAN HOUSING - CURRENT CRISIS - CURABLE CONDITIONS

Thank you very much, President Swift; Dr. Ensley, and Bob Posten, both of whom represent you so effectively for the Congress; Mr. Herman Arnot, an old friend of mine, and President of one of the great financial institutions of Minnesota; John DeLaittre, former member of the Federal Home Loan Bank, President of the Farmers and Mechanics Bank, one of the great men in finance in this country; officials of the Mutual Savings Banks Association.

If I may mention one other person, Paul Douglas once said that the definition of an expert on Social Security is one who knows Wilbur Cohen's unlisted phone number. The definition of an expert on the nation's housing problems and the nation's housing laws is Carl Coan, who is the Chief of Staff of the Housing and Urban Affairs Subcommittee. I think we ought to have Carl stand up.

I'm delighted to be here today for several reasons. First of all, I have great admiration for this organization. Second, in light of the weather through which we flew, I'm glad to be here at all.

As we were fumbling around in the air on the way down, many of us thought our time had come, I thought of a very bad joke about a World War II naval officer who had served in the Pacific, and then some years later decided to visit Japan. He had a good time, but just before he left, he was sitting in a bar at the airport waiting for his plane to leave. It was delayed. He sat there for some time and he noticed a Japanese man sitting by himself at the end of the bar. He decided to strike up a conversation.

He said, "Hello, my name is John Olson, and I'm from Minnesota. What's your name?" "My name is Mr. Kamikaze." "Well," he said, "that's very interesting. You know, I fought World War II over here and they used to have Kamikaze pilots making suicide dives on American ships." He said, "that's right, that's what I did." "Well," he said, "how do you happen to be around?" "Well," he said, "I didn't give you my full name. It's Chicken Kamikaze."

There's an old saying that no army in the world can withstand the force of an idea whose time has come. I've looked forward to speaking to the Mutual Savings Bankers because in 151 years in the banking business, you have demonstrated an ability to seize the challenge of new ideas and to create a climate for change. You have been in the forefront in this country, providing thrift facilities for small savings and small savers, making home ownership a possibility for families of modest means, and becoming actively involved in community and national affairs.

One need only look at the Program of this meeting and note the topics which you have discussed in your various panel groups and conferences to know of the broad vision of this organization. I commend you for your leadership.

With a history that began in the city, I am sure you will know that democracy is on trial today in the cities of our country.

Urban blight assaults us with its sights and sounds and smells. Hollow-cheeked children staring out from behind cracked windows; unemployed men playing endless crap games furtively at the curbside; stench wafting from narrow, unlit halls; shouting voices and blaring music that never quite drown out the hopelessness, the frustration, and the fear of poverty. To walk three blocks from this hotel is to receive a lesson in human despair that one will never forget.

The decay and unrest plaguing our urban centers issues a challenge never before felt by our public and private organizations and institutions.

The tragedies of Detroit, Newark, and Watts, added to six years of concentration on the problems of the ghettos, have combined to teach us something about the nature of the problem, and a little about what needs to be done.

We know these problems are multiple -- there is no single problem and no single villain. These problems include employment, lack of education, lack of training, poor health, separation, alienation, and many others.

We know the solutions will require many kinds of programs -- economic development, job creation, comprehensive health care, and the rest.

And we also know, something critical for today's meeting, and for the jobs which you perform as a part of the Mutual Savings Banks industry. We know that one of the crucial problems is inadequate housing. One of the great issues before this country is whether we can provide decent housing for every citizen in this country. We have said we intend to do so for years upon years. In the 1949 Housing Act we stated the goal which we often hear repeated of "a decent home and a suitable living environment for every American family."

Programs operated through Government agencies in cooperation with private lenders have combined to help many meet their housing needs. And your institutions have played an important part. You have provided housing to over three million families through mortgages provided through members of your Association. And more than 77 per cent of your assets are invested in mortgage loans. A substantial part of the credit for meeting this objective must go to the members of this Association.

But as you know all too well, this commitment has not extended to all of our citizens. For millions of our fellow Americans, decent housing remains a vision of someone else's dream. More than one in every six homes in the United States is a substandard dwelling. Many of these are located in rural areas, but a significant proportion of the 8-12 million substandard homes are found in the cities, and they contribute to the creation of our steaming urban slums.

Fortunately, there is a new interest in our slums. There is hope of improving them through foresight and rehabilitation, rather than removing them through fire and desperation.

And you are very much a part of this hope.

I want to give you a sense of the hope some of us have in government.

Existing programs have reached those with plenty of money to spend on housing and, in some cases, those with not so much, through opportunities for rental or purchase of adequate homes.

I am told that in the Virginia county next to the District of Columbia, the average mortgage is for $24,000. That is not low cost housing. I understand that the average loan extended on mortgages by the members of your Association runs something between $12,000-$15,000, which is certainly much more within the range of the needs of the low income family.

Existing programs have reached those with plenty of money. But these programs have not reached the really poor, nor have they given the opportunity of home-ownership to that part of the low-income population ready and able to take on this responsibility.

Almost all substandard units are occupied by the poor, as you know. The new programs introduced since 1961 -- below-market interest rate loans, rent subsidies, grants for home rehabilitation and so on -- have been funded at levels so low that the Department of Labor estimates it would take the next generation to meet present urban needs. And even then we would not be keeping up with obsolescence and other conditions that cut down on the supply of housing.

We all know we cannot wait that long and we all know that our poor people won't wait that long.

Democracy is on trial in our cities: access to decent housing must become a right for all, not the privilege of a few. Our system of private and governmental housing programs is on trial: the practices of HUD and private lenders must change and combine to meet this need, or other alternatives will have to be adopted.

We saw one possible alternative this summer -- violence. I know we reject it together, as citizens of a great democratic nation and human beings with compassion for our less fortunate brothers.

The reasons for past failures are numerous. The problems are forbidding. But I am convinced that the United States can offer a broader band of residential choice to all of its citizens, and that it can do so within the existing framework of government and private enterprise.

Many other Senators join me in this conviction. Together this year we have introduced a series of amendments to strengthen and extend the mandate of the Department of Housing and Urban

Development, and to enhance its cooperative relationship with the private lending industry.

Let me tell you a few of the changes we are seeking.

For years many families of moderate means have wanted to move from crowded apartments into more spacious quarters, but larger apartments and homes have not been available. Little money has been spent to rehabilitate and repair living spaces in so-called declining neighborhoods; suitable facilities near friends and neighbors often cannot be found.

And many who want better housing are handicapped by uneven income because of seasonal unemployment, poor health, and ignorance about budgets, debts, management, and general handling of funds. And others simply cannot afford to pay the cost of mortgage payments.

The dilemma faced by FHA and private lenders has been just as real.

On the one hand, FHA has been told to rehabilitate the slums and provide housing for all, including the poor. On the other, it has met Congressional outrage and investigation when defaults occur. FHA is damned if it does and damned if it doesn't.

Private lenders, such as the members of this Association, have been required to maintain their businesses on an actuarially sound basis. The tight money crisis of 1966 and the spring of 1967 were but the most severe example of the recurrent problem of finding mortgage funds. I understand from Herman Arnot and others, that this difficulty is once again very much facing all of us who believe in decent housing for our people. With fixed FHA interest ceilings, obtaining mortgage funds often becomes an unprofitable venture. Risk-taking with persons who do not meet FHA criteria is an unattractive proposition.

The results of these conditions in both private and public sectors have been predictable: the poor got less than their rightful share of homes; the FHA and private lenders reaped more blame than they deserved. I don't say they shouldn't share some of the blame because I believe they must.

But the truth is that when it comes to meeting the objective of decent housing for all Americans, all of us in government and all of us in the private sector must share the blame together. None of us have reached the mark. We can begin to face the problem by agreeing that we are all partially to blame.

Those of us on the Housing Subcommittee felt that there was a way to begin a renewed attack on housing problems. And the proposal, the Urban Development Act of 1967, now before the Senate, is designed to fill in some of the gaps in existing legislation.

The Act builds on existing programs whose success is proven, including increases for low rent public housing. But it also contains some fresh approaches. It creates a program of interim assistance for blighted areas to permit emerging improvements in neighborhoods eventually scheduled for urban renewal, for example.

It also creates a new option in an area where experience is more limited -- namely, home ownership for the lower income family.

The beginning efforts of the St. Louis Bicentennial Corporation and others have shown that home ownership for the poor, using the tools of the FHA 221(h) program and other mechanisms is worth trying. The proposal for home ownership may not be as perfect as some would dream, but we know enough now about providing home ownership for lower income families to believe that the effort could well be worthwhile.

In the proposal now before the Senate, are several departures from existing programs that we think provide the opportunity for the important new effort to provide home ownership and decent housing for our lower-income Americans.

The basic proposals were contained in the draft by Senator Sparkman, the distinguished Chairman of our committee, in a measure which I introduced, and in a measure which Senator Percy of Illinois introduced. We worked for nearly two months trying to reconcile our differences. The agreement which we reached makes up the basic elements of the Act now before the Senate.

The first provision of this Act commands FHA to take whatever risks are necessary to put low and moderate income families in decent housing, by defining a new acceptable risk formula. Under this program, assistance to low-income families would be provided through periodic payments to reduce interest costs on a home mortgage or a cooperator's share of a cooperative association's mortgage.

Payments would be made by the Secretary of HUD to mortgagees, including Mutual Savings Banks. These payments would lower the monthly charge to the homeowner or the cooperative accordingly. The homeowner would pay 20 per cent of his monthly income toward the principal, interest, taxes, insurance, and mortgage insurance premiums. The difference between this amount and the real monthly mortgage cost would be made up by a subsidy payment.

However, the subsidy would never exceed the difference between the market rate mortgage and a three per cent interest figure. Under this program, then, a Mutual Savings Bank might receive money from two sources, the family and the Department of Housing and Urban Development. The result would be a chance for a low income family to own, and a chance for your bank to help him where you couldn't do so before. Arrangements would be made for reimbursement of lenders for expenses in handling the mortgage.

The program is designed to increase the supply of standard dwellings available to lower-income families, and therefore the emphasis is on new construction and on substantially rehabilitated dwellings. But exceptions are made to assist those whose need for housing is critical. Thus, the large family of five or more children or the family displaced by public action, could purchase an existing, unrehabilitated standard dwelling under this program.

The Federal National Mortgage Association would be authorized to purchase mortgage loans of the new program under its special assistance functions, permitting a 100 per cent take-out of the mortgage in tight money periods and in the beginning stages of the program.

Assistance programs under this bill would cover some 200,000 units over a three year period. That is only a beginning, but in my opinion it is an important beginning.

A second provision is called the Credit Assistance provision, and it was introduced by Senator Clark of Pennsylvania. It would again mandate the FHA to take additional risks. Families of low and moderate incomes who could not qualify for mortgage insurance under FHA housing programs because of poor credit histories would now be given an opportunity to purchase a home. In effect, it would say that a lower income family which had had a poor credit rating in the past, could nevertheless be given a loan if the credit history, in the light of all the circumstances, was still reasonably satisfactory. In addition, the FHA would provide credit counselling. This program would call for an experiment with some 15,000 new units.

A third program, which could well be one of the most important new provisions, calls for a new acceptable risk formula for FHA insurance in blighted areas.

We all know that one of the most serious problems in our core cities has been the practice of so-called "redlining". When private lending agencies and the FHA agree that an area is going downhill or might go downhill, and therefore is not as desirable as others for the purpose of making loans, the area is redlined and the flow of credit is cut off. The "redlined" area has no place to go but down. More than that, exploiters come in. The search for quick profits takes over. Those who can least afford it end up paying exorbitant sums for the housing they must have. Housing finance then becomes a proposition in which the poor pay more, as they do for so many of their necessities. High interest rate loans and high rents simply worsen the situation. Instead of less, there is more overcrowding, more rapid turnover, more improper conversion.

Under an amendment, sponsored by Senator Proxmire and me, FHA would be able to waive the "economic soundness" requirement in favor of a new acceptable risk criterion. FHA could accept properties which did not previously meet eligibility requirements because of the condition of the neighborhood.

They would become eligible if they were found to be reasonably sound and to promise adequate housing for lower and moderate income families. All older or declining areas would be eligible, including those where riot or disorder had destroyed or damaged property.

In a sense, this is not a new provision. It existed in the previous act, but there was an unfortunate requirement. In order to be eligible for FHA insurance, a declining area first had to have a riot. It seemed to me that Rapp Brown has enough help without that provision.

So we changed it, and I think wisely, to remove the practice of "redlining" by FHA, and hopefully by private lenders, to get decent and reputable private lenders back into the blighted and questionable areas of our core cities. This could well be the single most important feature of this bill.

A fourth provision, needed to make the others work, is the creation of a Special Risk Insurance Fund which would be created to pay claims on mortgages insured under the three programs just explained. Insurance would not be the only source of revenue for paying claims. There also would be a direct governmental appropriation.

There are several reasons for this. First of all, it's probably not fair to ask the regular insurance fund to pay losses on these special low-income social programs. And second, as we are trying to prod FHA to be more courageous in these blighted areas, we felt that if the losses were drawn upon the regular insurance fund, it would create a sense of conservatism which would interfere with the effective and liberal administration of the program. Third, it represents a mandate on the part of Congres to the FHA, with financial backing for losses. Thus, we have created this special fund, the Special Risk Fund, from which losses can be drawn.

A fifth provision deals with interest rates, so critical to the supply of mortgage funds. The Executive Vice President of this organization, Dr. Ensley, was among those who testified in favor of adjusting the statutes so that interest rates could be keyed to the requirements of the marketplace.

And this is an argument about which I particularly changed my mind. I am a person who believes himself to be a domestic liberal. I am for low interest rates, and have been. I was brought up on oatmeal and low interest rates by my Farmer-Labor father in Southern Minnesota.

But when one looks at the housing problems in America today, one realizes the situation requires at least a flexible-interest ceiling administered by the Secretary of HUD that reflects the realities of the marketplace. Otherwise, what you have is a nice issue for the politicians who should know better, and less housing for the poor folks who really need it. This is the time for all of us to break old molds and work together to meet this problem.

I made the motion which resulted in the flexible interest rate ceilings. I think it was the right thing to do. I regret that it even has to come up. We in the Congress wisely have proved ourselves more than willing to lower taxes to increase the activity of our economy, but we have shown ourselves terribly reluctant to increase taxes to take the heat out of the economy when it is on the upstride.

As a domestic liberal, I feel I have a responsibility not only to propose programs I think my people need, but to stand up and propose the financing that goes with them, so that we can have a stable economy.

I don't have to tell you what a default in our responsibilities in keeping a stable economy means to the home-building industry and the home mortgage industry. We are going to have a tax. It is going to be a fair tax that takes the heat out of the economy, or it is going to be the cruelest of all taxes, one that erodes the purchasing dollar of our poor, those living on fixed income, those on retirement, those with the large families, those depending on pension funds.

If we increase interest rates and have a tax in that way, we will adversely affect our balance of payments with all that means. We will dislocate the home mortgage and home-building industry where it is most important to our poor folk. We ought to have the courage to stand up and do it the responsible and, I might say at this point, the American way -- take the heat out of the economy and have a healthy economy at the same time.

Well, these are the major provisions of the bill. I hope it will pass. I think it is important for several reasons.

First of all, it tries to remove the excuses that FHA has had for not being more courageous in insuring loans in blighted and questionable areas, and in insuring loans for persons who may have questionable incomes or questionable credit records. The FHA has been kicked all over the block on this issue. Some of it is deserved. Much of it is not.

The Congress has not spoken clearly. Each of us imposes his personal notions about what FHA should do. The conservatives think the FHA should be more conservative than the Chase Manhattan Bank. The liberals think FHA should give all away. FHA can't win; it can't please anyone.

It's time for the Congress to arm the FHA with the authority and the responsibility to extend the credit tool of the federal government to bring decent housing within reach of our lower income families.

Second, we must clear away the objections of the private lending industry. One of them is the failure of the FHA to extend credit insurance in blighted areas. Another is the failure of the government to try to bring down the cost of funding mortgages so that poor families can afford to own houses, and create a fund that would encourage government and the private lender by protecting them against losses. A third is to remove the interest ceilings so that it is profitable for the private lender to lend in these blighted areas, and to lend in cooperation with the FHA.

This bill, in my opinion, removes the excuses. It removes the excuse that the FHA has had, and if I may say so, it removes the excuse that the private lending agencies have had. It is now a question of whether or not our theory is correct that the best answer to the nation's housing needs is cooperation between the government and private lenders. If not, we will have to abandon this traditional approach and try something totally operated by government, or some new kind of animal that we haven't tried before.

We see suggestions already that presuppose the failure of this experiment, assuming that neither FHA nor the private lending agencies, even with these new tools, will do the job. One proposal calls for the creation of a low-income office in FHA to set up a whole new administration to parallel existing government agencies, on the theory that FHA administrators are so unrepentent and so unredeemable, so immune to this general appeal to take the chance in the American blighted areas, that the FHA must be abandoned.

I don't believe that. I think Mr. Brownstein and the leadership of the FHA can do the job and want to do the job. But if they fail, we have no choice but to set up some new kind of agency to try to bring a new sense of liberality to that cause.

And other proposals have been made to circumvent the private lenders in this field. Senator Percy has proposed the creation of a new foundation that would borrow money with federally-backed funds and would then set up an entirely new system of underwriting which would cost something like $38 million a year, outside FHA, outside the private lending industry, lending directly to the homeowners in communities across the country.

The key issue we had in resolving the home ownership issue was really whether the private lender and FHA would be willing to do the job if they were given the tools. Ladies and gentlemen, if you don't do it, there will be no choice but to find an alternative. There can be no compromise with the objective. Decent housing must be provided and provided quickly.

Let us hope that we can proceed. As Vice President Humphrey put it recently, "We are not going to rebuild America out of Washington. We are not going to rebuild America out of public funds. . .through a partnership among Federal-State and local governments and the private sector, we are trying to upgrade the quality of American life."

FHA regulations will work only if private lending institutions make them work. With over three-quarters of its bank assets invested in mortgage loans, and with a history of leadership in community affairs, Mutual Savings Banks seem well equipped to grasp this challenge to change.