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The Federal Housing Fiasco

What has caused the greatest devastation to American cities and towns during the last seven years? Tornadoes? Hurricanes? Earthquakes? Wrong on all three guesses. The answer is the federal housing program which has destroyed $4 billion worth of housing, charged the bill for this manmade disaster to the U.S. taxpayers, and displaced tens of thousands of people, black and white, middleclass and poor. The additional cost in terms of ruined neighborhoods, lowered property values of homes left standing, and mental anguish for homeowners left living amid the destruction cannot even be calculated.

These are some of the startling facts that have emerged from two separate investigations, one made in Chicago by a team of investigative newspaper reporters, the other financed by the National Science Foundation at Washington University in St. Louis. Their reports provide new documentation on how the federal housing program has actually victimized those it was designed to help, and speeded the decline of the inner cities by encouraging the flight of whites to the suburbs.

It all sounded so humanitarian when the program of government-insured mortgages was started in 1968 under the National Housing Act. The objective was to provide hundreds of thousands of low-cost homes on easy terms for low-income families. The way it worked out in practice was quite different. Shoddy new homes were built, or unsound older homes were located, and then sold to buyers who were poor credit risks or even unemployed, with FHA guaranteeing 100 percent of the mortgage. After about a year, more or less, either disillusioned with the condition of the house, or too unreliable to continue the monthly payments, the buyer would move out and the mortgage company would foreclose. Vandals and natural decay would complete the destruction of the empty house.

Cost to the Taxpayers

While the mortgage companies find this scenario extremely profitable because they are repaid in full plus interest, the taxpayers are stuck with the loss at an average cost of more than $13,000 per house. FHA has taken possession of 74,000 single-family homes, and another 127,000 more will soon be foreclosed.

The quick turnover of property ownership has been rotting the very neighborhoods that the federal housing program was designed to save. James M. Alter, a Chicago businessman who served as chairman of the Illinois Governor's Commission on Mortgage Practices, said recently that, "outside of Watergate and Vietnam, there is no greater scandal than in FHA and HUD housing."

On July 18, the General Accounting Office charged that the Department of Housing and Urban Development is overpaying thousands of homeowners more than $24.6 million a year in government subsidies. GAO officials told a manpower and housing subcommittee of the Senate Government Operations Committee that the overpayments are being made to an estimated 110,000 families out of the 400,000 subsidized mortgages now outstanding nationally. GAO officials blamed HUD, mortgage companies, and homeowners.

FHA and HUD were promoted by the liberal politicans on the faulty premise that government spending by the bureaucratic elite can remedy our economic ills. The sorry result is that, after spending billions of dollars, our cities are worse off now than if the government had never tackled the housing problem.

Mayor Daley's Testimony

The housing fiasco in Chicago made headlines on July 15 when Mayor Richard Daley was the leadoff witness at a hearing of the Senate Banking, Housing and Urban Affairs Committee. Daley charged federal authorities with the destruction of thousands of homes and the decay of dozens of neighborhoods in the Chicago area through mismanagement of federal housing subsidy programs. He outlined the disastrous effects that the mismanagement of the housing programs has had on Chicago neighborhoods, including his own.

The destruction of neighborhoods has been caused by HUD and FHA negligence, said Daley, "through improper inspection procedures before mortgages were approved, by not checking prospective home purchasers' credit properly, and finally by fast foreclosure techniques." He graphically described the effect that "abandoned, boarded-up homes have on the people of a neighborhood."

"By not observing the kind of proper forebearance called for under FHA regulations, particularly in a time of rising interest rates and economic recession, most cities in the United States have been left with thousands of abandoned and vandalized structures in what had been desirable neighborhoods," Daley said. He cited one neighborhood where "approximately eight percent of that area's 4,000 residential structures have been

abandoned or demolished, and the rate appears to be accelerating."

Neighborhood Ruin

Senator Adlai Stevenson opened the hearing before the Senate Banking, Housing and Urban Affairs Committee on July 14 by accusing HUD of "stupidity, neglect, corruption, and waste of money."

Witness after witness described the destruction of property in their own neighborhoods as a result of FHA and HUD policies. Gail Cincotta, a leader of the Metropolitan Area Housing Alliance, told how the three-block area around her home "experienced the demolition of five FHA homes, six are currently boarded up, two are burned out, and one of them burned just a few weeks ago."

Hazel Montgomery, secretary of the Citizens Action Program, charged that in one typical block of Chicago, the 6000 block of South Honore Street, "12 of its 46 homes have been foreclosed. Two of these homes were sold, three demolished, and seven stand abandoned. There have been at least two fires in abandoned homes, and in one, a woman was raped."

The Senate hearing was precipated by an extensive front-page series of articles in the *Chicago Tribune*. Until that newspaper did its in-depth investigative reporting, most people outside the neighborhoods involved were unaware of the extent of the waste, fraud, and deception caused by the federal housing fiasco.

The Federal Government now owns 3,579 vacant and destroyed homes in the Chicago area, representing a loss to the taxpayers of hundreds of millions of dollars.

Making Money in Housing

Congress passed the National Housing Act in 1968 in response to unrest and rioting in the major cities. It was designed to provide hundreds of thousands of homes for low-income families in order to relieve the tensions of the overcrowded cities.

Low-cost housing was supposed to be the solution to the urban riots of the previous year. It was a plan under which the Federal Government insured mortgages 100 percent so that people could buy homes who could not otherwise get private financing.

If the family missed payments to the private mortgage company, the company foreclosed the mortgage and collected from FHA all that was owed them. The system, obviously, was attractive to mortgage companies, to real estate operators, and to the poor.

Since most liberals believe in the perfectibility of human nature, they did not anticipate or would not admit that there are people in all economic brackets who will try to make a fast buck whenever the opportunity presents itself. The federal housing programs offered many such opportunities. It soon became apparent that everyone involved could make more money faster by buying and selling homes to families that were not only poor, but poor credit risks -- such as unemployed persons who could afford only the first payment and were certain to default.

Once a home was foreclosed, the mortgage company would collect full value for the home from FHA insurance after one year, rather than wait up to 30 years for the mortgage to mature. HUD and FHA records indicate that the foreclosure rate of Housing Act homes in Illinois reached seven times the rate of foreclosure o. homes bought through conventional loans.

When a mortgage company foreclosed on an FHA-insured loan after one year, the annual profit could go as high as 14 percent, against 6.7 percent over the life of the loan. During the one year of the mortgage, plus the one-year-three-month period generally required for foreclosure proceedings, a lender could make a profit of $5,263 on a loan of $18,500.

The profits in a FHA foreclosure

Example of how profits are made from a foreclosure on a Federal Housing Administration insured loan:

House sells for	$19,000
Downpayment	500
Total mortgage amount 30 years @ 8¼ per cent plus ½ per cent FHA insurance fee	18,500
Lender charges seller 10 "points"	1,850
Lender's total cash investment	**$16,650**

At the end of twelve months, the borrower defaults. After the 90-day required grace period following the default, the lender institutes foreclosure proceedings. When the foreclosure is completed one year later, the federal government (Department of Housing and Urban Development) pays off the lender for the remaining principal and interest for the 15 months since the last payment.

The lender receives:

From the borrower:	
Interest	$1,520.72
Principal	148.72
Sub-total	1,669.44
From HUD:	
Interest	1,892.48
Principal	18,351.28
Sub-total	20,243.76
Total	$21,913.20
Less original cash investment	16,650.00
Lender's total profit	**$5,263.20**

This equals 31.6 per cent in 2¼ years or an average annual yield of 14 per cent. The return, if the mortgage was held to maturity, would be 6.7 per cent.

Source: Metropolitan Area Housing Alliance. Tribune Graphics

The mortgage companies are supposed to board up the foreclosed homes and do whatever is necessary to keep them attractive. But too often these protective services are never provided, while FHA continues to pay for work that is never done. After the house becomes a pile of rubble, the FHA auctions it off for $1, leaving the neighborhood with another slum building and the family which originally bought it displaced and angry.

A major defect in the present program is that FHA insures each mortgage 100 percent. If a homeowner defaults and the house is abandoned, the mortgage company gets back all of its loan no matter what condition the house is in when it is turned over to FHA. The sorry FHA record should be compared to the home loan program administered by the Veterans Administration. The VA guarantees only 60 percent of the loan and, if a house is foreclosed and wrecked by vandals, the mortgage company shares the loss. As a result, the VA does not suffer the huge financial losses on destroyed housing that FHA and HUD have suffered through the Housing Act programs.

The *Chicago Tribune* investigation showed that property destruction and neighborhood ruin caused by FHA and HUD were not confined to the big cities, but extend all over the state to small towns and middle-class suburbs.

Washington University Study

A 227-page study prepared in St. Louis, Missouri by Washington University's Institute for

Urban and Regional Studies, and financed by the National Science Foundation, was released on June 27, 1975 under the title "The Contemporary Neighborhood Succession Process." The report was a follow-up of a 1972 Washington University study of urban decay in St. Louis which had called for (1) increased income for poor persons, (2) state and federal revenue-sharing programs to ease the burden of city taxpayers, and (3) strengthened housing programs, in order to arrest deterioration.

After examining housing turnover in five city and ten suburban neighborhoods, the study concluded that, instead of helping to stabilize racially-changing urban neighborhoods, federal policy has instead speeded the transition of several neighborhoods from white to black and hastened their decline. Federal policy made it easier for middle-class whites to leave a changing neighborhood. Middle-class black demand was insufficient to absorb resulting vacancies, so prices fell and lower-class blacks moved in, the study said.

"The effect of the FHA policy," the study said, "was to victimize those it was designed to help."

The study was quite critical of Federal Housing Administration policies and the effect they have had on decay in the urban area. The study charged that FHA has displayed a "blind disregard of program impact" and has not correctly identified the realities of the housing market.

Easy Credit, Liberal Terms

In response to public pressure, FHA's terms for purchase of new construction "were made ever more liberal and all-embracing. At the same time as onetime middle-class housing was being massively made available to the poor, the [federal] authorities undertook to provide new housing for the poor in huge projects that were themselves tragically misbegotten," the study charged.

The report was even more critical of the 1966 policy that allowed persons to obtain federally-insured mortgages regardless of neighborhood conditions.

As an example of the rapid changeover of a neighborhood, the study cited the community of Wellston. From 1960 to 1970, it went from 8.6 percent to 71 percent black.

Abandoning Requirements

Before 1966, FHA requirements for federally-insured home mortgages included three criteria: the property had to be sound and worth the selling price, the neighborhood had to be sound, and the potential buyer had to be a good credit risk. In 1966, FHA removed the neighborhood qualification. While the intent in removing this requirement was praiseworthy, the study said, "the result was that protracted vacancies increased after transition began, values fell again, and low-income blacks, who presented the only available market, entered the neighborhood. There then ensued a serious decline in income-level, and values plummeted."

The study also found that both black and white families show a preference for housing in neighborhoods with high median incomes and a small proportion of nonwhite residents, that income declines in neighborhoods not experiencing racial changes occur more slowly than in neighborhoods with racial change, and that economic decline is associated more strongly with socioeconomic status of neighborhoods than with the age of the houses.

The FHA/HUD burocracy: The complicated route to foreclosure*

1 Homeowner defaults on Federal Housing Administration-backed loan and vacates house.

2 Mortgage company assigns home to Department of Housing and Urban Development, collects unpaid balance of the loan and other expenses from federal government.

3 Local HUD office decides to foreclose on loan, sends file to HUD controler in Washington, D. C.

4 File goes to HUD general counsel in Washington for review of record, recommendation on foreclosure.

5 General counsel's office sends file to Justice Department to decide which U. S. attorney's office should handle case.

6 Justice Department sends file to local (Chicago) U.S. attorney's office; case assigned to an assistant.

7 The local U. S. attorney's office files a foreclosure suit against the borrowers (homeowners).

8 Court grants property deed to U.S. government.

9 Deed and other documents sent to HUD offices in Washington.

10 Documents checked, sent back to local HUD office.

Average time elapsed—more than 4 years

*For 235-program homes which are new, single family residences. Altho the government now has mortgage companies handle foreclosures on new defaults, thousands of 235-homes are still traveling thru the FHA|HUD system.

Tribune Graphics

The Rise And Fall of Pruitt-Igoe

One more chapter in the unhappy history of public housing occurred in St. Louis this month when bids were received by the St. Louis Housing Authority to demolish the once prize-winning Pruitt-Igoe public housing complex. Demolition of the 30 eleven-story deserted buildings will take about 18 months. The $3.5 million cost of demolition will, of course, be borne by the Federal taxpayers.

This demolition is believed to be the first time the Department of Housing and Urban Development (HUD) has agreed to close, vacate, and tear down a relatively new housing project built entirely with taxpayer money. There are no present plans for further use of the 53-acre property. The demolition is a good lesson to those who think the Government knows all the answers.

The giant public housing complex called Pruitt-Igoe originally consisted of 33 eleven-story buildings and was designed to house 2,870 families. Built in 1955, it was one of the largest projects of those who believe that all problems can be solved by putting more power and more money into the hands of the Federal Government. The original construction cost was $36 million. HUD still owes an estimated $25 million on the bonds. The total HUD outlay, including the new $3.5 million for demolition, is about $65 million.

Vacancies and Vandalism

Pruitt-Igoe was never fully occupied. Before long, it was plagued by vacancies, vandalism, theft of fixtures, and crime. Delivery men and bill collectors refused to go there because they knew their lives were in danger. In the last few years of its occupancy, countless numbers of children were brutally assaulted. Rapists and child molesters prowled the project looking for victims.

In 1970, all but six buildings were closed. By 1972, only 547 apartments were occupied. Three buildings were deliberately dynamited that year. In 1973, when the project was running an annual deficit of about $4 million, the St. Louis Housing Authority Board voted unanimously to close it down. The executive director told the press: "I don't know any alternative. ... We have failed with Pruitt-Igoe."

The last families moved out in May 1974 and the remaining buildings were barricaded behind chain-link fences. Pruitt-Igoe's death was painfully dragged out over a period of years because total demolition was such a public confession of failure.

Why the Failure?

Many different explanations have been advanced for the failure of Pruitt-Igoe. People have tried to blame it on the architect, on the elevators, on the lack of landscaping, and on the perennial need for more funds. Nobody ever said what was really wrong -- that the Federal Government is incapable of managing the housing business, and that, where there is absentee management and no penalty for misconduct, the tenants would not take care of property that was not their own.

In any event, Pruitt-Igoe was totally a federal responsibility. The Federal Government designed it, financed it, and regulated it.

St. Louis public housing problems may be the most dramatic, but they are not by any means unique. In Chicago housing projects, shootings, robberies, rapes, and sniping at policemen are commonplace. In some projects, the buildings are effectively controlled by criminal gangs.

Pruitt-Igoe buildings being dynamited in 1972.

Citizens all over the country will go to almost any length to prevent having a public housing project located in their own neighborhood.

Former Secretary of Housing and Urban Development George Romney went into office in 1969 full of starry-eyed hopes that the government should be the instrument to provide better housing for poor people. Three-and-a-half years later, he had learned better. Shortly before he left his Cabinet post as head of HUD, he called public housing a "$100 billion mistake," and urged that all Federal housing subsidy programs be abolished.

Why does it take so many years and so many billions of taxpayers' dollars to teach some people the simple lesson that individuals can do most things better than government? If the Pruitt-Igoe mistake could teach the voters this lesson, it would be worth its cost.

Phyllis Schlafly is the co-author of four books on nuclear strategy: *The Gravediggers* (1964), *Strike From Space* (1965), *The Betrayers* (1968), and *Kissinger on the Couch* (1975). She has testified on national security before the Senate Foreign Relations and Armed Services Committees. Her 1972 series of interviews with military and nuclear experts was aired on 70 television and 50 radio stations. An honors graduate of Washington University and member of Phi Beta Kappa, she has a Master's Degree from Harvard University.

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