

ADEQUACY OF FEDERAL RESPONSE TO HOUSING NEEDS OF OLDER AMERICANS

HEARINGS
BEFORE THE
SUBCOMMITTEE ON
HOUSING FOR THE ELDERLY
OF THE
SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE
NINETY-SECOND CONGRESS
FIRST SESSION

PART 1—WASHINGTON, D.C.

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ADEQUACY OF FEDERAL RESPONSE TO HOUSING NEEDS OF OLDER AMERICANS

MONDAY, AUGUST 2, 1971

U.S. SENATE,
SUBCOMMITTEE ON HOUSING FOR THE ELDERLY,
SPECIAL COMMITTEE ON AGING,
Washington, D.C.

The subcommittee met at 10:10 a.m., pursuant to call, in room 4232, New Senate Office Building, Hon. Harrison A. Williams, Jr. (chairman of the subcommittee) presiding.

Present: Senator Williams.

Staff members present: William E. Oriol, staff director; Val J. Halamandaris, professional staff; Bill Laughlin, professional staff; John Guy Miller, minority staff director; and Janet Neigh, clerk.

OPENING STATEMENT BY SENATOR HARRISON A. WILLIAMS, CHAIRMAN

Senator WILLIAMS. This is a hearing of the Subcommittee on Housing for the Elderly, a subcommittee of the Special Committee on Aging.

Good morning, Monsignor. We are looking forward to your statement and the statements of those who appear with you.

We would like to say at the outset that with this hearing the Subcommittee on Housing for the Elderly of the Senate Special Committee on Aging is beginning an intensive inquiry into the adequacy and appropriateness of "Federal Response to Housing Needs of the Elderly."

We are going to hear about a great many technical matters during these 3 days: interest costs, construction design, and so on.

But I would like to open by focusing for a moment on what this hearing is all about: the people that housing programs are meant to serve. In this case, those people are elderly Americans.

Many of them were homeowners until late in life. But, because of high property taxes, inflation, or other reasons, they now seek housing elsewhere.

For many of them, however, there is no "elsewhere." Apartments may be either prohibitively expensive, or may not be available at all. As for units made available through Federal programs, only about 350,000 have been produced in the last 10 years. That total is roughly equal to the average net gain among people of age 65 in this Nation every year.

SIX MILLION ELDERLY LIVE IN SUBSTANDARD UNITS

Should it be any surprise, therefore, that approximately 6 million Americans of that age or older live in substandard units? It may be disheartening, but it is a fact which must be faced up to.

Incidentally, that rough estimate is available only because of intensive research by committee staff. It was not available from any Federal agency, and I think that this is appalling in a year which will culminate in a White House Conference on Aging. I intend to ask administration witnesses why this is so.

What happens when housing is unavailable for elderly persons?

Anyone who has seen a waiting list for public housing, or for other types of federally supported programs, knows the answer to that question. Many of the names on those lists will be scratched off, not because a place has been found for them, but because their time on this earth will run out. Quite often, housing for the elderly is a life or death matter.

What happens when older Americans can find suitable living quarters?

I will never forget the woman I met one day in New Jersey while visiting a public housing complex. She told me that her 3 years in her small apartment had been the happiest in her life. Just think for a moment about that statement, her anxiety about shelter must have been very strong indeed to produce such an intense mood of relief.

In later hearings, we will ask more about public housing and other Federal programs.

For today, tomorrow, and Wednesday, however, we will focus upon two programs of great interest to me personally as a member of the Senate Banking, Housing and Urban Affairs Committee, and as chairman of this subcommittee.

FUNDING FOR SECTION 202 PROGRAM

One is the section 202 direct loan housing program. I have supported this program since it was first proposed. And I have from time to time taken action to obtain more funding for it. It has produced eminently livable quarters for many older persons; and it has received warm support from the nonprofit sponsors—including church and labor organizations—which use the program.

Last year, when the administration failed to request any funds for that program, I led an effort which resulted in an appropriation of \$10 million for that program.

It wasn't much, but at least it would keep the program alive. At least that's what I thought. The administration, however, has made it clear that it will not use 1 cent of that \$10 million for 202. We will ask for more details on this policy on Wednesday from the witness who will represent the Department of Housing and Urban Development.

The other programs to which I referred earlier is the section 236 interest subsidy program. And it is this program which is favored by the administration over 202.

And yet, I think we on this subcommittee are entitled to ask why this is so.

From the very beginning, Members of Congress have raised questions about the high Federal costs that were likely to occur under 236.

After all, when the Federal Government agrees to underwrite the difference between the 1 percent paid by the sponsor and the going market rate, there is good cause for concern.

It is my understanding, in fact, that one of our witnesses here today will say that the Federal interest payment on a \$3 million project under 236 may be as high as \$8 million. We are, of course, going to dig deeply into that possibility.

And there are possibilities under 236 about which I intend to inquire. I will want to know:

Why it may be possible, as another witness will testify, for builders to make as much as \$350,000 for every \$1 million in construction costs under one FHA-administered program?

Why FHA allows builders under that program the maximum in costs while settling for rockbottom minimum FHA standards of construction?

Why the American Institute of Architects is opposed to that program?

Why elderly tenants are not well served by that program?

Why under that program housing projects are initiated by a new kind of "packager" who solicits participation of would-be nonprofit sponsors as distinguished from the section 202 program where the sponsor originated the project?

Why such nonprofit sponsors are becoming more and more frustrated in attempts to use that program?

These are just questions at this point. If the answers during the next 3 days indicate that further inquiry is needed, we will look deeply into practices of the Federal Housing Administration and individual projects built under section 236.

I will conclude by pointing out that under both 202 and 236 honest and thoroughly respectable sponsors have made serious and sometimes very effective efforts to provide good housing for people who desperately need it. It would be unfortunate indeed if their efforts were in any way diminished because of a faulty program.

For that reason, we need prompt answers to the questions to be raised at this hearing. If a cloud does hang over 236, that program should be reformed or replaced.

Now this morning we are honored indeed by the witnesses that have journeyed to Washington to help us in our study of the programs designed to meet desperate need of housing for elderly people.

Monsignor Edward Michelin is director of Catholic Charities in the State of Mississippi. He is our first witness and will be the chairman of this opening panel. I believe that has been arranged, hasn't it, Monsignor?

STATEMENT OF MSGR. EDWARD C. MICHELIN, DIRECTOR OF CATHOLIC CHARITIES, STATE OF MISSISSIPPI

Monsignor MICHELIN. Yes. Yes, lest perhaps you see someone sitting here with a collar on and think it is just another priest; I do not wish to blow my own horn that much, but I will give you some of my background to address myself to this question.

Please let me introduce myself. I am the Reverend Monsignor Edward E. Michelin from the State of Mississippi. My qualifications include among others: Graduate of the School of Business Administration, University of Detroit, with a degree in accounting and economics; Harvard University Graduate School of Business Administration, certificate in Naval accounting; graduate of St. Paul Seminary, St. Paul, Minn., with a degree in philosophy; graduate of St. John Seminary, Little Rock, Ark., in theology.

Served in World War II, Pacific theater, as a supply and disbursing officer, USN. Served the Catholic Diocese in Mississippi since 1954 in the following capacities: comptroller, vice-chancellor, director of hospitals, pastor.

Currently executive director of the Department of Community Services of the Diocese, encompassing the following: Catholic Social Services of Mississippi; Health and Hospital Services; Housing Services; Disaster Services; Catholic Charities, Inc.

Immediate past-president of the Catholic Hospital Association of the United States, currently serving on the executive board. Recently elected chairman of the board, the American Health Congress, representing the American Hospital Association, the American Nursing Home Association, the Health Industries Association, and the Catholic Hospital Association.

In addition, I am president of the following housing corporations: Low-Income Family Apartments (221(d)(3)), completed and occupied: Southside Garden Apartments, Greenville, Miss., 120 units; total cost \$1,362,458.

Canton Garden Apartments, Canton, Miss., 100 units; total cost \$1,308,586.

Deer Creek School Park Apartments, Leland, Miss., 90 units; total cost \$1,245,300.

Low-Moderate Income Elderly Apartments (202/236), completed and occupied: Santa Maria del Mar Apartments, Biloxi, Miss., 210 units; total cost \$3,250,000.

Low-Moderate Income Elderly Apartments, under construction: Northland Village Apartments, Greenville, Miss., 100 units, \$1,298,900—completion date December 15, 1971.

Low-Moderate Income Elderly Apartments, under construction: Madonna Manor Apartments, Jackson, Miss., 209 units; total cost \$3,020,200, completion date—August 12, 1971.

Villa Maria Apartments, Ocean Springs, Miss., 198 units; total cost \$3,199,200. Total of 198 units with 112 units to be occupied on August 16, 1971, balance by September 1, 1971.

Apartments funded or awaiting initial closing: 202 St. Charles Manor Apartments (congregate living facility), Jackson, Miss., 200 units with central dining facilities, for elderly; total cost \$2,700,000, funded, in final working drawing stage.

221(d)(3) Edgewood Manor Apartments, Gulfport, Miss., 120 units; total cost \$1,516,200, initial closing August 24, 1971, funded.

Jamaica Manor Apartments, West Point, Miss., 120 units; total cost \$1,570,000 awaiting funding.

THE PLIGHT OF THE FORGOTTEN

I am pleased to have this opportunity to testify on the plight of the forgotten low-moderate income, middle class elderly and the sponsors, the responsible nonprofit, highly motivated and qualified religious civic groups who have marshaled their forces to cope, with the aid of Government, the great unmet need of this large segment of our society. This large group of taxpayers, the elderly, now find themselves abandoned in this so-called youth centered country.

Though persons over 65 comprise about 10 percent of the total population, they have 22 percent of all deficient housing in the United States. The income portrait of this group places most of them in the lower-middle class. The Bureau of the Census classified as dilapidated one-third of the dwellings they occupy.

This is housing which does not provide safe and adequate shelter and in its present condition endangers the health, safety or well-being of the occupants. The defects are either so critical or so widespread that the structure should be extensively repaired, rebuilt or torn down.

Of the elderly in standard housing it was found, live in houses which are unsafe, difficult to maintain, too large for efficient living or lack the services older persons need. Many need the benefits of specially designed housing for the elderly.

Especially when you consider over 80 percent of the applicants in our current facilities are widows, the need for elderly housing becomes more apparent.

Another point—the nature of the sponsor contributes greatly to the fulfillment of need, not only fiscal responsibility, but continuity and moral soundness are imperatives—these are to be found in non-profit motivated sponsors of a religious, social, moral background. From the very nature of these sponsors, they can provide more than just bare housing.

AD VALOREM TAX RELIEF

To confuse housing for the elderly, such as the 202 program with the 236 program, leads to many pitfalls.

Generally the 202 projects were specifically excluded from ad valorem taxation, the elderly being recognized and favored because of their contributions to society during their more productive years.

The 236 program does not enjoy ad valorem tax relief. By the inclusion of the 202 in the 236 category, local government insists they are now 236 and do not tax them, they say, would lead to ad valorem tax relief precedent for all 236 family type housing.

These latter of necessity demand more of the tax dollars to provide schooling, police and fire services, et cetera, than the elderly living in the security and fire-resistant qualities of the high rise and who have no school age children.

Locally in Mississippi, because of the confusion resulting from the conversion of our 202's to a 202/236 program, the taxing authorities have attempted to levy a \$60,000 tax on a 200 apartment facility.

With our average rental per apartment below \$80 a month utilities included, this tax bite would add an additional \$25 a month to the rental cost, an outrageously disproportionate increase of rent.

Even though nonprofits donate time, energy, and services and the Federal Government recognizing the need subsidizes the interest, if there is not a definite distinction in programs, facilities for the elderly will be taxed.

Should this happen the projects would not be economically feasible considering the rents to be charged, disproportionately high, compared to the income ceiling limitations imposed, for example, 135 percent of the public housing income ceiling limits.

I might add here, since coming to Washington—in this morning's paper, which I read last night—it now appears that not only are we saddled with confusion of programs endangering our exemption from ad valorem taxes, but we are now saddled with something worse, the endangering of our credibility and integrity.

We the nonprofit religious sponsors, mindful of the scandals of 231, hesitatingly embarked on 202 only after its genuineness was proven.

By FHA administrative fiat we are now coupled with 236 and thus find ourselves besmirched by possible 236 scandals. Yes, we, too, were approached by 236 quickie packagers who would provide turnkey projects. We did not buy, as we wanted a custom designed and built project under our supervision of which we could be proud.

However the provisions of the get-rich-quick provisions of 236 for profit motivated sponsors has done its dirty work.

Now we of the 202/236 conversion projects are besmirched by the possibility of 236 scandals reported in today's syndicated column of Jack Anderson appearing in the Washington Post. I would like to submit it for the record.

Senator WILLIAMS. We will include that in the record.
(The article referred to follows:)

[From the Washington Post, Aug. 2, 1971]

The Washington Merry-Go-Round

LBJ'S MAGNA CARTA REEKS OF SCANDAL

(By Jack Anderson)

The 1968 Federal Housing Act, Lyndon Johnson's so-called "Magna Carta" for low-cost housing, has turned out instead to be a fabulous bonanza for the nation's mortgage lenders and their buccaneer friends, the builders. And now the program has begun to reek of scandal.

Already, the taxpayers are obligated for \$26 billion in mortgage payments under the act. By the end of the year, the figure will be about \$40 billion. And the program goes on, incurring new debts every day.

Now, a Senate housing subcommittee is opening hearings into this extraordinary, get-rich-quick scheme. The subcommittee wants to know why one company, the Vanguard Construction Co. of Florida, seems to be able to get its government cash commitments instantly while others wait months, even years.

The same company, the subcommittee has been informed, is also using inferior, illegal materials in the housing it builds for elderly persons.

Even the Federal Housing Administration, which administers the 1968 act, has conceded that some of the company's quicky loan approvals were improper, but they apparently are still getting them.

The government man in charge of the program is Eugene Gullledge, an assistant secretary of Housing and Urban Development. Gullledge was well prepared for his task of getting the housing industry out of its doldrums. As president of the National Association of Home Builders, the industry's muscular lobby, he helped draft the LBJ "Magna Carta."

A cursory examination of this program shows how the public got so far in debt so fast.

Under the old federal low-cost housing plan, a sponsoring organization planned the project, obtained the money directly from the government at three percent interest, and put the job out for bid. This program operated virtually spotlessly for five years.

Now the money is no longer loaned directly by the government but by private money-bags. The taxpayer, however, guarantees the loan and pays all but one per cent of the interest. The lender and the builder cannot lose, no matter what.

What happens now is that builders and lenders cook up a project themselves, get friendly local FHA officials to give it a tentative blessing, then go shopping for a nonprofit sponsoring organization. If they can't find one, they hastily set up one.

Under Gulledge's administration, a number of sponsors which applied for money under the old program have had their applications funneled into the new one. The results have been miles of red tape and, in some cases, huge additional costs.

The subcommittee, headed by Sen. Harrison Williams (D-N.J.), will hear from the sponsors of the Hacienda De Ybor, a Tampa elderly housing project. When their application for a direct loan was switched to the new program, they ended up paying tens of thousands of dollars out of their pockets to cover extra costs demanded by the mortgage company.

What makes all this so appalling is that there is no reason to believe Congress ever wanted the new program to supplant the old one. Eliminating the old one has been Gulledge's work.

Indeed, Congress has continued to appropriate money for the old programs in the belief that they still were being used. Asked about this, Gulledge acknowledged that the FHA would no longer accept applications under the old plan. But he said he didn't even know whether any money had been appropriated for it.

Monsignor MICHELIN. While there may be some advantages to the 236 program over the 202, these are far outweighed in the total picture. Also these advantages, are not so readily apparent to nonprofit sponsors on whose backs the programs for the elderly must rest for its success in the long haul of the 40- or 50-year mortgage.

The 202 program is much more flexible in its application and administration, resulting in total lack of foreclosures. Not so with 236. It is not unreasonable to estimate that under 236 requirements, about 30 percent would result in default. Not many religious nonprofit groups will be interested in placing their moral assurances behind such stringent requirements as are necessary due to private, although subsidized, financial loans.

It also seems regrettable that the elderly should become the pawns of budgetary economics or gymnastics, of unscrupulous bureaucrats to effect programs that though cost more in the long run, look better in the current budget.

Under 202, it is true, large sums were loaned by the Treasury at 3 percent for 50 years, but these were to be repaid by the sponsor in amortizing the loan.

In the long pull the Government would be out very little. Whereas under 236 the Treasury subsidizes the differences between 1 percent and the market rates as they fluctuate presumably upward of 8 percent.

On the face of it there appears that in order to show lower correct administration budgetary expenditures, they do so at the expense of future administration's budgets. We should be interested in saving money and yet still supply our peoples' needs.

Multiplying by the billions of dollars involved in housing through the years, the reasonableness of the 202 program would save the Gov-

ernment, which in truth is or should be representative of us taxpayers, millions of future dollars, which would have to come from future unnecessary taxation.

INTEREST SHOULD BE GOVERNMENT RATE

How much simpler would be the repayment by amortization of the 202 loan with interest. Perhaps the interest, instead of 3 percent as of old, could be set at the rate the Government has to pay for funds.

The foregoing financial reasons for protecting, yet serving the taxpayer, as well as the reasonableness and compatibility of the former 202 program with nonprofit sponsors, prompts us to urge its continuation.

Let me insert a word of appreciation for the people that serve in the 202 program both in Washington, and I can speak for regional area of Atlanta. These people are the most dedicated people that I have ever run into in public service, that indeed if there was Ordination to public service, they would be Bishops because they have really committed and dedicated themselves to the people and their needs.

Aside and in addition to the reasons aforementioned for retaining 202 with adequate and proper funding, may I further bring to the attention of our lawmakers the following additional difficulty.

Since inclusion under 236, fund allocations for elderly housing have been cut to the bone. Even though we have on hand favorable market studies and site availabilities, we have been told by our local FHA insuring office that no 236 funds will be used for the elderly over the 202/236 projects presently nearing completion.

For us and others, not only is 202 dead, but elderly housing also—swallowed up by 236.

In addition, the same criteria for family-type housing is applied across the board, whether for family or for semi-infirm elderly. We seem to be slaves to rules and regulations covered with the mold of antiquity, instead of adapting rules to meet the needs of the people for whom they purport to serve.

Such things as site locations, type of architecture, et cetera, cannot effectively serve such diverse needs of specialized housing with the same rules and regulations applying across the board. Involved in this is high-rise versus low-rise, inflexibility on parking areas, different social-recreational needs.

Ninety-three percent of our tenants do not have and cannot afford automobiles, yet land of sufficient volume and economical enough—by 236 standards—can only be obtained out in the country, away from shopping and other necessities.

This not only creates an economic barrier but it also violates the social, moral concern for the elderly that demands they be kept in the mainstream of society and not be put out to pasture to die. They need now in their declining years, to be close to their churches, stores, buses and familiar accessible city conveniences.

REQUEST FOR ASSISTANT SECRETARY OF HOUSING FOR ELDERLY

The only way Congress can assure that our low-moderate income elderly are not forgotten by the Department of Housing and Urban Development or relegated to the last position on the totempole is to

effect the establishment of a special office of Assistant Secretary of Housing for the Elderly, with earmarking of Congress-appropriated funds specifically for low and low-moderate income elderly housing.

In conclusion may I recap by stating: The section 202 program has been one of the most effective and efficient of all our housing programs. By use of the below-market-rate interest loans from the Federal Government, many nonprofit organizations long interested in the welfare of the elderly and handicapped have been able to sponsor construction and rehabilitation of many housing units for them. However, the Department of Housing and Urban Development has been consistently opposed to this program, has phased it out, and has not requested appropriations under it. It has forced sponsors to use the interest subsidy program under section 236 of the National Housing Act which, in my opinion, is contrary to the intent of Congress.

We believe that the action of the Department is morally wrong. It has not only flaunted the will of Congress but by such action has deprived sponsors of an option provided by law to seek direct loans from the Federal Government.

The Department has forced nonprofit sponsors to rely on private lenders who profit handsomely particularly at this time of high interest rates. Further, such sponsors must compete with others for available funds and often find themselves at a disadvantage.

It is generally felt that the action of the Department is fiscally irresponsible. Section 236 programs cost the taxpayer much more than section 202 programs. Concisely stated, section 236 programs obligate the Federal Government to pay for up to 40 years, the difference between 1 percent and the market rate interest which the mortgage bears which in some sections of the country is as high as 12 and 13 percent.

The section 202 programs cost the Federal Government only the difference between 3 percent which the mortgagor pays the Government on the loan and the rate of interest which the Government pays on its borrowings which is substantially less than paid by mortgagors to private lenders.

In addition to these considerations is the fact that the elderly need housing which they can afford. The action of the Department puts a financial burden on the elderly and handicapped who in many cases are also poor. It is estimated that due to several circumstances a housing unit constructed under a section 236 program costs more than one under a section 202 program and rents for about \$25 per month more. Hence, fewer elderly or handicapped persons can afford the housing and fewer are being assisted.

In view of the present attitude of the Department we fear that housing for the elderly will not be assisted unless Congress restates its will and reinforces such restatement by appropriating funds for section 202 programs.

This is my formal presentation. I respectfully submit it. I have been fighting the battle through the years since 1969 in writing to Senator Stennis, Senator Eastland, Congressman Colmer, and Congressman Griffin, all of Mississippi, and they are aware of the difficulties.

They have a strong interest in the program. It is a very popular program and they are pleased to have our appraisal of the worth and need of the program.

And this is Senator Stennis' remarks.

Senator Eastland also in similar tone and Congressman Griffin says in his letter on phasing out of the 202 into 236, "I strongly feel that the intent of Congress is clear in that 202 projects should move ahead as in the past and not be phased out into 236 as apparently Secretary Romney is doing."

Senator WILLIAMS. Would you read that again?

Monsignor MICHELIN. (Reading):

As a member of the House Committee on Banking and Currency I participated in the mark-up of H.R. 17989 which became The Housing Act of 1968. Our report stated as follows: "The new 236 program is intended to replace 221(d)(3) BMR programs as well as program of direct 3 percent loans for elderly and handicapped authorized under Section 202 of the Housing Act of 1959, but only after new program is fully operational and adequately funded."

This was underlined in his letter. No, it was not underlined in his letter. The underscoring has been supplied.

"I strongly feel that the intent of Congress is clear in that 202 projects should move ahead as in the past and not be phased into Section 236 as apparently Secretary Romney is doing. It therefore seems to me that the Secretary is trying to abandon the provisions of Section 202 prematurely."

And it goes on and on. This is the gist of it.

Senator WILLIAMS. What was the date of the Congressman's letter?

Monsignor MICHELIN. Senator Stennis' was February 26, 1969. Eastland's, February 26, 1969. No, excuse me, I have misled you. This is not Colmer. This is Griffin.

Senator WILLIAMS. You stated Griffin. You were quoting Griffin.

Monsignor MICHELIN. I was quoting Griffin.

Senator WILLIAMS. You made that clear.

Monsignor MICHELIN. Congressman Colmer also writes in the same vein.

Senator WILLIAMS. Have you kept them advised of your feelings about the handling of the two programs, 202 and 236, since that correspondence?

Monsignor MICHELIN. We have, especially Congressman Griffin because he is close to us in Jackson.

You might wonder why the church is involved in housing. Actually we would be glad to have others involved in housing if others would provide it. Yet we are there because we are concerned with people and people needs come to our attention.

Senator WILLIAMS. I think it is remarkable as I look at your statement of your activity in housing just how broadly interested you have become. You are president of many housing corporations. As I read the review of these projects, they are all in Mississippi.

Monsignor MICHELIN. Yes, they are.

Senator WILLIAMS. And they represent, what is the total number of units?

Monsignor MICHELIN. 1,467 units.

Senator WILLIAMS. And that is a total figure for elderly?

Monsignor MICHELIN. No; that includes 221(d)(3) also, which includes elderly units. But I put that in the record in order to show the interest in housing that we have and that I speak from experience.

202/236 CONVERSION MORATORIUM

Senator WILLIAMS. It has been pointed out, Monsignor, that the conversion from 202 to 236 which began in 1969 on the basis of the 1968 enactment was clarified by the congressional situation in 1969 in the report where it was clearly stated there was no intention to make the conversion from 202 to 236 mandatory. It was to be strictly on a voluntary basis.

As I read it, they still haven't gotten the message and they still think it is mandatory.

Monsignor MICHELIN. Well, how voluntary is it when you do not have to transfer to 236 but if you don't convert your 202 to 236 you just do not supply the needs.

You are forced to convert in order to supply needs of the elderly because it is the only program open. We were told by our local FHA office that we do not submit any more requests for elderly, that there was a moratorium on it that had been put on it issued by Mort Schomer of HUD, July 7, 1970.

He was the man in charge of the elderly in housing loan interest subsidy program in FHA, if I remember correctly, and this moratorium was to remain into effect until the 1971-72 appropriations were considered, and so from that date of July 7, 1970, to the present date, there is just no money available for the elderly housing under 236.

Senator WILLIAMS. So it is defeated both ways?

Monsignor MICHELIN. It is defeated in so many places, so many ways, that we were beginning to feel like we are overcome by the problem.

Senator WILLIAMS. We are going to be dealing with this through other witnesses, but let's start right out here.

It seems to me that if fiscal responsibility is a principle that should guide us here in our Government, this 236 program when viewed in reference to what the other program did, just totally destroys fiscal responsibility.

236 DESTROYS FISCAL RESPONSIBILITY

Monsignor MICHELIN. It not only destroys fiscal responsibility but it destroys the responsibility of caring for people under the rules and regulations that are tacked onto it by FHA so that you can't really serve the class of people you are out to serve because you are bound by the cost that they have determined from shoddy construction throughout the years, well, not shoddy construction, but cheap construction, and these mortgages are to last 40 or 50 years as the case might be, so not only caring for people but for fiscal responsibility you have to put in something that is decent.

Senator WILLIAMS. Now on this money business, fiscal responsibility, we are talking "do-re-mi" money to the American people.

Under 236, a \$3 million program would cost the people of this country \$8 million as I understand it. If the same program went to 202 method, the people would make money.

Monsignor MICHELIN. Yes.

Senator WILLIAMS. If that isn't a nuclear attack on fiscal responsibility, I have never heard anything like it.

Monsignor MICHELIN. The Government could actually break even on 202 because it would be a revolving loan fund, and if instead of 3 percent was set up at rate the Government could borrow money, then the money that was loaned by the Government would be repaid on revolving fund and could be used year in and year out to supply housing needs.

It would run like a business instead of a handout.

Senator WILLIAMS. Exactly. That is probably the clearest way to put it. It is a business like approach and the other is a handout. But in the process, in the conversion, the housing is not getting there.

Monsignor MICHELIN. Right.

Senator WILLIAMS. Sometimes we have to sort of give second degree to fiscal responsibility in order to meet objectives, but this is not meeting the objective. It is destructive both ways, both fiscally and in terms of meeting the program's need which is housing in this case for the elderly.

Monsignor MICHELIN. Right, and it seems to me, aside from this, that during these days when the country is experiencing a recession and will be more pronounced as the war winds down, that something is going to have to be given to these returning veterans and other people that are out of jobs, and why not construction, why not go into fiscally sound building projects of that nature to give jobs to people and give aid to the elderly in the same breath.

VIETNAM MONEY COULD CREATE JOBS AND HOMES

The money that we are diverting to Vietnam can partially come into this program and thereby help the people earn their livelihood and meet the demands of the day as well as demands of serving the elderly people.

Senator WILLIAMS. We have arrayed before us here and I am sure you have seen the pictorial display here that shows housing for the elderly.

Monsignor MICHELIN. We have four of these.

Senator WILLIAMS. Are some of these yours?

Monsignor MICHELIN. Yes.

Senator WILLIAMS. Could you indicate which ones for the record? ¹ For the record, there is a great pictorial display here of housing for the elderly.

Monsignor MICHELIN. The one pictured at the bottom right on 202-236, Santa Maria del Mar on the Gulf of Mexico overlooking the gulf with views on both sides so you can see water from both sides of the building and we have been able to build that very reasonably so that our rents average about \$80-odd a month, and we have had an awful lot of families hoping to get into them but it is restricted to age 62.

Senator WILLIAMS. Why do you call that a conversion?

¹ See app. 2, pp. 66-71.

Monsignor MICHELIN. Conversion started out as 202 but in order to get it out of the ground, we had to go 236 route on financing but it involves more than just financing.

We have found out now that all of the requirements of FHA have been thrown into the picture so that actually it is hard to imagine it as 202 any more. It looks like 236 in all of the ramifications.

Senator WILLIAMS. What do you mean? What is the difference? You say it looks more like it.

Monsignor MICHELIN. Under 202 we did not have all of the forms. We did not have all of the requirements of verifying a lot of things. In other words, under 202, there were four pages, for instance, that were given to the architect as guides.

Under 236, there were additional requirements that added to the costs of the building. This had to go into it. There are so many things it would take too much time to go into the full problem that is involved.

The other one, the second one down on this display is Madonna Manor in Jackson, Miss., 210 units there.

Senator WILLIAMS. Could we back up a minute, Monsignor? You say there are heavier demands on you in building the project when it is 236? What did you say this meant?

Monsignor MICHELIN. For instance, we scaled our rents in the 202, to the average rent that is required and set this in the middle floor and deducted a dollar per apartment as we went down and added a dollar on up, so we came up with average rent necessary to pay off mortgage.

Under FHA regulation, looking at the income limit taxes, if people that could ordinarily live in these buildings because they were within the income classification were to live, say, on first floor where we had scaled down the rents, they would have to pay over the rental that we have classified for that floor because of their income situation, whereas if they lived on the top floor, a difference of \$13, they would be within the income classification.

There is a lot of monkey business.

Senator WILLIAMS. It is not monkey business. This is the bureaucratic illogic to the extreme, isn't it?

Monsignor MICHELIN. Well, when you strain over gnats, you overlook the camel walking by. That is what it looks like.

And then this other one is a 202 project, pure and simple that is pending, it has been funded, St. Charles Manor, and it is a congregate living facility, and no kitchens in it but central dining as well as other facilities to serve the elderly in need, and we are building this very close to Madonna Manor. People from both buildings can be served by cafeteria features.

There are a lot of features that you can put under 202 that were not possible under 236 although I understand now some of the regulations are relaxed so that congregate living conditions can be permitted under 236.

What the 236 program has done is try to ride on the coattail of 202 and taking all of the good points but saddling it with restrictions of 236 regulations and that is why perhaps you have quite a few completions under 236 but in reality they are completions of 202 that had been financed under 236.

But they are in reality 202.
 Senator WILLIAMS. What is your waiting list situation for occupancy?

SEVENTY PERCENT RENTAL BEFORE MODEL IS COMPLETED

Monsignor MICHELIN. At the present time on our high-rises for elderly, all three projects for elderly that we have under construction at the present time will be completed during the month of August.

We have no waiting list at the present time because we are still about a month or 27 days away from opening but we are about 70 percent rented up and this mostly occurs before we even have a model apartment ready to show them. The need is just so apparent, that the feasibility studies that we had run seem to be just mechanical and a waste of time because of the demand.

Senator WILLIAMS. Let me ask you this, Monsignor. The renderings here show magnificent high-rise apartment structures.

Is there any place in this 202 program for projects in smaller towns where the need isn't so much for high rise for many, many families, but smaller structures?

Monsignor MICHELIN. That is a good point, Senator. In the larger urban areas, they have to be close to the central facilities in order to get the groceries and everything and have the churches close by. That is why you have to go downtown and go to real high rise.

But in the smaller places you could build three or four stories but you would have to have elevators. Because you have elderly people who can't carry groceries up steps. Some of them can't make steps. That is why in all of our projects we put ramps instead of steps so they don't have to use any steps to get in the high rise and all transportation is vertical instead of horizontal and so therefore it meets their needs more.

But in the smaller towns, I grant you it would stick out more than a sore thumb but you could have two- and three-story retirement facilities but these of course would have to have elevators which add additional costs, and whether this would be recognized by FHA requirements that you put an elevator in a two-story building or not, I would have to have somebody who has more information on FHA regulation to speak to that point.

Senator WILLIAMS. What is the sociology of the switch if elderly people who live in single family dwellings, with two-thirds of them owning their own homes, switch into the high-rise apartment living later in life?

HIGH-RISE LIVING PROVIDES COMMUNITY ATMOSPHERE

Monsignor MICHELIN. We thought this would be a problem but it is not so because the elderly suffer from loneliness and suffer from isolation. Many of their friends that they have known have passed on and they are, if not alone, close to it, so that by putting them in a living facility here, you have a compatible community in the mainstream of society, surrounded by schools, churches, and you have all protective devices built in to insure their actually living longer, useful lives than

ending up giving up in their rundown homes where they can no longer keep up the yards, the homes, and so forth.

The stories they tell you, well, I won't go into that. All you have to do is visit one of these places and talk to these people. Before we got into this, I visited numerous retirement facilities, high rises in Florida. They thought I was responsible for their project and I told them, no, I was just looking at the possibility and wanted to find out if this was for us.

The response from these people just almost demanded that we go into it. They said if it had not been for this, they would have given up long ago.

Now they are active in churches. They are active in the civic community. They provide services to day-care centers, acting as grandmothers or grandfathers as the case may be. But they are useful and active, and in here we have planned social services. We tie in with the Administration on Aging and their programs for Golden Age Centers and they utilize some of our assembly rooms for the local community coming in.

They are brought into the community again and their living patterns become so vibrant that many of them, I would say most of them, will hardly ever have to face the nursing home because they are going to live out their lives here more fully and will leave here only to meet their maker.

We have made their lives much more realistic in terms of life.

Senator WILLIAMS. I find the same rebirth of people's interest in living with this good housing. I mentioned that in my opening statement.

Monsignor MICHELIN. Financial security—which this affords them—helps them know what their expenses are and they know how much they can spend for food and clothing then because they don't have to worry about the water heater blowing up or cutting the yard; here they can live in security.

But they also have the security of knowing that no one gets by these doors 24 hours a day. There is someone at the desk for their protection.

Before anyone gets up to their door they are announced. And another thing, there is an alarm system to the main desk which is manned 24 hours a day so if they become ill, they press this nurse-call button and somebody is up there to take care of their needs and find out if they need a doctor.

They are not alone in the world any more. They don't die in their homes and stay there a week before somebody finds them.

Senator WILLIAMS. Another point. Some of this housing is right in the eye of a hurricane that hit Mississippi, and I understand that construction survived without problem.

Monsignor MICHELIN. Yes. These are built, the ones on the gulf coast are built to withstand 180-mile-per-hour winds, and the windows have been tested by independent testing laboratories before they were put in, so windows will also withstand this as well as the structure and the window frames.

In other words, as local civil defense people said, with the recent demolition of the Edgewater Hotel, which was built solidly like these

many, many years ago, this now becomes the only resource these people have in time of disaster to go to for protection and they are looking forward to classifying it for civil defense purposes as a shelter.

Senator WILLIAMS. Now, we have certainly nailed the fiscal situation from the standpoint of American taxpayer and the unbelievable difference of the burden on people of the country between 202 and 236, but let's look at the burden on the sponsor of the housing and the tenants of the housing either way.

It would seem that by first examination in this limited area, the burden on a financial sponsor is lighter under 236 than under 202 because you only pay 2 percent. It is 3 percent under 202.

Monsignor MICHELIN. Actually it costs more to repay under 3 percent the mortgage on a straight 202. But it costs less to build it originally so your original costs on which your interest is figured are less over a period of the term of the mortgage.

Senator WILLIAMS. Are there any other costs that bear on what the tenant would ultimately pay in 236 that do not apply under 202?

SECTION 236 PROGRAM CREATES TAX PROBLEMS

Monsignor MICHELIN. I brought that out in the testimony. The tax situation that you have under 202, many States even recognize in their laws the term 202 housing for the elderly and coming along with 236 now, they are outside of the law and therefore subject to taxation.

Senator WILLIAMS. So that is one big point.

Monsignor MICHELIN. That is a mighty big point because this shoves the rents up to such a degree that cities are viewing them as commercial apartments rather than as apartments restricted for the elderly.

Senator WILLIAMS. That is not a one-shot thing that goes on and on. How about these packager fees, what is the difference there?

Monsignor MICHELIN. Somebody else will have to speak to the amount of the fees. All I know is that a packager that approached me, I won't mention the outfit, they get the land, they come in with plans.

Some of them say the financing can be arranged just like that. There is no trouble in any of it. They will come in and give me a turnkey job and I won't have to worry about it. But maybe my problem is that I worry about the buildings that are going to be housing the people because we have a moral responsibility to these people for 40 years.

The packager in approaching us said, "You can look at some of the work we have done." So I did. I went and looked at it and I saw buildings that were built with texture 311, the plywood that looks like boards.

Also synthetic material, masonite panels. This is well and good if you are going to build buildings for 12 or 20 years, but if you are building for 40 years, if you build like that, you are going to have terrific replacement and repair. The buildings we build now we put in centralized air conditioning which lasts around 20 years.

Most of the other things they put in window units which, if they last 5 or 10 years, you will be lucky and then the inconveniences that go along with it.

In other words, the quality is not there and what we are trying to do is serve people with highest quality and lowest cost and, to buy a packaged deal, you buy higher costs and lower quality. That is all that it is.

Senator WILLIAMS. Monsignor, you are going to stay at the table and you will be joined by Mr. Richard Fullerton from Richard Fullerton & Associates, and Mr. Robert Renfrow, Southeast Housing Development Corp. of St. Petersburg, Fla., together with Mr. George Fay, director, Pinellas County Building Department, Clearwater, Fla. All right, gentlemen.

We appreciate your appearing here this morning, Mr. Renfrow.

STATEMENT OF ROBERT RENFROW, SOUTHEAST HOUSING DEVELOPMENT CORP., ST. PETERSBURG, FLA.

Mr. RENFROW. Yes, sir.

Senator, I am an attorney, licensed to practice law in North Carolina and Florida, but for the past several years, I have specialized in representations of church-sponsored, single-purpose, nonprofit corporations engaged in the programs of housing and related care for the elderly—most frequently utilizing various Federal housing programs.

This exhibit before you is a sample of a number of the projects with which I have been associated.¹ They cover the spectrum from 221(d)(3) rent supplement, Hill-Burton, and 236, but the bulk of my activities have been with old direct loan program 202, now apparently dead.

I would like to depart entirely from what I had planned to say and first comment on some of the statements made by Monsignor Michelin and some of the Senator's questions.

In the first instance, and Monsignor will correct me if I don't state it exactly right, all of the high rise for low-moderate-income elderly projects that the Catholic Dioceses of Natchez-Jackson undertook to construct and operated were filed under the Section 202 program.

FINANCE PROJECT UNDER 236—OR NO PROJECT

The Department of Housing and Urban Development offered this option: You may have the project if you agree to finance it under 236; otherwise, no project. So that was the nature of the offer; 236 or nothing. Is that correct?

Monsignor MICHELIN. That is correct.

Mr. RENFROW. Now, there has been much talk; and I see a chart here indicating that perhaps the Federal taxpayers will end up paying as much as \$8 million on a \$3 million project using 236.²

I am prepared to state, and prepared to prove and to document that saying "as much as \$8 million" is being too modest. It is substantially above \$8 million.

If I may, at the risk of seeming tedious, I have three charts that I have prepared and I would like to review them with the subcommittee.³

Senator WILLIAMS. We certainly think it is important. We have the time and I appreciate it if you would do it exactly that way, and the charts will be printed as an appendix.

Mr. RENFROW. I prepared three charts because the cost of 236 over the long run is, of course, dependent on the rate of interest at which the loan is closed.

¹ See app. 2, pp. 66-71.

² See app. 3, p. 72.

³ See app. 2, pp. 66-71.

As I was saying, to determine the actual cost to the Federal Government—and therefore the taxpayer—of a 236 project, you must begin with recognition that it depends on the interest rate at which the loan was closed.

The interest rate, once the loan is closed, does not fluctuate. Therefore, what I have done is to take three actual projects now under construction, one which was closed at 8.5 percent—which was the peak rate of interest under FHA that we hit last year; one closed at 7.5 percent; and one closed at 7 percent—which is the lowest FHA rate we have had for sometime.

This happens to be one of Monsignor's projects, Santa Maria del Mar, Biloxi, Miss., in the heart of downtown, on the waterfront, 211 units.¹

This project was filed as section 202. It was processed by 202 people, using their 202 criteria up to the point of closing. It was then transferred to the Jackson FHA office for closing and financing under 236.

Now, I will give the conclusion and go back and explain how I got there.

Had this project, this same project, been financed under section 202, the highest possible cost to the Federal Government would have been—over 50 years—\$2,415,600. When I say “the biggest possible,” I have made this assumption: That, rather than funding this project from general tax revenues, the Federal Government would, itself, borrow the money at 5 percent and lend it out at 3 percent.

Of course, if you finance it from general revenues, then, in fact, the Government would make a profit of \$2,842,600 over the 50 years. So, 202 costs could not be higher than that under any circumstances.

The figure shown for the cost to Federal Government under 236; \$8,138,500.20. That is the absolute minimum. In actual fact the cost would be higher.

Now, if I may explain how I arrived at this. This is the actual construction contract price on this project, \$2.6 million. It probably, but I can't prove this and therefore I won't say it, it probably would have been lower under 202—since 202 required open competitive bidding—whereas under 236 you are encouraged to utilize a negotiated cost-plus bid using an FHA form.

Therefore, let's assume that the construction cost was the same in both cases and be conservative.

You then add title and recording expense; the cost of purchase of the land; consultant fee; insurance during construction; legal and organizational expenses, which in all likelihood, would be the same under any program; interest during construction; construction loan interest—paying 3 percent under 202, versus 8.5 percent under 236. There is a wide spread in cost there.

Here, there is a cost indicating interest during development on the entire mortgage loan amount. This was something that 202 included in the loan that 236 doesn't.

It is to allow a cushion for the first 6 months after the project is completed so it is really a contingency factor. Likewise, 202 allowed about \$3,000 preliminary expenses which included purchasing two

¹ See app. 2, p. 70.

separate MAI appraisals so they could assure you were not paying excessive market value for the land.

Further, 202 provided for possible necessity of additive change-orders in a project contingency.

Senator WILLIAMS. This is all start-up figure really?

Mr. RENFROW. Yes, sir. This is when you close the construction loan, how we get to the bottom line. Under 236, you pay a mortgage insurance premium to FHA, 0.5 of 1 percent of the mortgage amount; 0.3 percent examination fee, half point for inspection, you pay a 2 percent origination fee to the construction lender.

LENDER RECEIVES 2 POINTS PLUS 8.5 PERCENT INTEREST

So that the construction lender, your mortgagee, receives two points, in this case \$66,800, plus 8.5 percent interest on the construction loan money.

Senator WILLIAMS. Let me get the nomenclature that defines that particular chart. Who did you say this runs to?

Mr. RENFROW. It runs to the mortgagee. Let's assume that the XYZ mortgage banker firm is the mortgagee.

Under the 236 you must have a mortgage. So the XYZ mortgage banker firm charges the sponsor 2 percent of the total mortgage amount as a construction loan fee. Additionally, the mortgagee, XYZ, receives 8.5 percent on the funds advanced during the construction and since you really have about half of your loan out during the course of construction, the true return to the mortgagee is on the order of 11 to 12 percent per annum.

In any event that is included in the FHA mortgage. FHA also includes 2 percent of the mortgage cost as AMPO—Amount to Make Project Operational.

In a sense, this is somewhat equivalent to this figure here. It is for advertising, sales promotion or rental office and that sort of thing. Since most FHA projects are profit oriented they have been accustomed for many years to very substantial merchandising activities and this is cranked into the 236 loan whether you want it or not.

The last line here is a 1.75 percent fee paid to the permanent mortgage. FHA forms indicate this as a FNMA, GNMA fee.

But when interest rates are running 8.5 percent, you find most mortgage lenders would keep the loan. Therefore, XYZ would collect 2 percent premium for making the construction funds available and then collect the permanent placement fee.

They were eligible to get 1.5 percent for keeping the permanent loan and so they would end up with a 40-year mortgage, insured by the Federal Government at 8.5 percent and have received a 3½-point premium for taking it; which means that under 202, this project, the same units exactly, would cost \$3.05 million. Under 236, would cost \$290,000 more—\$3.34 million—or a difference per dwelling unit of \$1,375.

So, to close the loan, to initially build the same building under 236 would cost you on the order of \$1,400 more per unit.

But the enormous spread, of course, occurs during amortization of the loan, because here the Federal Government is paying the difference between 8.5 percent and 1 percent interest.

I have again, in an effort to be absolutely conservative in this presentation, used the actual interest subsidy commitment from the Federal Government from the documents which were supplied of \$203,463 per year. You simply multiply that for the life of the mortgage and it gives you total of \$8,135, 820. Actually, it would be higher because on these conversions, several of these FHA fees—for this limited situation where you had 202 processing all the way through—were waived.

But if you went in today and tried to do the same project, assuming you could get the same cost, it would cost you this versus that.

So that tells the story. It is more than a 3 to 1 ratio, where you are at 8.5 percent interest. If there are no questions on the mechanics, I don't need to describe the mechanics of the others.

At 7.5 percent—this was also actual project, it happens to be one in Columbia, S.C., Christopher Towers¹—this was closed at 7.5 percent just last month, 21st day of last month.

The difference there under 202 maximum, assuming Government using borrowed funds, is \$2.8 million, under 236, \$8.068 million.

At 7 percent, the spread is less, of course, Raleigh, N.C.—again actual project under construction, Capital Towers,² also a conversion—the difference at 7 percent is \$2.6 million versus just under \$7 million.

I am totally confident of these figures and I will defend them. In fact the spread is more than that.

Senator WILLIAMS. Obviously these figures are hard figures. It is surprising, but this does not reflect normal accounting on a mortgage loan for construction. Normally, you have through amortization a decreasing principal.

Mr. RENFROW. I get the point the Senator is making and that is, it would seem if the Federal Government entitles something "Interest Subsidy," as your principal is reduced, so also your interest should be reduced. But since the note and the mortgage, which the nonprofit organization is obligated to pay, is level, this payment also is level. So actually the Federal Government—toward the end of this loan—is paying principal, almost entirely principal. This is a level subsidy paid each year of over \$200,000. They call it interest. It is interest until finally it becomes principal.

Senator WILLIAMS. It is an unusual financial arrangement and mechanism, isn't it?

Mr. RENFROW. Yes, sir; but, of course, where one of the contributors to the amortization is on a level schedule, then the other must also be level.

Senator WILLIAMS. That is why, when I was first confronted with these figures, I was disbelieving.

Mr. RENFROW. You know I have heard people talk about this for 2 or 3 years and make guestimates. So we documented this and worked a long time to make certain that these figures were totally defensible and we have finally done it.

It was more horrible than we suspected it would be.

Senator WILLIAMS. Could be back up again now and let me fix you and your operation as an attorney in North Carolina and Florida, and obviously your work is deeply involved in this.

¹ See app. 2, p. 69.

² See app. 2, p. 67.

Is this your total professional work, housing?

Mr. RENFROW. No, it isn't; because I enjoy practicing law and I still write a will every now and then and things like that. I accidentally got in the field by being on the board of directors of a Presbyterian retirement facility and we were concerned about the low-moderate income elderly.

We could not get financing to do anything and I sat on the board of directors of a 202 corporation one time and worked like a demon for which I received no pay, of course. And, subsequently another church said, "You know something about it, how about doing it," so I went to HUD and was interviewed, submitted résumés and became a certified HUD consultant.

One thing led to another. You do work for a Lutheran project, and the minister tells another; and first thing you know that is all you are doing. And I enjoy doing it. I started this in St. Petersburg, Fla., with the idea that I was going to be involved in this one and that was it.

But now I and my partner have formed a corporation called Southern Housing Consultants. We have in construction, or completed and in occupancy, 35 projects, and about 18 of which have been approved and are waiting funding and about 16 pending, and we have worked from as far north as your home State, Trenton, N.J.; Wilmington, Del.; down to Miami, across to New Orleans, up to Memphis, and a lot of points in between.

Senator WILLIAMS. There are not unlimited resources under 236. Obviously we know what the situation is under 202. There is a division up here at the Federal level. What is the situation under 236? First of all, before you can go to the mortgage under 236, there has to be FHA approval of an application, is that right?

Mr. RENFROW. Yes, sir; they issue a feasibility letter and then you file more papers and you get a conditional commitment and you file more papers and get a firm commitment and then you close the loan.

Senator WILLIAMS. From being deeply involved in this area, do these applications all go through on the same time schedule or are there ups and downs and speedups and slowdowns?

We hear this and that around here. What do you know?

HUD TOLD NOT TO ACCEPT NEW PROPOSALS FOR AGED HOUSING

Mr. RENFROW. Well, it is both, Senator. I hear a lot of things that make me suspicious; but, what I know is that since July 7, 1970, all HUD offices have been under admonition not to even accept new proposals for low-moderate income elderly housing.

In the meantime, of course, there has been very substantial funding of other type 236 housing. So that under the particular program having to do with the aging, there has been a total cutoff, even of receipt of new applications by HUD and FHA supposedly.

However, there have been several cases—of which I know and of which I apprised HUD in Washington—where local FHA officers have approved and funded profit oriented so-called elderly housing out in the country. Somewhere at a time when they were not supposed to be even accepting applications for elderly housing—and are, in fact, rejecting applications and Monsignor's was one.

Senator WILLIAMS. This out of one FHA regional? I mean out of the same regional this was happening?

Mr. RENFROW. I know of two positive instances, one involving Tampa FHA insuring office and the other the Atlanta local insuring office. These are the only two I know for certain because this is the area in which I primarily function.

Senator WILLIAMS. Will you repeat that? In these regional offices, some applications were not being accepted and there were profitmaking applications being not only accepted but approved?

Mr. RENFROW. Yes, sir; let me be very precise on this point. FHA would not accept a nonprofit sponsored application for elderly housing; but they did, in fact, accept and fund a proposal which was developed by a packager for profit for sale to a nonprofit. So when it gets closed, it is a titular nonprofit.

Senator WILLIAMS. This isn't what you heard. You know this to be the fact?

Mr. RENFROW. Yes, sir.

Senator WILLIAMS. Where was this?

Mr. RENFROW. One was in Tampa—Tampa, Fla., insuring office. The other Atlanta. One was 400 units, the one in Tampa called Heritage Housing, I believe.

Senator WILLIAMS. That was Tampa?

Mr. RENFROW. Yes, sir; the one in Atlanta is presently owned by a Methodist-sponsored nonprofit corporation, I believe, but it was originated by a packaging firm and sold as a package.

NO FUNDS AVAILABLE FOR ELDERLY HOUSING

Now this is a matter, Senator, which I included in the letter to my old law school buddy and Marine Corps chum, Congressman Galifianakis. Because at the same time these projects were being funded, we had a 202 application for Raleigh, N.C., sponsored by the Presbytery—all of the Presbyterian churches in the area—which FHA advised they could not fund, presently, because there were no funds available for elderly housing.

So, when I found out that applications filed subsequent to ours by a profit-oriented group and sold by the packager had been accepted, funded, and closed while we were still waiting, I naturally complained to the Congressman and indicated in my letter to him that perhaps Mr. Gullledge, FHA Commissioner, was unaware that these local offices were violating instructions—that they should not even accept new elderly applications.

The Congressman checked and in correspondence received back by me, at least as to the Tampa situation, I think he described it, HUD admits it was a monumental snafu. I delivered a copy of the letter to one of your staff members.

Senator WILLIAMS. I have rerouted you, we haven't untracked you, but we have rerouted you. Do you want to get back on the orderly presentation?

Mr. RENFROW. Yes, sir; I would like to because, while scandal, and highbinders, and crooks are fascinating, I am much more concerned with seeking positive and affirmative action—to enable people like

Monsignor Michelin to perform the mission they want to perform, but cannot perform at present.

Senator WILLIAMS. Well, the waste, the total waste that has been surfaced here dramatically, by the monsignor and by you, and I don't know whether you call it scandal or what you want to call it, I will say what we need is to try to get these programs back with their first orientation and that is housing for the elderly and not windfall profits to the few.

Mr. RENFROW. All right.

Then I would like to get back on an affirmative note.

202 VIEWED AS MORE THAN HOUSING

First, to state that I—like many other people—do not believe that churches belong in the housing business, and I think as Monsignor Michelin suggested, they did not view 202 program as housing per se. They, in fact, were responding to nonhousing needs and housing just happened to be the necessary tool or implement.

To explain what I mean when I said that sponsors did not regard 202 as housing, I think it is first important to understand that based on the most recent national survey by HUD of all 202 projects, it disclosed that about 80 percent of the residents were women; predominantly single, unmarried females and widows, average age in the mid-seventies, income was \$250 to \$300 a month, and less than 1 out of 5 of these residents owned an automobile once they moved in the 202.

Thus, your typical situation is where you have a female, single or widowed, who is in mid-seventies. Before she moves into the 202, she is residing in a small home where she and her husband lived before he died. Now her situation is such that she is lonely. She is frightened when a bush rattles, with good cause. She has to rely on neighbors to get her to shopping and back. She is existing, not living. She even denies herself proper nutrition—and a new hairdo—because she doesn't know what the future holds.

So, a 202 represents to this woman security and companionship, and a chance to start living again. This is one of the reasons that we encourage people to name the project, associate it with a church, so they recognize it as a whole penumbra of care and concerned programs being offered as enrichment to the project.

Now, why was 202 successful? And the committee is well aware that it was successful. I note in the committee report that more than 300 projects over the 10-year life of the program, and not one failure. That is unique among Federal multifamily housing programs.

Why was it successful? Why was it killed? Is 236 doing the job as an effective substitute? If not, what can be done to make it an effective vehicle regardless of cost?

Well, I will offer what I believe to be the answer to these questions and I would surely hope that the Senator would interrupt me, stop and make a demand for documentation, clarification, if I make any statement which appears to be unwarranted by the facts or illogical.

The reason 202 was uniquely successful is fundamentally careful

qualifications of sponsors. The Federal Government—unlike FHA situation, where FHA will include in the loan 2 percent to make a project operational—FHA, I mean 202 required that the sponsoring organization, let's say the Diocese of Natchez-Jackson, show that it had available and would utilize \$10,000 approximately to furnish movable equipment which would not be under the mortgage.

Further, to put up as escrow a sum generally in the range of \$25,000 to \$50,000 as a guarantee against possible operating deficits. Even if the project was 100-percent rented the day it opened, the sponsors still had to underwrite any operating deficit up to about \$25,000 to \$40,000 for a period of 5 years. So, while it was called a 100-percent loan, 202 loan officers made it very clear to potential sponsoring groups that they did have a financial commitment, as well as their strong moral commitment, and the attachment of their name and reputation to the project.

Moreover, the 202 loan officer would come to the site—they would not review papers in his office—and make his judgment; 202 people would come to the city. They would meet with the governing body of a church at that church and make all of these points very clear.

Interestingly enough, in some areas of the South, I remember the loan officer was particularly emphatic and detailed when he got into discussion of the Civil Rights Act.

My point is that by obtaining "no conflict-of-interest statements," by getting indepth personal data on everyone associated with the project, 202 assured that this was genuinely nonprofit motivated and that they had an intelligent, capable, reliable sponsor—with impeccable motivations—before they would accept an application.

BUILDING SITE MUST BE CONVENIENT FOR RESIDENTS

Also, 202 would insist on a site—where the typical resident that I have described wanted to live, and should live—one that offered pedestrian convenience to all of the necessities and amenities that single, unmarried females in their mid-seventies should have—without having the expense and burden of automobile ownership.

It was a clean program and frankly, because the sponsor was in this totally to serve people, it was a resident-oriented project, unlike the 231 which was generally, almost invariably, incubated as a concept by a builder-developer-landowner-architect-attorney and then conveyed as a package to perhaps some naive group. In 202 this was an intelligent, competent, nonprofit group started from ground zero in selecting the site, the best qualified architect, by competitive bid, a qualified contract.

They weren't interested in tax writeoffs. They were interested in comfortable, safe, low-maintenance, handsome, attractive housing. That is why 202 was successful. Why was it killed?

Well, of course, a lot of people would like to say it was the sinister reason to gift the mortgage bankers of the country.

I think that is pure baloney. I think the reasons that 202 was killed administratively—certainly not by Congress—there were two reasons.

One, the apparent budgetary impact of making direct loans; and, two, the superficially valid concept so often stated by Commissioner Gullledge of a unitary one-window approach to housing.

Lets' not have proliferation of specialized programs. We will make FHA office one window for all federally assisted housing.

Well, that is like saying, let's produce one shoe and have all feet in the world fit it. It does not work. Why doesn't it work and can it be made workable regardless of cost? The reason it doesn't work is that at the Washington level, the regulation and guidelines and bureaucratic parameters for section 236 are designed; and in fact, favor and almost compel the development of low-rise, low-cost construction on cheap land—which means it is far removed from the center city or from shopping centers. As a result, you cannot respond to the real needs of this segment of our aging population with that program because you run head on into absolute "Thou shall nots" from FHA as to allowable land cost per square foot or per unit—the land you have to have for parking which you don't need.

Senator WILLIAMS. I missed the point here. Why would the 236 move in the direction of low-rise?

236 PROGRAM ORIENTED TO LOW-RISE CONSTRUCTION

MR. RENFROW. I would have to speculate as to why, Senator, but it does in fact. In fact, William Dockser, who I understand has recently resigned but until very recently was Assistant Commissioner for Subsidized Housing, made a very candid frank statement in Senator Sparkman's office recently where I was the bishop from Mobile, in that he confessed that the 236 program was, in fact, oriented to low-rise, low-cost construction on low-cost land in the suburbs.

And for that reason, it is extraordinarily difficult, FHA would confess, and impossible, I would state, for a nonprofit sponsor or any other sponsor to develop this quality and this type of housing in these kinds of locations to meet the needs of the low-moderate income elderly which were being so admirably met under 202.

You cannot get from here to there.

Now, someone might ask, "Well, how come you have so many things labeled conversion 236 here?" I am glad to be asked that question because the answer is—everyone of these projects that you see under construction which are labeled 202/236 was completely processed by the 202 people right through to firm commitment. FHA received these projects only after they had been completely processed, and they were merely closed by FHA attorney, and financed under 236.

The rationale given by FHA for refusing to accept, even today, any new proposals for low-moderate income elderly housing under 236 is that there is such a backlog—still, of proposals which were made under 202—which have not been funded. But the very significant differences between those conversion projects and these which we have built is that the ones they refer to as being in the pipeline now are being "processed" by the FHA offices. I can recite, if the Senator is interested and has the time, a selected three horror stories involving what happens when the poor FHA people—and there are some real good intelligent and motivated people in FHA—but, when the poor folks at local level try to take the concept of 202 and make it fit 236, it won't work.

So we have the Federal Government, HUD, on the one hand saying no new applications for elderly because we have only so much in the mill; and what they have in the mill will never get out.

Senator WILLIAMS. That is applications started under 202 in the mill?

Mr. RENFROW. Yes, sir; this gets extraordinarily technical, as the Senator indicated it might, but these conversion projects were in situations where the sponsor had filed a 202 application, like this, with the 202 regional office. And it was in process, under 202, when the administration said no more 202 funds will be used.

The ones now in the mill are situations where the sponsor was still in the process of producing such things as MAI appraisals and soil test and other data. It had held preapplication conferences and done many things short of filing the completed application, but it had spent money for options, and land, and what not.

So HUD said those, who were in that category, will not be processed by 202 people. We will turn the whole thing over to FHA and we want FHA to use some of the criteria which 202 people would have used—but not all. Make it a quasi-202 and a quasi-236. And it just won't work.

Senator WILLIAMS. You say you had two or three horror examples. Give us one or two.

Mr. RENFROW. Perhaps the best one concerns a proposed project in Trenton, N.J., sponsored by all of the Lutheran churches in New Jersey through the Lutheran Welfare Foundation.

However, I noted that Pastor Shirer, from Trenton, is on the witness list and I prefer that he recite the details of that.

Senator WILLIAMS. He will be one of our witnesses tomorrow, I suppose.

Mr. RENFROW. Let me give you the fundamentals of that. It is like this. A project which had been identified as 202 pipeline took 13 months for FHA to issue the feasibility letter.

It then took them 4 more months to issue the conditional commitment; and the firm commitment has not been issued yet. And, yet, we are in a situation where the FHA office at first confessed ignorance that there were even instructions from HUD as to how to process it. We had to cite them the publication number and date of publication so finally they said, "yes, there are" but they continued to ignore them.

Senator WILLIAMS. Which FHA office was this?

Mr. RENFROW. Newark, but here is the most horrible thing and I feel for the Lutherans.

FHA MISINTERPRETATION OF LAW DELAYS PROJECT

Here is the culmination of the story and that is, back in March of this year, we had a construction contract for a certain amount which FHA said was not feasible.

The reason they said it wasn't feasible was—they said—you are going to have to pay x amount in taxes. Well, we said, please examine the New Jersey tax abatement statute which expressly gives favored tax treatment to 202. Please examine "Form 3135-A, Addendum to Regulatory Agreement," which restricts residency in this so-called 236 to exactly the same people as 202.

And how can you say it is going to have to pay these taxes when it is totally eligible for tax assessment.

They took the ridiculous position of saying even though it was an FHA printed document—prepared in Washington by FHA attor-

neys—they argued over the plain meaning of the words and suggested that we get Washington to interpret these plain meaning words.

Now, they admit that it was, that we were right, that the FHA form meant what it said, and that, therefore, the whole thing was feasible back in March at that contract price. But do you think we can get a price in August that we had in March?

So, now we are in the process of finding out, are there ways we can take some features out without destroying the integrity of the building to get the price in August back to where it was in March.

So, all those months, while they went through bureaucratic nonsense and kept making statements about their autonomy, “this is our shop, we don’t care what Washington said.” It is criminal.

Anyway, Pastor Shirer can tell you that story better than I. I don’t have to look at any notes on this. I lived through every agony. Baton Rouge, La., is a good example. I have a quotation that I have to read to you.

Back in early 1968, the Catholic Diocese of Baton Rouge and the Southern Presbyterian Church of Baton Rouge determined to jointly undertake sponsorship of 202. They had a preapplication conference with 202 loan officer out of Fort Worth.

He was delighted with the sponsorship and gave them every affirmative indication, so they went to work. While they were in process of developing the application, HUD administratively terminated 202 and then advised the Presbyterians and Catholics working together that 202 is dead, but you are invited to go to the New Orleans FHA office where the helpful people there will show you how to do it under 236.

This is an excerpt from a letter from a Catholic layman, who happens to be the director of the Parish Council on Aging, the Baton Rouge Parish. The letter is addressed to HUD Secretary George Romney.

Our project was originally considered for development under Section 202 of the Housing Act of 1959.

Section 202 is being phased out and replaced by Section 236 of the Housing Act of 1968. We have been informed, however, by the New Orleans office of FHA, that under the Section 236 program the building height cannot exceed two stories. The number of units is limited to 25 per acre and the land cost cannot exceed 50 cents per square foot.

These conditions, especially the land cost, excludes the locating of such a medium rent housing project within the city limits.

The local Public Housing Authority recently paid \$1.60 per square foot for the site of a low rent housing project at a distance 2 to 3 miles from the area of a desirable site for this project.

What we wish to point out to you is that while Section 236 of the Housing Act of 1968 sounds like a good possibility for providing housing for this neglected middle-income elderly group, the restrictions—in our opinion—make it of no practicable value.

We would appreciate your consideration of changes in these restrictions.

Three weeks later, Acting Assistant Secretary William Ross, replying for Secretary Romney, wrote to Mr. McAndrew:

The New Orleans insuring office informs me that rental and cost estimates discussed with you during the meeting were for guidance purposes only and did not represent maximum or firm limitations. The determination as to whether or not a specific proposal is feasible can only be made upon a careful review of an application submitted by the sponsor which fully describes the proposal.

That sounds reasonable, to file an application on Form 2013 with FHA. It states on its face that it will not be considered unless you,

among other things, evidence site control—meaning you have to have purchased the land, have it under contract or under option. Moreover, you must have permissive zoning, which means you have to get control of the land, cooperation of the owner, already get it rezoned or at the very least get a number of very substantial variances.

All of this to find out what the real parameters are. We were forewarned immediately by Mr. McAndrew that despite what Mr. Ross' letter said, FHA had stated these as absolute maximum limitations; two stories, 50 cents per square foot, 25 units to the acre maximum.

Well, the sponsor, because it had been working on this so long and was so close to a perfected 202 application that was cut off, requested a waiver from Secretary Romney that this project be treated as a 202 conversion. That is, processed as a 202. The waiver was received ultimately.

Then the sponsor was confronted when they got a letter from the regional level in Fort Worth saying that: "We have received authority to process your application as a 202 for subsequent funding under 236."

The application was then perfected and the Fort Worth 202 loan officer expeditiously processed it. We waited for months and finally it was funded in the form of a feasibility letter.

Then we got a letter—the sponsor got a letter from region—saying, "HUD is now decentralizing. Your file is being transferred to New Orleans. Henceforth all correspondence will be with New Orleans."

And then I will quote. This same letter included what turned out to be an unrealistic hope: "We fully expect this transfer of functions to be accomplished fully and without a break in the continuity."

Well, by this time we were under severe time pressures. Downtown land in Baton Rouge is pure gold—or people think it is. Our options were about to expire and some could not be renewed.

So we instantly supplied architectural and other necessary data for the New Orleans office. The reason I am reading this now is I want to be accurate.

ONE FRUSTRATION AFTER ANOTHER

Then followed a period of total frustration. We had apprised New Orleans FHA of the sponsors' desperate time situation and offered to instantly supply any missing ingredient or clarification required by them.

All the sponsors got was absolute pure doubletalk, runaround, and gobbledygook. It was rare to ever be able to get the same FHA man on the phone twice in a row, and standard response was that the file was in process but in another section.

Finally in desperation, the sponsors, through the good offices of Senator Long, arranged for a summit conference with New Orleans area FHA Director, Mr. Seghers, and on September 14, 1970, everybody involved attended that meeting in New Orleans except Mr. Seghers. He was represented by Mr. Carl Geyer, head of production.

By this time, with a brave architect drawing like crazy on a contingent fee basis—without any certainty that he was ever going to get a fee—we already had a construction contract offer from the single qualified bidder we could find who was willing to undertake a major project in the city of Baton Rouge.

Remember the article in Fortune Magazine about how hard it was to build there? It still is. We tried to get contractors experienced in this sort of thing, and they would not come near Baton Rouge.

Now this summit meeting was delayed somewhat because nobody could find the file. They finally located it in a cardboard box where it had been sitting since it was received from Fort Worth.

Now Mr. Geyer very quickly—as chairman of the meeting—leaned back and reviewed part of the file. He asked me to repeat what the builder's contract offer was.

I told him, "Remember, I said it was over the budget."

With hardly a pause, and not joking, he promptly offered that he would cover half of the cost overrun, in other words, "I will split the difference with you."

I couldn't believe this, and we complained that if we paid this outrageous figure for construction, then this would drive our rents to a level where we could not serve a great many of the people in the lower income ranges. Whereupon one of the other helpful FHA employees proceeded to take the cost projections of operating this facility—which we have done based on comparable costs elsewhere—and gave me helpful advice as to how you could reduce this item, and this item. When I would say, "It is going to cost more," he said, "You can adjust the rents later."

In other words, here is how to make your rents appear feasible.

Well, fortunately, we were not working for the contractor and not working for the architect. We were working for the people who were trying to do something and do it right.

So we said, "We won't do it that way. Please give us the opportunity to redesign this building, rebid it, and to do so at the same number of units we originally asked you for; so we can get some economies of scale." And that is what we did.

WHAT WOULD SPONSOR'S REACTION BE?

HUD made a market survey and they verified our assertions as to market. We increased the number of units from 150 to 195 and brought the bid in and finally closed the project.

But we closed it in February 1971. I ask you, what do you expect the Catholic Diocese and First Presbyterian Church of Baton Rouge reaction would be if now somebody suggested that they work in partnership and harmony with the Federal Government—to minister to the housing and related nonhousing need of the low-moderate income elderly?

I have one other example that I am dying to tell you, Senator, if you have the time to listen.

Senator WILLIAMS. Yes, I have the time.

Mr. RENFROW. This one involves Tampa which is where I am most active—or used to be before this hearing.

Senator WILLIAMS. At this point, I would say that I am told by our staff people of your total and complete cooperation, and the effort, and time you have put in.

Mr. RENFROW. I can always go back to honorable work—like breakings wills and that sort of thing. Anyway, the First Baptist Church

in Tampa, Fla.—which has approximately 2,000 members in the congregation—had done a great deal of predevelopment work preparatory to filing 202 application. So 202 was declared dead and buried; and the church was later advised that its proposal had been deemed eligible for this 202/236 pipeline—but, in this case, not to be processed by 202 people but by FHA people.

We were retained and on January 12, this year, we filed an application with the Tampa FHA office. Included as part of our submission was a legal opinion from James L. Hearn, regional counsel for HUD, Atlanta, that this type of project was exempt from the payment of ad valorem taxes by Florida statute.

We also included, and this is important, this footnote to our estimate of operating cost:

For purposes of this application we have estimated operational costs at higher than actually expected figures.

Since this is an elderly facility, certain normal apartment costs will not be experienced. The average number of occupants per apartment will be less than 1.5. The average age will exceed 70 years. We can supply exact operating costs for similar local facilities.

FHA FINDS PROJECT UNFEASIBLE

On March 10, 58 days after the application was filed, the sponsor received a letter from FHA director in Tampa finding the project not to be feasible and stating:

It would be inadvisable for you to pursue this project for the following reasons.

The application indicates \$4.15 per square foot for the site. We feel that a warranted price for the land would be approximately \$2.10 per square foot.

If the project had to pay real estate taxes, the basic rents would be approximately 140 percent above maximum rents permitted by Section 236 in the Tampa area.

If project were exempt from real estate taxes, the basic rents would be approximately 124 percent above maximum allowable rents.

The sponsoring Baptists were shocked by this response—particularly at the estimate of land value—because before agreeing to a conditional contract for purchase of the land, which you have to show your land control, the board of directors of the nonprofit corporation had satisfied itself that the market value of the site was equal to or in excess of the contract price by finding comparable prices in the neighborhood.

The sponsor got in touch with Senator Lawton Chiles' office for help. Shortly thereafter Mr. Charles Jagels, chief appraiser in the Atlanta regional office, scheduled a conference at a Tampa local insurance office where the sponsor, its attorney, architect, and consultant, would meet with the FHA and consult regarding the project proposal.

At that meeting the attorney offered comparable land sales to the chief appraiser. It was evident that the chief appraiser, before coming to Tampa, had obtained actual operating cost data on completed and in-occupancy 202 projects in Tampa.

This same information the sponsor had originally offered to supply.

In one week following this conference—after the project was declared not even close to feasible—one week following this conference, the sponsor now received a feasibility letter wherein Tampa FHA now

found that the land value was essentially equal to the contract price and projected rents were well within the 236 limits.

Moreover, the commitment was for \$165,000 more than we had applied for. And nobody seemed to be embarrassed by this!

We finally got a conditional commitment, and the conditional commitment stated that the completed architectural working drawings and specifications and a firm offer to contract from a qualified contractor all must be submitted within 30 days.

Anyone aware of the complexities architecturally of this type of construction would tell you that it is almost impossible to do all these things in 30 days' time. Maybe it was on purpose.

I could go on with horror stories all day. I am not—and please don't misunderstand that I am—making a blanket indictment of FHA or FHA people.

In actual fact, even where everything and everybody, including FHA, is going the same way and wants to see this quality of project done, they can't make it happen.

I am working on a project for Huntsville, Ala., sponsored by the Presbytery of northern Alabama of the Southern Presbyterian Church.

They have already assessed every church member for money for the project. The director of the Birmingham area office, Jon Will Pitts, says, that he wants this project.

He genuinely wants it and all of his key people want to see it happen. It has been deemed as imminently feasible and needed by the Elderly Housing Specialist in Atlanta and by everyone in terms of site, sponsorship and in terms of probable construction cost. Yet with everybody working together trying to make it happen, the FHA office in Birmingham—using the criteria laid down in Washington—is having a nightmare trying to make it work.

Every time you turn around, there is a waiver request flowing back to Washington. You wait for that to be acted on and then you can move another 6 inches. So what I am saying is that FHA—by the accretion of 37 years of bureaucratic history—is such a monolithic entrenched bureaucracy and so imbued with thinking and acting like a single mortgage underwriting firm, that they simply cannot handle this specialized creature; and, that is good housing which responds to housing and nonhousing needs of the low-moderate income elderly—as 202 did so admirably and so efficiently.

Even if Commissioner Gullledge totally recanted everything he said about the limited role of nonprofits, and said "I want to see 202-type housing done under 236; and promulgated brand new guidelines, copy-cattling everything 202 said," it still would not happen.

202 METHOD VERY EFFICIENT

In FHA you have such a diffusion of authority.

The 202 loan officer was very much like the loan committee of a lending institution. Sure, he had technical advisers in architecture, finance, and other matters; but, in the final analysis, he made a mature, experienced judgment based on all of the factors.

He was clothed with that authority but, of course, was cleared by Washington. It was effective and efficient.

Senator WILLIAMS. On that point, I am advised here that the 202 program was run by a total of 35 people.

Mr. RENFROW. I have never counted them but there weren't many working on it.

Senator WILLIAMS. As I recall the figures I cited earlier, there are 45,000 units of 202, which is some indication.

Mr. RENFROW. Senator, let me comment on that point. When you say 33,000 or 35,000, 202, I don't know how FHA counts all of these conversion project units; but, they are in fact 202 units and ought to be so counted.

It happened they used 236 financing vehicle at three times the cost, but they were incubated, developed, and built with 202 criteria—all of these you see labeled conversions.

Mr. FULLERTON. The number, Senator, is 43,335 units—where all of the work is done. There were 43,343 units—where all of the 202 people did all of the work and projects were completed—and about that many more units where 202 people have done most of the work; where it is all over but final funding and construction.

So it is really up in the 90,000 units for practical terms.

Senator WILLIAMS. Let me go back to your statement, Mr. Renfrow. You have hit the highlights of your statement?

Mr. RENFROW. Except that I would like to make two other points, Senator, if I may.

Senator WILLIAMS. Certainly.

Mr. RENFROW. All right.

ELDERLY HOUSING HAS MULTIPLIER EFFECT

First of all, I think one very obvious fact apparently escapes analysis by HUD. When they devote such small percentage of total funding to needs of the elderly, they apparently don't recognize the fact that elderly housing has a multiplier effect. Because as stated in your committee report, and as evidenced by 202 in occupancy survey, a high percentage of the people who move into these facilities are widowed women moving from two- or three-bedroom homes; which, upon her moving into the available 202 unit, has become immediately available to a family group. Often the family group whose income falls within 236 eligible range. So you are getting two units, a family unit and elderly unit while paying only for the elderly unit.

So why they allocate 10 percent, I don't know. The more you spend for the elderly, the more effective multiplier effect you get from the same Federal dollar.

Just to summarize.

Senator WILLIAMS. Wait a minute. We have to backup on that. You take an elderly person in a two- or three-bedroom lifetime home—now widowed—wanting to go into 202 kinds of housing. This releases the homestead.

Mr. RENFROW. Exactly.

Senator WILLIAMS. You said 236.

Mr. RENFROW. What I say is, that in many instances, the sale price on the home which she leaves is such that a family group—whose income falls within the range for that same family group, would be

eligible for 236 housing—can afford to place a small down payment, and pay the mortgage on that house. You have effective utilization of good existing housing, because the widow's needs is not four walls and a roof. It is the thing Monsignor works to provide.

Senator WILLIAMS. This would not go into 236, but it would relieve pressure on 236.

Mr. RENFROW. Yes, sir.

One final concluding statement, if I may.

That is, I have been saying some pretty hard things about a system really. I would like to make my statement as recommended solutions. I think the committee has already stated the proper solution; and that is, restore and adequately fund the section 202 program, and make sure its administration is not under FHA.

I know that the Senator has introduced a bill to establish a new position, Assistant Secretary of HUD for Elderly Housing. That I think is the ideal solution. Moreover, that is where congressionally authorized congregate housing program belongs too—authorized in December, and the regulations have not been written by HUD 8 months later, so you can't apply to it.

Section 231, which was congregate housing for the more affluent elderly, was administered by FHA. It was a disaster and a scandal as one and all know.

The horrible thing is this. That 236 is presently holding a promise out to nonprofit sponsors like the Diocese of Natchez-Jackson, but it is an absolutely false promise—that you can work cleanly and in partnership with this Federal program to administer to the housing and related needs of the elderly.

You can't do it. Moreover, 236 contains the same elements and same seeds for destruction and scandal that 231 contained. It took 202 years to make its true image known, and to be disassociated with this horrible FHA 231, before good sponsors were willing to enter.

If 236 goes the same way as 231, we will never live long enough to see the talents and goodwill of so many people—this great resource of talent and energy—we'll never get it back.

Senator WILLIAMS. I can't thank you enough, Mr. Renfrow.

You won't leave now. We will finish out with Mr. Fay and Mr. Fullerton.

Mr. Fay, I know we have been looking forward to your statement here this morning with great interest.

STATEMENT OF GEORGE FAY, DIRECTOR, PINELLAS COUNTY BUILDING DEPARTMENT, FLORIDA

Mr. FAY. My name is George Fay, I am a building official of Pinellas County, Fla.

Senator WILLIAMS. You are the director of the Pinellas County Building Department, is that right?

Mr. FAY. Yes, sir.

Senator WILLIAMS. Pinellas County includes St. Petersburg?

Mr. FAY. Yes, sir; it is an incorporated area within the county.

Senator WILLIAMS. So you are in charge of the building department?

Mr. FAY. Yes, sir.

Senator WILLIAMS. And you have to make all approvals for applications for building?

Mr. FAY. Only in the unincorporated areas of the county. There are other building departments in addition to ours.

Senator WILLIAMS. I see.

All right, I know that you have had considerable discussions with members of the committee staff; haven't you?

Mr. FAY. Yes, I have.

Senator WILLIAMS. I think perhaps what you can offer to be helpful to the committee and to the Senate might well be expedited if Mr. Val Halamandaris would handle some of the specifics.

Mr. HALAMANDARIS. George, we have had several conversations. Would you mind telling the committee what you do? What is your work essentially?

Mr. FAY. Basically, I am in charge of the county building program of issuing building permits in all phases of construction. This would include single family residential, multistory, multifamily construction and work of similar nature that has been discussed here today under the various Federal programs.

Mr. HALAMANDARIS. Essentially you try to protect the people of Pinellas County and the public?

Mr. FAY. This is my sole responsibility, the welfare and health and safety of the people in Pinellas County; yes, sir.

Mr. HALAMANDARIS. What do you do if you find shoddy construction or contractors who are putting in perhaps, for example, a 2-inch pipe to a fire hydrant, what kind of action do you take?

CONTRACTORS MUST MEET BUILDING SPECIFICATIONS

Mr. FAY. We usually bring this to a screaming halt by shutting down the project.

Senator WILLIAMS. What is the significance of that? Won't 2-inch pipe handle it?

Mr. HALAMANDARIS. What happens when you put a 2-inch pipe leading to a fire hydrant?

Mr. FAY. Under normal circumstances, the standard fire hydrant might utilize a 5-inch pipe and if you supply this hydrant, which in turn is a pipe that is in a vertical position. Perhaps, you then try to supply this with a lesser size pipe, it would be quite comparable if you had a large size garden hose, three-quarter inch in diameter, but you put that hose to a half-inch hose and then hooked the half-inch hose to the faucet, you are only going to get the maximum flow of water as through the smallest possible size of the pipe.

So you might have a good size fire hydrant but you are going to have a limited supply of water.

Mr. HALAMANDARIS. George, would you tell us what was your first experience with a company known as Vanguard Construction which was mentioned a couple of times in today's hearing? What was your first contract?

Mr. FAY. I think I could talk a little better if I might stand up. I don't think I need a microphone.

First, I have sat here today and enjoyed tremendously some of the conversation that went on. Unfortunately I work in the field and in

the office as a building inspector and I am somewhat hard put at times to phrase myself as well as the previous gentleman did.

However, in answer to your direct question about my first contact with Vanguard, and this was the particular reason, was an emissary of the architect brought a set of plans to my office. It is not this set of plans.

We briefly went over this, or I briefly went over this, with the submitter who worked for the architect and advised him that in general the plans were reasonably in line with what they were talking about.

However, there was one major discrepancy that I wanted to bring to their attention and that was in the fireproof quality of the floors as I understood them.

I explained to them that this was something that we did not tolerate in Pinellas County because all of our codes from the west coast, mid-country, or our southern standard building code, these all refer to the requirement of supplying a 1-hour fire rated separation between occupancy units in multifamily construction.

So this set of plans sat for, I judged, approximately a month or more and subsequently the architect called me and wanted to know what the status of their plans were and I told him they were exactly in the same fashion as he left them and inasmuch as no one from his architectural office had been over to review them, they were still at the counter. I trust this won't be taken as just a bureaucracy method, but it is pretty hard to discuss methods of construction unless you are discussing it with either the contractor or the designing architect or perhaps one of their engineers.

This is something you cannot transmit normally over a telephone. Subsequently, I was bombarded with a number of complaints from the Commissioner level and through our administrative form of government as to why I was in effect dragging my feet because the contractor per se was quite upset over the fact that I had not issued a permit.

I told them that I had no copy of the plan from them other than an initial copy submitted by a messenger and under Florida State regulation, it is necessary for work of this general nature to have prior approval by the State Hotel and Restaurant Commission which is now a branch of the Florida State regulatory services.

Mr. HALAMANDARIS. Now, you are at the point of having the plans. Had you had a conversation with Mr. Tannebaum before this time?

NO BUILDING PERMIT UNTIL PLANS ARE APPROVED

Mr. FAX. This is what I am leading up to because Tannebaum said, "We need this permit." And he said, "Is there some way we can expedite this thing?" As you can presume from this, it might have been an inference, or it might not have been, but I told him until we had two sets of plans that had the seal and signature of the architect of the State Hotel Commissioner, we could not even consider it.

Mr. HALAMANDARIS. Who is Gerald Tannebaum?

Mr. FAX. Gerald Tannebaum presented himself as being the general contractor for the Vanguard Construction Co.

Mr. HALAMANDARIS. And was he licensed?

Mr. FAY. He held a certificate by examination with the State of Florida Construction Industry Licensing Board which is a prerequisite.

Mr. HALAMANDARIS. When he told you, "Is there any way that we can expedite this plan," did you infer from that, that he was asking if you would be willing perhaps to receive some money to expedite it?

Mr. FAY. I hesitate to say that but I will go as far as saying, I explained to him if they wanted to do something about the floor assembly, the simplest way that I could suggest was that they get hold of the Underwriter's Laboratory office in North Brook, Ill., and talk to the manager there, Senior Project Engineer, Mr. Haas, as he could help them work out a suitable fire assembly for their floor.

Mr. HALAMANDARIS. This was the main reason you held up the Heritage Presbyterian project, because of the quality of the floor they were trying to put between the first and second story of the two-story building?

Mr. FAY. This was the beginning.

Mr. HALAMANDARIS. The kind of flooring they wanted to put in did not meet your satisfaction as far as fire safety?

Mr. FAY. And to the satisfaction of the Underwriter's Laboratory.

Mr. HALAMANDARIS. And to make a long story short, with a lot of hassle, they complied with the minimum standard acceptable to you and the Underwriter Laboratory.

Mr. FAY. Not exactly. It seemed that they lost their plans. They had not given me their plans from the contractor's standpoint to begin with.

We discovered that Mr. Tannebaum had misplaced the plans in the zoning department.

Finally they got the plans from the zoning department, brought them in and we found out that they had not been sealed by the Hotel Commission.

So this necessitated a little bit more delay and needless to say this upset them considerably. I was next introduced to a group of people, I do have their names if it is of any particular importance—

Mr. HALAMANDARIS. Including Mr. Glantz, Michael Glantz.

Mr. FAY. Mr. Glantz is the one who made the appointment but I have never seen or met Mr. Glantz because he never appeared but many of the people he claimed were members of his organization did show up.

Mr. HALAMANDARIS. Let's talk for a moment about the kind of construction.

This morning we heard about typical 202 projects which we see in front of us, reinforced concrete, some of which would withstand an 180-mile-per-hour wind, very substantial construction.

Would you describe for us the kind of a building that Vanguard is putting up? Describe the Heritage Presbyterian project. What kind of construction is this? Would you say it is a complicated design? Would you need a sophisticated architect to go over the plans? Is it brick?

Mr. FAY. This is frame construction of two stories in height and it is basically eight-unit or 12-unit family occupancy. They are in such multiples so you would have either four units downstairs or six units downstairs and the same upstairs having combinations of eight- and 12-unit, two-story apartment complexes. These are frame. They have

Johns Manville sheathing board on the upper structure. They have Celotex on the bottom structure for sheathing. This is encased with a brick veneer and I find a few faults in this.

PROJECT DID NOT PASS INSPECTION

I have not passed this project. I have submitted to the committee a complete set of our inspection records that indicate that this building will not pass by us under any circumstances and to answer your specific question, how this might compare to Monsignor's report about the 180-mile winds. One of my particular notes that I made personally indicates that each of these structures in eight places they have cut the top perimeter double plating of the frame structure keeping in mind that this is the structural system.

The brick is only a veneer. But in all of the structures this has been done eight times.

So there would be considerable doubt as to lateral stability in any type of a wind, let alone 180-miles-per-hour.

My principal problem in this is it is a poor situation, in fact, a very sorry situation about danger to the potential inhabitants because the building is not fireproofed where the building units are isolated one from another.

Mr. HALAMANDARIS. What are they using for fire stops?

Mr. FAY. This is one of the problems. They have fire stops in many areas but where they are most necessary, they are not there.

And when we questioned this to some limited degree, we had substitute plans submitted to us which do show such a fire stop. However, there is a peculiar situation in the sense that the plans that were submitted were from a different housing project, one that I presume is over in Tampa.

Mr. HALAMANDARIS. Let's clarify this.

First we have been talking about Heritage Presbyterian and it is located where?

Mr. FAY. This is on 121 Avenue, in the unincorporated area of Pinellas County immediately adjoining Lake Seminole and these are the plans.

Mr. HALAMANDARIS. Heritage Presbyterian is 400 units?

Mr. FAY. Yes.

Mr. HALAMANDARIS. The substitute plans they submitted to you were from a project they had built earlier, the same principals are involved, Vanguard Construction Co., and this was located where?

Mr. FAY. It is St. Johns. I believe it is situated in Tampa. It may not be but I believe so.

Mr. HALAMANDARIS. And you are telling us that you disagree with them on some point of the plans, and they submitted a revision and the revision was their plan from St. Johns which is essentially the same, identical.

Mr. FAY. Yes; but unfortunately this has not been carried out in the project.

Mr. HALAMANDARIS. You made a very interesting statement to me. In your last inspection—I believe it was Thursday a week ago when you went to Heritage No. 1—you heard a conversation that I want you

to repeat for us, with reference to the fact that Heritage No. 2 is going to be started.

Do you remember that?

Mr. FAY. Well.

Senator WILLIAMS. We have to get a little clarification.

One Heritage project has not been approved. Now you are talking about another one.

Mr. FAY. I could talk about both.

Mr. HALAMANDARIS. Heritage No. 1 has been approved and received funding, and is 35 percent complete.

Mr. FAY. That is 400 units.

Mr. HALAMANDARIS. There is Heritage No. 2—which is still in the application stage.

Mr. FAY. I know of this only for one reason.

When I went to this project Thursday last, I was informed by—not directly—but by listening to the general superintendent who informed his foreman that it appeared that he was going to be on the site much longer because it had been granted 200 more units.

Mr. HALAMANDARIS. What is your conclusion?

PROJECT TO START WITHOUT BUILDING INSPECTOR'S KNOWLEDGE

Mr. FAY. My conclusion was rather strange. I had been in effect subpenaed by a group from the Senate who were discussing such things and here was a project already to start up and everybody knows it except possibly the Senate and me.

Mr. HALAMANDARIS. Has the Tampa FHA office given its approval?

Mr. FAY. I don't know about that.

Mr. HALAMANDARIS. And yet the people on the construction site know.

Mr. FAY. The general superintendent informed me and the rest of the people that they were all ready to start 200 more units. And I haven't passed the first 400 yet.

Mr. HALAMANDARIS. All right.

We have that. And you are telling us again about the type of construction, wood frame as opposed to concrete.

Mr. FAY. Yes, I heard Monsignor describe the fact that he had some very specific type of window anchorage in the buildings that were situated at Biloxi—I believe he said—and we have this possibility to face, I can conservatively talk about 40 years of construction experience, but I have never seen such sorry windows that we have in this particular project as basically, as near as I could watch the crew that was installing them, it only takes four so-called box nails to nail them onto the sheathing and I must presume the brick work is going to keep them in place.

Senator WILLIAMS. Is that Heritage 1?

Mr. FAY. This is Heritage 1.

Senator WILLIAMS. Did you have to approve that? Is that within your jurisdiction?

Mr. FAY. Yes, sir, but we do not approve all of the specific materials. We do have a copy of the specifications, if I may, and one of the things that was brought out, I believe by Mr. Renfrow, was that in the installation of mechanical air conditioning, there is a greater writeoff

value that is sometimes enjoyed on a window unit versus that of so-called permanent unit with duct work built within the structure. I can assure you, I have read the specifications. I have witnessed the installation of the air conditioning on this Heritage No. 1, and these are a window package unit and they have an attachment to them that penetrates through the bedroom wall and that goes into the bedroom. You could construe it as an extension to your exhaust pipe on your automobile. That is the complete unit and which is somewhat of a comparison from that which Monsignor explained to us.

Quite frankly, on this particular project, there are any number of things that somebody in the construction industry might be concerned with, and I would be pleased to discuss them.

MR. HALAMANDARIS. George, you are concluding that these plans are fairly basic and anyone with my intelligence and lack of training would be able to draw the same plans, is that correct?

MR. FAY. Yes, sir.

MR. HALAMANDARIS. Would you describe them as being stock plans, that is to say, perhaps standard form or elementary?

MR. FAY. Pretty much so.

MR. HALAMANDARIS. This is confirmed from the fact of the St. John's substitution?

MR. FAY. They are quite similar. In fact, there are similar page numbers with the St. John series, for example, except there is a different number of plans for this set.

MR. HALAMANDARIS. Do you know how much the architect received for designing these plans?

MR. FAY. Yes, sir; for this he received \$164,140. It says in his contract with FHA. I submitted a contract to your committee.

MR. HALAMANDARIS. For stock plans, \$164,000?

MR. FAY. Yes, sir.

MR. HALAMANDARIS. On the construction, what did Vanguard try to do with the plumbing or with the sewer system which was stopped because of your policing?

MR. FAY. As I mentioned previously, there were certainly some frustrations that Mr. Tannebaum went through because he brought first the plans to the wrong division of our operation and second, when he finally located them, he found out that they did not have the hotel commission approval stamp and when he got around to this point, and I was doing exactly as he requested, we issued him the building permit.

Suddenly he was again quite upset because he was not able to get plumbing permits and we explained that under the rules and regulations of the State of Florida, you must have an approval in writing stamped on your plans by the Florida Health Department, the Florida State Board of Health.

STATE HEALTH DEPARTMENT REJECTS PLANS

And of course such a plan, nobody had brought around to us. When they did, it was accompanied by a letter of several rejections from the State Health Department showing that the plans were inadequate.

So we finally worked that around. We had a number of slight discrepancies in there but the plans were finally changed whereby, I

don't know if this would be germane or not, but sewer manholes between connecting sewers are usually a given length of not usually to exceed 400 feet.

This is the normal length you can get down into a manhole and hose it out 200 feet in each direction. Their's were about 150 feet in excess so they had to add an extra manhole to the project.

We had the same difficulty and I had to get letters from them stipulating that the building would be stable because the sewer lines were too close to the structures.

The plans were by two engineers, Pool & Associates, who designed the plans and we questioned this for the simple reason, it is a prerequisite under Florida law that an engineer and architect signify that he has certified his own work by attaching his seal.

This is quite commonplace in the industry. I raised a question as to why the architect had sealed these particular mechanical plans. He said they didn't think they should seal them because that was not ethical.

I raised a question. I didn't think too much about their ethics because if this was the case, why were they part of the company apparently?

Mr. HALAMANDARIS. Let me interrupt and see if I can get a comment from Mr. Renfrow.

CONFLICT OF INTEREST?

Will you spell out the significance of that point? The Poole Bros. are engineers; and, at the same time, they are officers of the corporation.

Mr. Renfrow. Of Vanguard?

Mr. HALAMANDARIS. Yes.

Mr. RENFROW. Well, this means simply that you are in the incongruous situation of having a professional, to wit, engineer, who is supposed to see to the proper safeguards and engineering mechanical work, who happens to be on the board of directors of the contracting firm, and who ethically says he can't affix the seal.

The connection escapes me; but, obviously if Mr. Poole is a director and stockholder in Vanguard, and he is also part and parcel of engineering and architectural work, why doesn't he put his seal on it?

Mr. HALAMANDARIS. Conflict of interest, would you say?

Mr. RENFROW. Not necessarily. Where you have a builder-developer who puts together a package, you don't expect anybody to be at arm's length.

He has got the land and the architect and the attorney and the contractor, it is all one package. They are working to benefit each other as joint ventures but of course then if he sells the whole package to nonprofit, query, what kind, how much fidelity do they get from the professionals?

In other words, in my judgment an architect and engineer should be working for the owner and not for the contractor.

Mr. HALAMANDARIS. Looking for another reason perhaps why the Poole Bros.—

Mr. FAY. I might add, I think there is a provision in your FHA regulation, for instance, that an architect cannot, and he so stipulates

in his contract, that he does not represent in any fashion or is associated with the general contractor, and I think possibly this would apply to an engineer who might design some of this work.

I don't know the law but I believe that this is tied in with the contractual arrangements with architects and FHA.

Mr. HALAMANDARIS. George, looking for another reason why the Poole Bros., as engineers, perhaps didn't want to affix their seal to the plans; did you verify whether Stanley Poole was licensed as an engineer for the State of Florida?

Can you tell us in any way?

Mr. FAY. Well after we became somewhat concerned about this, I did contact a very close acquaintance of mine, in fact, the president-elect of Southern Standard Building Code Congress who is also director of Florida Industry Licensing Board in Tallahassee.

We asked him if he would check down the street with the secretary of State and let us know whether or not Mr. Poole or who else was involved in this thing.

Mr. Poole was supposedly a member of this corporation, Vanguard Construction Co., Inc., or we were so informed.

I do not have this other than from a phone conversation.

One of the brothers I understand is. The other one is somewhat doubtful. But I shouldn't say this because I don't understand it because both of them have registry numbers. I can give you their registry numbers. I think the thing that has happened is that one of the Pooles attempted to become a general contractor and failed the examination. Both are professional engineers.

Mr. ORIOL. Mr. Fay, on the basis of 40 years experience in this field, how many years of the 40-year life of the mortgage would you expect this Heritage Presbyterian structure to last?

BUILDING PROJECT WOULD NOT LAST AS LONG AS MORTGAGE

Mr. FAY. To be rather conservative, I would say less than 40 years, considerably less.

Mr. ORIOL. How much considerably less would you say?

Mr. FAY. Well, may I comment about something first.

I would like to state categorically that by no means am I in objection to FHA as such. I have had a great deal of respect for them over many many years of experience with FHA. Over the years FHA has had a reputation of an explicit and impeccable inspection system in every instance that I personally know of. I have a great deal of respect for this and mostly so, your MPS, minimum property standard, which is certainly a guidebook for the construction industry when it comes to reading plans.

So I have no fault with FHA. The only thing that concerns me and the reason I am here, the reason that I have discussed this with the subcommittee is one thing. My job is with the people in Pinellas County. That is who pays me, and in years past, we have had construction that was, let's say, funded through FHA and their ground-rules were excellent.

But today I don't find this to be the case. Most of this stuff we are getting is garbage. I don't know how to put it any other way than that.

Mr. ORIOL. Is that because of the inspection system?

Mr. FAY. No, sir; I feel that FHA in some fashion is being hamstrung, that they are not being allowed to make inspection as they used to make them. Believe me, sir, 20 some years ago I attempted to get a job as FHA inspector. Unfortunately they didn't consider me qualified enough. They selected somebody else. I thought I was pretty good then but the point is, this has been a very honorable institution basically, inspectionwise.

I don't know anything that you gentlemen have been talking about, the finances or the funding.

Senator WILLIAMS. When did this deterioration of FHA set in, in Pinellas County?

Mr. FAY. The first time it hit me, and I happened to see this by accident that somebody else has left here, when Randy Wedding built a 202 and I picked up enough sitting up here today that I think I know what 202 was, he built a 202 in downtown St. Petersburg, and I am from the St. Petersburg-Clearwater area.

He subsequently built a housing project for the county and in Pinellas County under my inspection and Randy beat his brains out for 3 years finally getting this housing project off the ground.

This I can attest to. It first started out to be cast-in-place slab, then cast-on-the-ground slab. It got modified but after 3 years of frustration, it wound up to be a beautiful project. In other words, next door to it, and this is a picture of what is next door, that makes Heritage look like a dream.

What is here next to Randy Wedding is even worse. But here is a project that has certainly been approved. It has a sign out front stating "This is under the housing for the elderly." There is a sign there. This is an aluminum construction. This one is minimal construction.

At least in these little units next to Randy Wedding, we have a 1-hour rated firewall between the occupancy units. I don't have this horizontally or vertically at Heritage.

It is just impossible for me to give credence to the fact that FHA has approved this through their inspection agency.

As I say, I have the utmost respect for men who have been working for FHA in Tampa for the last 20 years. Most of these are dedicated people and I am sure you will find this out. But somebody is missing the boat when it comes to this so-called 236.

I will corroborate one thing, if the land is cheap enough and if the construction design is cheap enough and if material is cheap enough, this is kind of cheap garbage we are going to get.

Mr. ORIOL. Mr. Fay, perhaps to build upon that, why have you in your discussion with committee staff likened the operations of 236 to a franchising activity? I believe you used the term "franchising."

Mr. FAY. One of the things that I have run into, this I cannot document and I have attempted in other instances to document what material I have had and which I have given to you, but I was informed that the Vanguard Construction Co. has the same offices as Vanguard Finance Co. in Miami, Fla. It is in the same building.

Practically all of the subcontractors situated in Temple Terrace area, in Tampa, Fla., are those of the Vanguard Construction Co. locally.

DISCREPANCIES FOUND IN SEWER SYSTEM

In this one particular instance where our county pollution director, Mr. Dunn, found numerous discrepancies with the engineering of the sewage system, I went down there with my chief plumbing inspector. We explained to the contractor he was going to have to make certain changes. Just arbitrarily I would say these amounted to \$6,000 or \$7,000 due to the shifting of one of the buildings and certain lines having to be adjusted.

This plumbing contractor could not have been less upset and I am certain I was upset for one reason. I think he was merely acting for a front with his certificate as a plumbing contractor for the Vanguard Construction Co. It was that simple.

Mr. HALAMANDARIS. George, a similar point.

You have presented the committee a copy of letter signed by Gerald Tannebaum in which he says by way of a handwritten and notarized note to you as follows:

To Whom it May Concern:

This is to advise that I am no longer employed by Vanguard Construction Company, Inc., Temple Terrace, Florida and I no longer will hold their contractor's license. I will no longer be responsible for any of their work, specifically Heritage Presbyterian housing in Pinellas County. This is to be effective immediately.

Signed Gerald Tannebaum, State License No. G00979.

The date of this is July 30, 1971. Sworn and subscribed and notarized by Mary Hilger. What is the significance of this, George? Why has Gerald Tannebaum, a principal in the Vanguard Corp.—vice president in fact—suddenly given his resignation to you?

Mr. FAY. I really don't know. I can presume this. I do know that I called Mr. Harrison, who I mentioned for the record, with the Florida Construction Industry Licensing Board about Mr. Tannebaum.

We checked into that last Wednesday. And at that time we were informed by the State board that although Mr. Tannebaum was a valid general contractor in the State of Florida by examination, he had never indicated that he was a portion or a representative contractor of Vanguard Construction Co. He was strictly an independent operator.

Now I don't know whether or not Mr. Harrison or Mr. Golson of the State board might have contacted Mr. Tannebaum. I did not see Mr. Tannebaum because the subject documents you are talking about were left in my office when I went to lunch on Friday.

RESPONSIBILITIES FOR DISCREPANCIES

It seems rather strange, however, up until this moment and I am still firmly under the opinion legally that Mr. Tannebaum as the general contractor has a vested responsibility for the discrepancies on this project.

We have never met Mr. Glantz.¹ I don't know what Mr. Glantz' position is. I believe he is vice president of the corporation. but through

¹Mr. Fav. in checking his office records, states in a letter to the Chairman, he had met Mr. Glantz in the company of others.

our regulation, we deal with the contractor per se and hold him responsible.

Mr. HALAMANDARIS. In other words, if you—as Pinellas County—were to bring suit against anyone arising out of this—

Mr. FAY. Yes, sir; and we still will, irrespective of the fact that he has submitted his resignation because these problems were while he was still under this so-called State certification.

Mr. HALAMANDARIS. Let me digress and throw a question back to Mr. Renfrow at this point.

In discussion at this point with the staff, the name just mentioned, Michael Glantz, was thrown around a good bit.

I would like to ask you, Mr. Renfrow, if you will give us your experience with Mr. Glantz and his relationship with the Heritage Presbyterian apartments as it was progressing through the application stage?

Will you recall the conversation you had with Mr. Glantz in the Tampa FHA office?

Mr. RENFROW. Yes, sir; I was approached by Rev. Robert L. Shirer, executive director of Presbyterian Social Ministers, Inc., a nonprofit management corporation. He asked that I represent, as an attorney, the Presbyterian organization in their proposed dealings with Mike Glantz.

We went to the Tampa FHA insuring office—and I can't give you the date, it was a long time ago—and there met in one of the conference rooms where Mr. Glantz had set up shop. Mr. Glantz at that time was first talking about a 236 co-op.

Mr. HALAMANDARIS. Wait a minute. I think the date is important. Let me go back and say there is a moratorium as of July 7, 1970, which Morton Shomer, Acting Assistant Commissioner for Subsidized Housing put out on all 236 for the elderly projects.

Mr. RENFROW. I think it was after that date.

Mr. HALAMANDARIS. Then we have an announcement in the St. Petersburg Times, September 5, 1970, the same year, whereby Rev. Robert Shirer announced HUD had granted approval for Heritage Presbyterian housing project.

Mr. RENFROW. I would have to go back and check my records but my recollection was that it was after the moratorium had been placed in effect—no new elderly housing applications were to be considered by FHA—that I first met with Mr. Glantz.

Mr. Glantz at that time—stated very simply—was interested in selling a package proposal to the Presbyterian group. He, at that time, was interested in selling what is called a 236 co-op. I was familiar with 236, but not the co-op part of it.

So I formed a conclusion concerning Mr. Glantz' veracity very early during our conference, because he made several statements relative to the legal implications and as to what a potential sponsor could or could not do by way of taking advance collections from people that I found, very quickly, to be in error.

Therefore, I formed my own judgment as to his veracity.

He made it clear that the customer would have to make a decision promptly because he, Mike Glantz, had visited with Morton Baruch in Washington.

Mr. HALAMANDARIS. Who is Morton Baruch.

Mr. RENFROW. Morton Baruch is on the staff of Mr. Gulledge. He is either No. 1 or No. 2 man for all assisted multifamily housing under FHA.

Anyway, Mr. Glantz said that he had met with Morton Baruch and had a commitment for either 600 or 800 units and that he, Glantz, had then gone to Atlanta and discussed it with Bob Cunningham—who is now also on Mr. Gulledge's staff in Washington—and that he had authority to get underway within 30 days on this commitment, first for 400 units and subsequently whatever was left—either a total of 600 or total of 800.

The reason I remember this so vividly is that I have had occasions to deal with Mr. Baruch, and we talked about his personality. I described him as really being a nice fellow, once you get to know him, but he is very cold at first—which I construe to be shyness rather than being a cold fish. And Mike referred to him as "Morton baby" and said, "He is real peaches."

That is the way Mike talks. Anyway, he comes on very strong if you know what I mean, and I am sure you do.

WOULD NOT BECOME INVOLVED

In any event, frankly, I concluded I wanted nothing to do with this primarily because of my relationship to Southeastern Housing Consultants. We were not going to be involved as consultants, because Mr. Glantz had packaged the whole thing up, and I felt it would be a conflict of interest with my partner in the consulting business—to work as attorney and get involved in quasi-consulting type work.

So I told the Presbyterians I could not represent them. But not before I sat down with Reverend Shirer and told him what I thought of Mr. Glantz.

He struck me as a man who would lie just to keep in practice. I pointed out a great many misrepresentations that he had made that could cause Presbyterians trouble by violating FHA regulations. I left it at that, and that is the last involvement with it; and I would not have told that unless you asked me.

I think well of Reverend Shirer, but I think he has been had. He has been sold a package.

Mr. HALAMANDARIS. That takes us back where we began the hearing. The initiative under 202 was with the nonprofit sponsor and the emphasis was to go to the Government and get your project. And now it seems, under 236, it is the packager—the developer who has the initiative and looks actively for a nonprofit sponsor.

Mr. RENFROW. And the reason FHA really likes this, is that everything is for instant production.

Mr. Baruch made a speech to an organization which has been formed by all 202 nonprofit sponsors. They have a national convention. Mr. Baruch came down and made a speech encouraging people to work in harmony with profit-oriented projects. To have the sponsors bring the social services and enrichment to elderly housing needs; but, to leave all business affairs to profit-oriented because they can get it done so fast.

Instant production now, the number games, regardless of quality, or regardless of whether or not it responds to anybody's needs.

Mr. HALAMANDARIS. On the face of things it appears Mr. Glantz did make good on one of his boasts. He said he had a commitment for 600 units and Heritage was a 400-unit project and Heritage No. 1 is 35-percent completed. And as George Fay testified a few moments ago, the people who are constructing Heritage No. 1 believe they are going to be there for a substantial amount of time—working on 200 more units, even though approval of Heritage No. 2 has not been made known out of the Tampa FHA office.

That is very interesting. I would comment, at this point, that I am sure the chairman would like to have Mr. Baruch present, on Wednesday, to answer the allegations that have been made here. Maybe he can shed some light on the issues.

Mr. RENFROW. Like I said, Mr. Glantz—in my judgment—is such a consummate liar that he may never have even met Morton Baruch. But I think it is worth asking.

BUILDING PERMIT A PREREQUISITE TO FUNDING

Mr. FAY. I was under the impression, and I can be straightened out very easily, but I was told by the architect on this project that he could not get his commitment for the contractor from FHA until they had a permit in hand.

Mr. HALAMANDARIS. George, I missed that, I am sorry.

Mr. FAY. I was told by Mr. Friedman, the architect for this project, that they could not have their FHA closing for the commitment money unless they had a permit in hand, that this was a prerequisite.

Is this normally so on FHA?

Mr. HALAMANDARIS. I see some nodding of heads, but I don't know.

Mr. FAY. I really don't know but the architect told me and what this all hinged on was the fact that it wasn't until they agreed with the FHA office in Tampa and I mean by they, Mr. Friedman and his group of Vanguard, agreed to supply an approved type of floor assembly, so I was wondering if this is the case, is this a separate commitment you are talking about of these 200 units, would this have to be processed again?

Mr. HALAMANDARIS. Yes.

Mr. FAY. I have heard nothing of this. There have been no additional plans submitted to me other than these plans here.

Mr. HALAMANDARIS. Well, I think you are probably going to have another set of plans; and, maybe the same ones cut down in half for a 200-unit project.

Mr. FAY. Maybe they are going to leave half of the other things out the next time around.

Mr. HALAMANDARIS. I think we will go back to Senator Williams, and have Dick Fullerton come into the discussion. I just want to comment briefly that I am grateful to Dick Fullerton, particularly, for his help and counsel. He is a bona fide expert in the area and he has been very helpful to the committee.

I thank Dick and all of you gentlemen who have testified here for your assistance.

Senator WILLIAMS. I would like to comment that you did very well Val, in your summation and it was very appropriate.

We will introduce our next witness, Mr. Richard Fullerton, Fullerton Associates, Smyrna, Ga.

We are pleased to have you with us and we appreciate too what I know to be the history of great cooperation with our committee.

STATEMENT OF RICHARD L. FULLERTON, RICHARD FULLERTON & ASSOCIATES, SMYRNA, GA.

Mr. FULLERTON. Thank you, sir.

I am concerned for elderly, as I know you are. It is a pleasure to share that concern and I think it has been manifest today that what we are talking about is housing for the *elderly*, not *housing* for the elderly. [Emphasis supplied.]

It is emphasis on the tenant and that is where it ought to be. It is where it was in the original intent of the legislation in 1959.

I do take some issue with the previous witnesses on particulars. I cannot begin my prepared testimony without reminding my colleague, Mr. Renfrow, that the churches have been at this for longer than 2,000 years. Perhaps not Christian churches but I remind you all that the commandment is: "Honor thy father and thy mother, that thy days may be long upon the land that the Lord thy God giveth thee."

Housing is a concern of the churches. It is not a recent thing among those who live other than for themselves to be concerned for the elderly. It has always been that way.

In our complicated society housing has become a crashing need. It has always been that a fellow could find a place to live, until recent years. In recent years it is just not so in America.

The Federal Housing Administration has maintained a determined opposition to genuine sponsor-management involvement in nonprofit housing development.

FHA HAS CHANGED THE MEANING OF "SPONSOR"

May I interject that the FHA has corrupted the word "sponsor" so that we in the field who try to explain things and who come and testify before these committees have to hunt around for words. It used to be that sponsor was taken to mean the genuine charitable organization with history, and longevity, and stature; and, we went from there to contractor and the other professions.

The FHA has insituted a word that is tragic. They say "sponsor/builder" so that the entrepreneur—profit-motivated person, the one that will resort to any expedient—is called the "sponsor."

This leaves us without a word, and, since we think in terms of the operation of the project to provide the actual service to the tenants after the construction is long gone, I have devised a new word "sponsor-manager" to contrast with what the FHA calls "sponsor/builder."

It is the basic contention of my office that those who are going to be responsible for the project in its operation are the only people qualified to lead its development.

I said in 1965 that if a sponsor cannot develop a project, he ought not be looked to to manage it. I contend that development is much

simpler than management, my fellow professionals notwithstanding. It is the living with it that is the real ministry and takes the real dedication.

The FHA prefers to create sponsor/builder projects, allowing the nonprofit management in only after a given project and inflated mortgage are firmly fixed.

In 1965, testifying before the Housing Subcommittee of Banking and Currency Committee, I said :

If we must conclude a direct revolving fund loan to a worthy sponsor is no longer allowable by the Bureau of the Budget but that, from the same public treasury, grants to pay too high mortgages are allowable as the bill suggests, then it would seem the builder/promoter and mortgage broker are being subsidized rather than the old people.

Such is truly the case. It is now obvious. The 1965 rent subsidy program was the beginning of the concept of interest subsidy in the 1968 act.

Both programs put the FHA, admittedly profit oriented, in charge of massive welfare funds with absolutely no justification in law.

The subsidy funds are all used by FHA to stimulate and benefit whichever particular builder is most friendly with the local or Washington FHA people.

And one instance—and only one instance—of that has been drawn out this morning. I remind you that Tampa, Fla., is not all that much worse than the rest of America.

It may be that it is better, not only in climate but in other particulars as well, my point being that this is a standard modus operandi in FHA by reason of its character, not by reason of the disposition of its employees.

I have opposed such misappropriation of Federal funds and I decry it now in total concept.

In 1968, 1969, and 1970, before House and Senate committees and in earnest correspondence with HUD leadership and the White House, I predicted for the record the present catastrophe.

CHANGES IN HOUSING PROGRAMS FOR THE ELDERLY A MUST

Not one official on any level has shown my predictions wrong. It is difficult to be correct and disagreed with by high officials. I beseech you that sweeping change be implemented in housing programs for the elderly. There is no possibility of success in the present scheme.

The interest subsidy will finish corrupting work and bring shame to America. FHA is the problem, not an aid in the solution.

FHA participation can be summed up in two of their own phrases, both basic to their character and operation. Always when a builder and FHA talk about construction it is in terms of FHA "minimum property standards."

Every adjustment is downward. What is built is always sorer than what was built before because subtle allowances and sometimes major changes allow a particular builder and then all of them to build below the minimum. A new minimum is thus established at the lower level of quality.

When they talk together about money it is the other way, "maximum allowable." Thus every effort is more costly than the last because

first one favorite builder/broker, then all of them are granted just a little more money for the particular item and the maximum is raised. The lines grow farther apart daily. This is inflation, deliberate and comprehensive.

the mortgage amount. The part the widow pays, plus 1%.
 FHA MAXIMUM ALLOWABLE, constantly increased by the builder.
 Federal subsidy increases in proportion.

THE DELIBERATE INFLATION GAP.

The quality of the housing. The place the widow lives in.
 FHA MINIMUM PROPERTY STANDARDS, steadily eased for the builder.
 The structures cannot last as long as the mortgage.

It is redundant for me to remind this committee that the construction mortgage business is perhaps the most volatile and most easily stimulated aspect of our entire economy, the reason being that the jobs are short-lived and the mortgage proceeds are so enormous and have such tremendous effect in the local community where they are spent.

They say money moves through the banks seven times before it gets out of town. I contend that the Housing Act of 1968 is the essential cause of a great deal of the inflation in America.

Remarkably there is a solution that will check both aspects of this problem. As to quality of construction and the character of a particular project, every project should originate in and be developed by the people who will be in charge of the management and repayment of the mortgage.

This one expedient will focus and correct the problem. It is not possible of solution in the FHA framework.

As to the costs, only one thing will hold them in line and turn them down, competition. The FHA hates the very word but there are contractors altogether capable of building needed housing who are strong and will build to the bottom dollar if given a clean set of plans and an honest set of specs.

This technique worked every time in section 202. Negotiated or builder-promoted projects are grotesquely padded. Other witnesses have drawn this out.

With trepidation, lest I instruct some already dishonest person in a new field of endeavor, let me suggest how present FHA procedures encourage theft from the poor—who must repay all of the principal with 1-percent interest—and from the taxpayers. We show a list of costs which can be arranged by builder/broker/entrepreneur whose organization is medium large—and we have just had one such described to us—so that he employs or compromises all of the professionals himself.

The list indicates that he can carry away 25 percent of the 100 percent financing without investing a dollar of risk capital. This is not profit on an investment. This is found money.

[200 units at maximum=\$4,000,000]

Item	Allowable	Cost to broker/builder	Net profit
Financing fee.....	\$80,000		\$80,000
Premium.....	80,000		80,000
AMPO.....	80,000		80,000
Legal fee.....	20,000	\$5,000	15,000
Consultant.....	27,500	7,500	20,000
Architect.....	150,000	40,000	110,000
B/S p.r.a.....	500,000		500,000
Land.....	150,000	100,000	50,000
Total.....			935,000

The figures are shown both on my paper and on the chart, Senator, that totals out to \$935,000 in found money and I don't have any discount in the mortgage in there, which would be of benefit, whatever the current discount would be. If the whole thing were controlled in one business family that money would also find its way to the promoters.

This does not take into account that the total control by entrepreneur which FHA advocates—they not only allow it, they encourage it. It is their favorite way—that total control leaves the entrepreneur in a position to own the subcontractors and pad their costs also.

FHA will waive cost certification for special people in such cases. These figures are not given as an actual case. I am not close to thieves so I cannot account for their methods.

The case presented is not mine to prove. It is the FHA's to disprove. If these figures are quite inaccurate, the residual larceny is enough to mandate repeal of the Housing Act of 1968.

REACTIVATE THE DEVELOPER-MANAGER PROGRAM

On a positive note, why not reactivate the highly successful developer-manager program which so gracefully evolved under section 202?

May I pause to explain just a moment and do something I haven't done before, before any committees here. The reason I am here today is because I was where I was yesterday and the day before for 10 years back. In 1958 I was pastoring in West Palm Beach, Fla., and was offered \$100,000 cash bonus and the Cadillac we were riding in by a group of entrepreneurs who wanted me to front for them and con the churches into sponsoring section 231 housing.

My salary at the time was \$75 a week. I was hanging wall paper on Palm Beach and making good money to support my family of six children. But I said "no" immediately. I am not interested in working for such an organization. Not that I knew or know anything evil about them.

It is a secular work and I was in the Christian ministry and still am. But on my way home and through that night and several days, it dawned on me that if I was worth that much—that was just a bonus, the salary would have been ample—if I was worth that much to the industry, I would have to be worth something to the church.

I didn't know the Housing Act of 1959 was being written right then. It had not been announced. The Housing Act of 1959 brought sections 231 and 202 into being.

I was asked to go into the employ of an entrepreneur before the act was actually passed. In other words, some who were working on the act knew what could be done even before the act was passed. This is section 231, an FHA program.

But I began to look into it. I began to come to Washington. I began to settle myself down into the matter of ministry to the elderly.

SECTION 202 APPEARED PURE AND SIMPLE

So I found myself in subsequent years aside from the pastorate—although at this time I am back in the pastorate, happily so. I have always worked with my hands, and naturally the section 202 program being so simple and so logical and so christian, and so proper, and so honest, and so careful, appealed to me as a logical thing.

I believe that the churches ought to be involved in housing as in all sorts of service. I believe it in my heart. So I became a “consultant” and I encouraged the churches. I worked here out of Washington with Charles Gunther & Associates for 2 years. It was my privilege to work on the first Catholic project. It was my privilege to deal with a bishop who while the project was in development became a cardinal in the church.

They were trepidatious about moving over into Federal financing for sincere and obvious reasons that have been articulated earlier.

It was my privilege to develop the first Southern Baptist project involving Federal financing and it is historical how careful they have been about moving into Federal involvement. I have had the opportunity to “sell” this program, to explain it, to preach it, if you please, all over America and I am proud of what has transpired. Let me hasten to add though that I have never done an FHA project. I have never participated in one and when the switchover came in 1968, I fought a rear guard action.

Before the legislation was passed, it was my privilege to be the only person—according to the record—to testify against the interest subsidy concept. Everyone else came in and blessed it in principle. I did not curse it exactly but I tried my best to point out the pitfalls that now have become evident.

SOME PROJECTS FAILED THROUGH SHEER FRUSTRATION

When the takeover came, I advised my clients, and they were many, not to go with the program as it was then proposed.

Many of my clients were so far committed that they could not see their way clear to turn back and to not do the project. For conscience sake, I turned those projects over to other consultants.

A couple of the projects went on without a consultant. Some of them failed through sheer frustration and heartbreak. Some of them are reasonably successful physically but not philosophically in the section 236 program. Some of them are in process, and I fear will forever be in process, but I am no longer officially associated with them.

I am unofficially, and my heart is still involved but not my head by way of the contract.

So much for my history. The concept of "sponsored" housing evolved under 202 and it opened up a marvelous reservoir of leadership in America in the churches and other genuinely charitable organizations. It became a matter of Americans and American organizations supplying all of the leadership and the Government supplying only the money. It was a marvelous relationship, and that is no reflection on the Government by any means.

There is enough work for all of us to do in the field of leadership. If you will allow me, Senator, to express that I am not keen on the notion of an Assistant Secretary for Housing for the Elderly.

Not that it is not a good idea, not that it would not work, I can't predict that it would not work, though the accuracy of my predictions frighten me a little bit. I know the FHA.

I dealt with them back in the early 1960's. I know enough about what is happening now in the overall HUD Administration and this is certainly not a political statement that I am making now.

I should think that probably the best that you could ever get HUD to agree to, would be a Deputy Assistant Secretary who would be a deputy under the FHA Commissioner.

I am not able to make myself believe that FHA will ever let go of this program within HUD. FHA is most of HUD and the embarrassment to FHA back when 202 was gaining momentum was that we were under all FHA pricing.

Our quality was vastly superior and our pricing was lower. I wish that I could be enthusiastic about a HUD Assistant Secretary for Housing for Elderly but I haven't been able to get it through my mind.

TAKE ELDERLY HOUSING LOAN BRANCH OUT OF FHA

I propose to lift the elderly housing loan branch bodily out of FHA and place it in the Administration on Aging where it naturally belongs.

HUD has proven that it does not recognize a special kind of housing "for elderly" as Congress does. The entire section 202 staff numbered only 35 people at the height of its activity. I have submitted the paper that shows not only their job classification but name, rank and serial number.

Only 35 people, Senator, in all of America, four here in Washington and the rest spread out in the seven regions, that was the total number of people who were operating the section 202 loan program.

Few produced much because they worked neither for nor with FHA. The move from HUD to HEW should not be complicated.

Second, demand of HUD an honest accounting of all section 202 funds appropriated, and establishment in the Treasury of genuine revolving funds of direct loans.

Three, specify that no builder or other person can originate a project and that all professionals swear total disinvolvement with each other as to a project at inception and that the Government administrators of the program deal only with the ultimate management organization in development.

Four, require sealed competitive construction bidding and open competition in architecture, land and all cost items.

Five, demand comprehensive proof that every would be developer/manager organization be established in the country where the project is proposed. This should evidence longevity and stature with the community on all levels.

Actually, Senator, these proposals only describe the classic section 202 program again. They worked without failure once, they will work again, but never in proximity to the Federal Housing Administration.

Such a program carefully administered from a rather small and energetic office will further serve to keep an intense light on all FHA programs so that administrative techniques, costs, and results can be steadily compared.

The FHA detests this idea but it would be good for them again.

FHA OFFICIAL COULD NOT BELIEVE SECTION 202 SUCCESS

Section 202 truly was and still is beyond the comprehension of the FHA. One FHA insuring officer-director stood in an early section 202 project and exclaimed, "Somebody is lying. These 155 apartments could not possibly be developed for \$1,721,000."

For the record that project is Magnolia Towers in Orlando and the director was H. Donald Fielding, from Tampa, who is in Chicago now.

Mr. Fielding finally insisted that the sponsoring organization had put a lot of money into it. They had not and haven't put in a dime. Only bushels of tender loving care.

The FHA Director was in town to see about a twice foreclosed FHA 207/213 conversion that he had within a city block. He could not admit the comparison of his failure and our success.

Housing and health care facilities should be administered through the Department of Health, Education, and Welfare instead of an insurance agency like FHA.

I use the word agency ill-advisedly there. They are insurance underwriters. Certainly subsidy money should be placed only in the hands of persons concerned for the tenants. If only speculative development of housing and related facilities is permissible, why should not military housing be promoted by private interests and dumped on the taxpayers?

Housing for elderly is special. Many unique characteristics make it worthy of its own funding program and personnel.

For example, FHA has taken a crass and unfeeling position on architectural innovation for elderly even when it costs less.

Let me show you, Senator Williams, this is the "Guides for Project Design" under section 202. I reemphasize that this is how much the Government said to the architect in advance of the architect going to work and bending his back and earning his fee. They said, "Stay roughly within these guidelines."

Two of these sheets don't have any printing on them. This in contrast is the present FHA minimum property standard that is so rigid that, well, it is impossible to design to them. You design the best you can to them and then go talk to FHA about it and pretty soon you have got some new sheets coming out that are inserted into the minimum property standards.

Every project has to be in some degree of adjustment away from what is printed on the paper.

Senator WILLIAMS. Let's have the record reflect what you have here, on 202 instructions, four sheets of paper.

Mr. FULLERTON. Well, it numbers five. And it is three pages of typed, no, it is six and one-half pages of widely spaced type, and this, the FHA's "minimum property standards" is some over 525 pages, because some of the pages are lettered and I guess they ran out of numbers, but I don't understand this book and it is about the size of my Bible, Senator, and when I pick it up, it reminds me that I ought to be over in the other book so I just go over to the other book.

My life is too short for me to give it to this sort of thing and this is not disrespectful of the people who work to make this right. I agree with the others that there must be dedicated people in the FHA. They have been more fortunate in running across them than I have.

Senator WILLIAMS. Who was it, someone suggested this is the end frustrations of the ages here. The FHA—

Mr. RENFROW. Accretion is the word I used but I think encrustation is even better.

Mr. FULLERTON. This is a combination of Parkinson's Law and Peter principle with a vengeance. I detest the whole idea and this is why I turned my clients over to people whose secular patience exceeds mine.

Mr. RENFROW. Dick, can I interrupt to say that the effect of this versus that, is that where you have criteria within which a professional is supposed to give his best, most innovative and imaginative effort and then deliver the work product for review, as opposed to a situation where confronted with this 500-plus page document, the architect, being a human being, suddenly finds that his real assignment is to negotiate this maze rather than to do the best of which he is capable.

202 INSTRUCTIONS EASY TO UNDERSTAND

Mr. FULLERTON. Mr. Renfrow, I won't know where to hunt in the FHA book or maybe Mr. Fay could read for us for an hour or so about floor finishes. Let me read to you from section 202's guide for design:

All floor finishing and floors shall have nonslip characteristics.

That tells an architect all he needs to know. That is all the Government needs to say.

The local building inspector and all of the rest of the licensing bureaus and professional organizations will see to the rest of it. But here in the FHA book it is all seen to with a redundancy that makes it impossible to get to a proper project.

There has to be a compromise somewhere. It is just too much instruction.

The elderly deserve the best. FHA delivers the worst. The elderly deserve to know they are not a burden to society. The FHA makes their housing disgracefully costly to them and to the taxpayers.

Mr. Renfrow reminded us that to build for the elderly accomplishes 2-for-1 action because every time an elderly couple moves from a large old home—and he mentioned two- or three-bedroom homes, but my parents live in a seven-bedroom home; if we could get them out of it,

a large family would live there for \$9- or \$10,000, finance it conventionally, and still be way under 236—it is available for another family.

Their income would be in the area of public housing but anybody who says my folks don't live in a good house is going to have to talk to me because I have kept it in repair for 30 years.

Senator WILLIAMS. Where is that?

Mr. FULLERTON. Charlotte, Mich. It is an old house. They are going to move away to another world before they move out of the house. But if I could have gotten them to move into a section 202 project closer to where I live, that house would be on the market for a fraction of what that amount of space could be built for. That is what Mr. Renfrow meant by the 2-for-1 action, getting them out of an inexpensive older home that would be available for a young family.

If I may, Senator, comment on some things that I have taken notes on. The property disposition section of the FHA is no longer apparently anyone's concern. They have pushed it over to the "management section" presumably under the theory that out of sight is out of mind.

I remind this committee and through the committee the entire Congress that there is a horrendous inventory of distressed properties now owned by the taxpayers.

"COMMISSIONER-HELD MORTGAGE" PROPERTY KEEPS PILING UP

FHA never says the word "foreclose." They have at least a half dozen different words that refer to distressed properties. "Commissioner-held mortgage" is the worst that a project could be, which means the Commissioner owns it in behalf of the U.S. Government.

But that whole section, the Property Disposition Section is now far enough away from the real FHA action so that the accumulations are just going on and enormous properties are piling up in the Property Disposition Section with very little outflow. The only way they can dispose of one is to mark it down and let the Government eat enough of the mortgage to where the funding is attractive then to some entrepreneur. They are worth little because the properties are so badly built.

These 236 projects are going to come into the Property Disposition Section wholesale as these aggrieved sponsors, as these hurt local people step away from them. There will be no money to pay the mortgage. The Government is going to own them.

I was going to take issue with Mr. Renfrow on his definition of baloney. I was here and listened to the testimony when the Housing Act of 1968 was debated and I say there is real and sinister reasons. I believe that it was a gift to the mortgage bankers with many other things.

It was motivated in large measure by those who sought extensive profit. An interesting thing happened last week. I ran across a beginning client of mine, the pastor of a large church in Fort Lauderdale, who had been looking toward sponsoring section 202 housing for the elderly but was not quite ready to move. I wasn't pushing him. Then I wrote to him and all of my potential clients and told them that my advice was to not move forward at this time, the financing was not

right, it was not the thing to do. "Use your strength and energies in more productive ministry," I said.

I saw him the other day, and he said he went to Miami to see the FHA Insuring Office Director about doing a 236 project. I asked, "What did he tell you?"

He said, "The first thing he asked me was who was my builder." I said, "I don't have a builder." Then he said, "Who is your mortgage banker?" The preacher said, "I don't have a mortgage banker." And the FHA insurance director turned him on and very kindly and specifically let him know if he wanted to talk to FHA, he had to talk through an entrepreneur, somebody who would be representing him in that office. Somebody other than himself.

FHA SPLIT PRODUCTION AND MANAGEMENT

In other words, they wanted to talk only to the profit sector. The one final point I wish to make is the tragedy that has developed around the fact that the FHA has split production and management. It is asinine. It is tragic that there should be such a cleavage of concepts: One, the idea of producing housing by just putting it on the property, using up the land, using up the money, and building something without serious regard as to whether or not it actually can operate, and then covering that with a notion they are going to enlarge the staffing of the management side of FHA and ask for more money to staff and operate the management side.

Mr. Ash Gerech in his "Housing Affairs Letter" last week reminded us that three-fourths of all single-family housing in FHA is under 235, and nine-tenths of all multifamily housing in FHA is in the interest subsidy program, section 236. This is why FHA wants to set up a monstrous management bureaucracy, and I say it is not only physically foolish but it just does not make sense when this vast reservoir of private nonprofit leadership is waiting to see to the needs of the people, both elderly and other poor people; when they are waiting for a chance to be of service. To imply and to indicate and to move toward creation of a monstrous new management bureaucracy is a travesty on commonsense.

That is all that I have prepared. I could go on, for I have been living with this thing for 10 years, and it is hard to get over it.

Senator WILLIAMS. What is that last?

Mr. FULLERTON. I say it is hard to get over the thing that you have been carrying in your heart for 10 years.

Senator WILLIAMS. Do you know the history of the inclusion of 202 in the basic housing laws? How did it get into the law back there?

Mr. FULLERTON. It came with first awareness of specific need for housing among elderly. It was written in the 1959 act, and because it was a direct loan, President Eisenhower vetoed it twice, and finally signed it, and it was a beginning program.

I am not sure, I have tried to find out, Senator, but have never been able to trace down the original draft of the legislation. But it was surely innocuous at the time, and it wasn't administered. It just laid there for a good while in the "Community Facilities Administrations." It was put there, and it was a one-man thing.

Senator WILLIAMS. When was that?

Mr. FULLERTON. It was in early 1961. The first real effort in this program was made by Four Freedoms Foundation, a labor organization. Walter Reuther headed it up. It involved labor people from all over the country. It was quite splendidly done.

They did projects in Miami Beach, and in Philadelphia, and in Detroit, and Seattle, and had a good many projects moving, but they have turned away essentially from 236. But then it began to have a little light, all of it administered out of Washington by one man and two secretaries.

Mr. MILLER. Who was that man?

Mr. FULLERTON. The first man was Sidney Spector, Sidney Spector is to be credited with a lot of gut effort in this thing. There is some criticism of 202. If you argue about the numbers of projects, the FHA will remind you that there are a certain number that have had distress to a measure.

These are small projects in isolated areas that were approved for political reasons perhaps, or maybe not so much political pressure, but in the very beginning of the program, while we were still getting over the county home idea for the elderly. But very quickly the mistakes were seen, so it became a program of in-town residential living that we know now as the section 202 program.

It evolved very quickly and very splendidly.

Mr. RENFROW. If I could comment on one thing Mr. Fullerton said—202 got off to a slow start. Actually, you found the incongruous situation of regional loan officers going out in the field to try to stimulate applications to keep themselves busy and to implement the program.

CHURCHES CONCERNED ABOUT THEIR IMAGE

One of the reasons they had so much difficulty—and I know because I have had the same difficulty—is that churches evidencing an interest in performing this type of service were so frightened of what would happen to their image, and what would happen to their project, if they were besmirched by the 231 stigma.

Everybody in the world apparently has read the Reader's Digest articles about swindlers under 231. It is standard procedure if you are invited to meet with a governing body of deacons of a Southern Baptist Church. There are several people in that group who can tick off on their fingers horrible 231 examples. I now, and the Government earlier, have to spend considerable time convincing these people that 202 is in fact separate, distinct—not administered by FHA, and is not like that at all. Usually it takes a Baptist—going to a Baptist project, and talking to the leadership there—to convince themselves that this is, in fact, something that they can lend their efforts, and their name, and their honor to.

Mr. FULLERTON. I finally got through to the Southern Baptist—though I am a Nazarene—in Orlando, Fla. The first project there was sponsored by a senior citizens association. The churches would not touch it. I pastored in that town for years and knew the town well and knew all of the preachers, but they were not interested in Federal financing because of a 231 that was foreclosed before it was finished in Daytona Beach.

It was an entrepreneur effort, and everybody knew about it, so nobody was going to touch Federal funding. So this secular group, very well motivated but terribly inefficient, no funds whatsoever, did the first one, and then the second one was done in my own denomination, and then a third one was a Jewish project, and then the Baptists were the fourth project in Orlando. Now the Seventh Day Adventists are in a project that is a 202 conversion into 236. There is a vast difference in the program and you can see the difference in that one city.

And up in Winter Park, the Congregationalists have lived with a 202 application for a long, long while and are underway with a 236 conversion. That is a wrong use of the word "conversion." It is really subversion.

One does not convert downward. We have trouble with words these days, Senator.

Mr. RENFROW. May I close that circle, and I apologize for interrupting, but the circle I wanted to close was that it took so long for 202 loan officers and other people to convince sophisticated church men that 202 was, in fact, a clean effective vehicle—and you could work in partnership with the Federal Government and not get hurt. It took a long time, and finally people like Monsignor Michelin visited the facilities and learned all of the facts—and then determined it was, in fact, what it was.

During the waning days—the dying days of 202—all of your major denominations wanted to do this thing. It had earned an enviable, unbesmirched, clean reputation.

Now, as Monsignor pointed out, the way it is going under 236 you are heading right back down the 231 road. If you lose these people this time, I don't think you will ever get them back.

This is a resource that will be lost to the elderly.

Mr. FULLERTON. In my own denomination I took 5 years to convince my church to do the first ministry to the elderly. We did three projects, one in Nashville, Tenn.; one in Orlando, Fla.; one in Lake Worth, Fla.; and then several other churches began.

SPONSORING GROUPS CAN BE HURT

Now I am in a position of doing my best to stop some real travesties on common sense that are coming forth in my own denomination. I am completely 180 degrees away from the position I had because these sponsoring groups can be hurt. And, as I said before, it is better to do something else with the strength that is the church than just to weary oneself with FHA.

Senator WILLIAMS. Then you would have no part of 236 project at this point?

Mr. FULLERTON. Correct, I will have no part of the FHA.

Senator WILLIAMS. And I think you have fully explained why.

Now, I will say that we have had early preparation, all of us, before coming to the hearing at 10 a.m. We haven't paused.

I just recalled—this has been so meaningful to me—this young lady that has taken the record has had no relief and no recess. I suggest you take it now. The other hands will pick up.

Mr. FULLERTON. Her attitude and actions here are typical of section 202 dedication. There is a lot of this that has gone on through the years.

Senator WILLIAMS. I will say that once we pass that critical period when you have to have lunch, we can go right on. If you get over it, you don't have to eat. There has to be a biblical reference there.

Mr. FULLERTON. If you will allow me, Jesus said, "I have meat to eat that you know not of."

This is true, I never went into this for money. If I had, I would have gone the FHA route. If I were looking for a way to make a bonanza—to really get rich—I would have gone FHA. It is perfectly legal. I have had a number of big builders offer to pay whatever costs are involved for me to be an FHA mortgagee. They were doing me a favor.

They said, "Dick, you know the ropes enough, you ought to be a mortgagee." I said, "I don't want to be a mortgagee. I want to work on them, not with them."

There has to be somebody separate from all those things; not that they are all dishonest—but the potential is there—and there has to be a nonprofit person to ride herd on this thing. This is how the whole concept of consultants came into being.

CONSULTANT NEEDED TO KEEP ALL HONEST

In an FHA project, the consultant is somewhat redundant. If the mortgage broker would do what he was supposed to do, you don't need a consultant, but in most of them, you need a consultant to keep it all honest.

The dishonesty comes in the amounts, the fact that everything is maximum. I consider that dishonest, to take the maximum allowable, to take full advantage of an opportunity in nonprofit housing is dishonest, inherently dishonest.

Let me introduce to the record, Senator, if I am not interrupting, the name of Mr. Irwin Nestler of the firm of Karp and Nextler at 15th and K Streets, here in this city, who was interviewed by Mr. Ash Garrett of the housing affairs letter some while ago. I don't have that letter with me but I am sure that the interview could be renewed.

Mr. Nestler explained the tremendous advantages to the limited dividend corporation and the profit-motivated groups—developing these things to dump onto nonprofit groups.

If you want to get a candid picture of it from the entrepreneural side, I am sure Mr. Nestler could provide that. At least he was free with his words when he was interviewed by Mr. Garrett a little while back.

Senator WILLIAMS. If we could go back to your chart here¹ "profit opportunities," that is not fully self-explanatory. You did explain it, but there are a few open ends, too.

What is the AMPO?

Mr. FULLERTON. In FHA multifamily housing, and this includes all of the programs, Senator—you recall the 608 scandals? The reason

¹ See chart p. 49.

they were scandalous was that they were built, but often couldn't operate. The tenants didn't move in, and there wasn't money to pay the mortgage back. The FHA could think only of money. So they said, "We will add a piece of money, and that will solve the problem."

So now you can put an "amount to make the project operative," or operational, whatever word they use. That is 2 percent you add on.

LACK OF LEADERSHIP COSTLY TO ELDERLY

Such a thing was unheard of in section 202, because all of that drive and followthrough and leadership was not monetary. It was actual. It was the leadership that conceived the project and developed it. But the FHA thinks you can buy it, and so they lend you the money to buy it with. In a 236, the widow has to pay that back—over the course of 40 years.

I think it came out in your questioning of Mr. Renfrow, when he stated that the interest subsidy payment, at the tail end of the mortgage, is actually a good part of principal payment.

Really, he is accurate, but the widow is paying an accelerated principal. When you stop to remember the fact that she pays back all of the principal, plus 2 percent, she is not getting anything by way of subsidy.

The interest subsidy doesn't benefit her whatsoever. There is just no way to imagine. I have spent uncounted sessions with myself trying to figure out how the Housing Act of 1968 benefits a poor person. There is no way, no notion, unless it would be that—in the case of a widow; her son or her grandson is working on a job that is made possible because of this quickie money.

But that is the only sort of a benefit that could come.

In terms of actual occupancy or actual use of the building, there is just no imaginable benefit that comes from the Housing Act of 1968. It is all to the profit sector.

Mr. RENFROW. I have to take exception to one thing there. Actually, using 1-percent money, if in fact you could build facilities to something comparable under 202—and you can't—but if you could, under 236, with the 1-percent interest, actually, the rents in the 236 would be as low or lower than as in 202—but at three times the cost to the taxpayer. That is the great fault of 236.

Senator WILLIAMS. If all else were equal to 202, this could happen?

Mr. RENFROW. Yes; we had calculated the rents on a 202 basis, and when you recalculate them on a 236 basis—despite the fact that they cost you \$1,400 more per unit—from the occupant's standpoint you end up paying \$5 or \$6 less a month in rent under 236.

From the Government or taxpayers' standpoint, you pay three times as much, though.

236 PROJECTS—NO COMPARISON TO 202 PROJECTS

Mr. FULLERTON. What I want is for somebody to take me to a section 236 project that is actually operating—and the program has had time to come on now—that is as fine and as splendid in occupancy for the same amount of money to the tenant that a recently built section 202 project is.

Now, I have to see it in the third dimension. I have lived with these papers and projects until I can't take it any more. But I will take you to a recently completed—or a just now finishing—section 202 project and we will look at it; and know the carpet, and the central air conditioning, and all these other things. Then I want somebody to take me to a 236 project, that is actually operating, where the rents—forget about the fact that it is costing $3\frac{1}{2}$ times as much to the Government—but show me a project that is actually operating. I haven't had anyone who offered to do that.

To go out to Heritage, out in the country, where not only is it a walkup, not only are the floors, I presume they are hard floors, no carpeting in there.

Mr. RENFROW. There is carpeting.

Mr. FULLERTON. Marvelous. Don't take me to Heritage, where somebody has to haul groceries to the tenants, or they have to be hauled to church.

You see, 236 has taken us back to the old country farm. The first thing you know, someone will propose in an FHA 2013 that we have a milking barn and a goatshed and a henhouse like we used to have when I was a boy when we used to go out and sing for the old folks in the Eaton County Home.

Mr. RENFROW. Mr. Fullerton is safe in his challenge, because part of the point I was going to try to make in a prepared presentation is that: regardless of cost, you cannot utilize 236 as the financing vehicle to build the same structure that you build under 202. There are no 236 facilities comparable to 202 in terms of quality, fire protection and quality.

Mr. FULLERTON. Here I am 45-years old with three daughters in college. Why should I put my time into trying to make the thing work, when all over America nobody has made it work.

Why do I fuss at it? I try to serve the elderly, the one-tenth of the population that is old. I am a pragmatist, a realist, and I will go and do something else. I can serve them by ones and twos. I was patching their roofs and so forth and suddenly found myself in a situation—by reason of the splendid legislation that came out of the Congress and the good administration at the time—I found myself able to serve tens of thousands.

A total of the projects with which I am involved, I suppose, involves 10,000 persons. That was a larger work. Now I find myself back where I am satisfied to work with them one or two at a time and just do what I can, because the volume production is impossible.

Senator WILLIAMS. Could we have your help as consultants here to try to find as close a comparability as we can with 236 for elderly, and the 202, as I know where to find that. Not that I disbelieve you gentlemen, I know you are right, but it will make me more persuasive when I try to persuade others, because I was there.

Mr. FULLERTON. It will involve a trip to California.

Mr. RENFROW. Repeat the question, please. I am sorry.

Mr. FULLERTON. Would we cooperate with the committee in searching that out?

Senator WILLIAMS. Well, we don't have to talk about that on the record.

Mr. RENFROW. That is like asking the lawyer to go to the bowels of the courthouse to find a flaw in title. He hopes he is not going to find one.

Senator WILLIAMS. Just give me a 236 for the elderly we can go to. Pick them at random.

Mr. FULLERTON. Fairness would say that you allow us to point out the bad 236's while we go by. Let's point out a couple of the real raunchy ones while we are doing it.

Senator WILLIAMS. Can the staff work with you, letters, or however?

Mr. FULLERTON. Yes.

Mr. RENFROW. I don't right now know of any high-rise, fireproof 236's.

Mr. FULLERTON. In the American Institute of Housing Consultants of which I have been the president, I can circularize those gentlemen and get them to brag on some of their projects. I have been wanting to do this anyway to check up on what the men are doing.

We will find what is best, and I will be delighted to go look at them.

QUALITY, TYPE, AND COST OF HOUSING MAIN CONCERN

Mr. RENFROW. Section 236 does give instant housing. It is the quality of the housing, and the type of the housing, and the cost of the program that we are concerned about.

Senator WILLIAMS. We are going to get the FHA view on Wednesday here. We have Mr. Gullledge and others. We are going to have another 2 days of this scheduled session on this project, and tomorrow and Wednesday—well, as a matter of fact, Val was about to get on the plane. Val is on the way to Florida with subpenas.

To be fair about this record, I would say that.

Monsignor, you have been shut out now for 2 hours.

Monsignor MICHELIN. With regard to the manuals, I have this copy of one of their journals called Progressive Architecture, and in here there is an article on "geriarchitecture"—architecture for the elderly.

After designing 16 housing projects, it says the author has learned the ins and outs of Federal financing. In his opinion, the 202 program no longer exists. It enlisted the profession and left the architect with enough to work with.

It was not, he says, a road exercise where you had to go from A to B like a "follow the dot" book. The regulations supplied to the architect were less than the table of contents to any of the other programs.

He thinks the 236 program and others are going to bureaucratize the housing program where little will be built.

Their budgets are so unrealistically low that whatever is built will be of such low quality that it will be falling down within 12 months.

This article goes on, speaking of the low-cost housing to be built in the country. This is no help to the poor, who do not drive or own automobiles. He says it allowed \$12.30 a square foot under 236, which simply will not work to build high-, or mixed high-, and low-rise, on urban sites, because that requires at least \$15 or \$16 a square foot.

This points up another advantage of the 202 program. Under it, if an architect went over the dollar ceiling, the problem could be resolved by having a number of alternatives that were not severe that could reduce the cost somewhat.

Ultimately, it is thought 236 will die after it has gone through a 3- to 4-year period with very little of any quality built.

That is from one of the journals. It was given to me by my architect, but I will leave it here. It is *Progressive Architect* of June 1971.

Senator WILLIAMS. Is there anything else, gentlemen, at this point?

Mr. FULLERTON. I can't speak for the other gentlemen, but I intend to be here Tuesday and Wednesday in the hearings, and I would be delighted to have rebuttal opportunity.

For the record, if you will allow one really subjective observation, Senator, I have battled this thing hard. I have had to do some things that are unlike me and say some things and be some places.

I have ventured into areas that are really not, or shouldn't be, my responsibility, in order to keep this thing active.

CRITICISM ON A PERSONAL BASIS PREDICTED

I predict, and I have been somewhat accurate in my predictions before, and I will make another prediction now, but I predict that there will be a reference to me as a person. They have already criticized my method. That is standard.

When you want to gun a preacher down, you do it this way.

First, you criticize his method. You say, "He is a good guy, but," and then you "but" him right off the bridge.

Failing there, the next is, you criticize his money, and I predict that I will be investigated thoroughly as to everything I have done in these 45 years.

Failing there, and they will fail, the next is, they criticize morals, and I predict that this will come. I have no martyr's complex. It is all with premeditation on my part, though with considerable trepidation. I don't enjoy the role I am playing. I seem to, but you might as well laugh as cry.

Senator WILLIAMS. How about any political spots? Do you have any there?

Mr. FULLERTON. The subject is so complicated, Senator.

Senator WILLIAMS. All right.

Thank you ever so much.

The subcommittee is in recess, subject to the call of the Chair.

(Whereupon, at 2:05 p.m. the subcommittee was recessed, to reconvene at the call of the Chair.)

APPENDIXES

Appendix 1

STATEMENT SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF R. O. BECKMAN, CONSULTANT ON RETIREMENT, AND EXECUTIVE DIRECTOR, SENIOR SERVICE FOUNDATION, MIAMI, FLA.

INEQUITABLE RELATIONSHIPS BETWEEN PUBLIC HOUSING RENTALS AND OLD-AGE ASSISTANCE GRANTS

Further standardization of Public Housing rentals in the light of budgets for persons eligible for Old Age Assistance appear to be in order. This is suggested by limited confidential (but otherwise undocumented) interviews with elderly P.H. tenants in Dade County (Miami) Fla.

Some 2,000 older persons are thus housed in this County. Many receive OAA out of a total of some 7,200 older persons getting assistance from the Florida Family Services Division. Thousands more living near the poverty level would be eligible were expanded public housing available. The Housing Authority is nevertheless among the nation's most notable.

Housing rentals for older persons not on public assistance are set about 20 to 25 percent of total income. However, some individuals receiving welfare report paying a larger percentage; this critically reduces their expenditures for food or other needs.

When needed increases in OAA grants are made by the public welfare agency this appears to result in disproportionately higher public housing rentals in some instances. Florida has for years not appropriated enough OAA funds to meet a maximum income of \$120-125 over which persons are eligible for relief. It sets a minimum budget of \$114 and the average state grant is about \$60. The budget allows up to \$50 for rent; this is 44 per cent of \$114.

An enfeebled woman whose only income is \$120 in S.S. is in danger of having her OAA supplement withdrawn. If she is allowed \$30 for housekeeping service, the housing authority may boost her rent to \$50 and leave her only \$100 for all other expenses. Medicare or Medicaid expenses may also cut into subsistence funds. Thus another woman whose husband is in critical condition in a nursing home is forced to pay \$67 a month for his care in addition to what is paid by Medicaid. This leaves her with less than \$10.

It would seem imperative for the welfare agency to standardize its budgetary practice in consultation with the Housing Authority so that persons of lowest income getting OAA will not pay a higher percentage than those who do not receive public assistance.

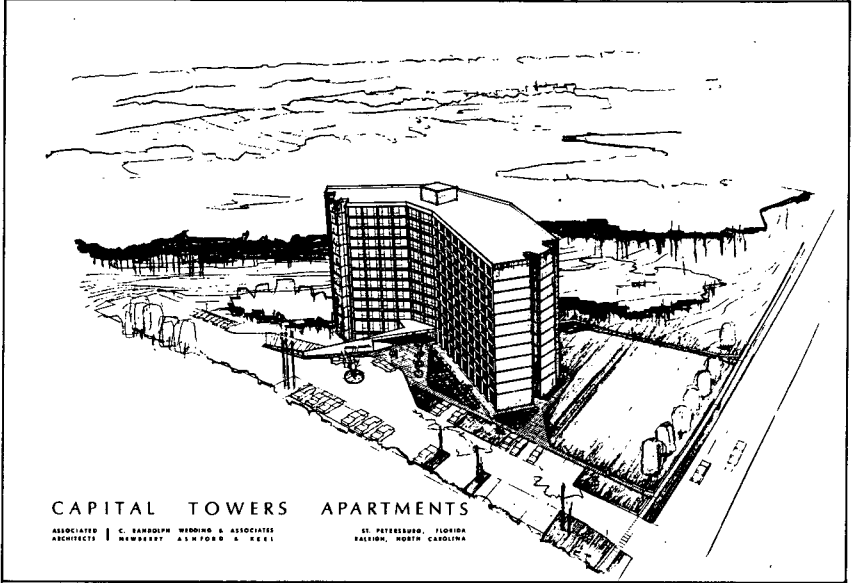
Further monitoring of OAA grants also appears in order. Several cases were reported in which grants were not used for specified purposes. A woman receiving housekeeping expenses got a friend to do the work without compensation. Others granted allowances for laundry were said to do their own at the free washroom in the housing establishment.

An anonymous list of incomes and rentals is being submitted to the two local public authorities involved for their information.¹

¹ Retained in committee files.

Appendix 2

EXHIBITS AND CHARTS SUBMITTED BY MSGR. MICHELIN
AND MR. RENFROW



CAPITAL TOWERS, RALEIGH, N. C.
 FHA PROJECT 053-44802 (SH-NC-05)
 208 DWELLINGS; INITIAL LOAN CLOSING 7/8/71

<u>"202" PROGRAM</u>		<u>"236" PROGRAM</u>	
<u>3% INTEREST; 50 YRS.</u>		<u>7% INTEREST; 40 YRS.</u>	
\$2,886,777	CONSTRUCTION COSTS, INCLUDING A & E FEES	\$2,886,777	
259,000	TITLE RECORDING, LAND, CONSULTANT, INSURANCE, LEGAL, ORGANIZATIONAL	259,000	
74,250	INTEREST DURING CONSTRUCTION	200,608	
18 MOS. AT 3% ($\frac{1}{2}$)		19 MOS. AT 7% ($\frac{1}{2}$)	
49,500	INTEREST DURING DEVELOPMENT ON ENTIRE MORTGAGE LOAN AMOUNT	-0-	
6 MOS. AT 3%			
5,000	PRELIMINARY EXPENSES	-0-	
25,473	PROJECT CONTINGENCY	-0-	
-0-	0.5% MORTGAGE INSURANCE (2 YEARS)	36,200	
-0-	0.3% EXAM.	10,860	
-0-	0.5% INSPECTION	18,100	
-0-	2% FINANCING	72,400	
-0-	2% AMPO (AMT. TO MAKE PROJECT OPERATIONAL)	72,400	
-0-	1.75% FNMA/GNMA FEE	63,350	
<u>\$3,300,000</u>	TOTAL MORTGAGE LOAN AMOUNT	<u>\$3,620,000</u>	(ROUNDED DOWN FROM \$3,619,695)
COST TO GOVERNMENT TO REPAY \$3,300,000 AT 5%* OVER 50 YEARS		ANNUAL INTEREST SUBSIDY \$174,617 FOR 40 YRS. WOULD TOTAL \$6,984,680 OVER LIFE OF PROJECT. (This subsidy based on actual \$3,549,700 "conversion" mortgage loan.)	
PRINCIPAL	\$3,300,000		
INTEREST	<u>5,689,200</u>		
	\$8,989,200		
REPAYMENT TO GOVT \$3,300,000 AT 3% OVER 50 YEARS			
PRINCIPAL	\$3,300,000		
INTEREST	<u>3,075,600</u>		
	\$6,375,600		
	<u>\$2,613,600</u>	NET COST TO GOVERNMENT	<u>\$6,984,680</u>
		EXCESS COST OF 236 PROGRAM OVER 202	- 2,613,600
		EQUALS	<u>\$4,371,080</u>

*Interest paid by Government:
 1969=4 $\frac{1}{2}$ %; 1970=4 7/8%; 1971=5 $\frac{1}{2}$ %

CHRISTOPHER TOWERS
(The Navigator Corp.)
Columbia, South Carolina
(SH-SC-02)



CHRISTOPHER TOWERS, COLUMBIA, S. C.
 FHA PROJECT 054-44801 (SH-SC-02)
 225 DWELLINGS; INITIAL LOAN CLOSING 7/21/71

<u>"202" PROGRAM</u>		<u>"236" PROGRAM</u>	
<u>3% INTEREST; 50 YRS.</u>		<u>7½% INTEREST; 40 YRS.</u>	
\$3,080,300	CONSTRUCTION COSTS, INCLUDING A & E FEES	\$3,080,300	
278,000	TITLE RECORDING, LAND, CONSULTANT, INSURANCE, LEGAL, ORGANIZATIONAL	278,000	
66,375	INTEREST DURING CONSTRUCTION	191,900	
15 MOS. AT 3% (½)		16 MOS. AT 7½% (½)	
53,100	INTEREST DURING DEVELOPMENT ON ENTIRE MORTGAGE LOAN AMOUNT	-0-	
6 MOS. AT 3%			
3,000	PRELIMINARY EXPENSES	-0-	
59,225	PROJECT CONTINGENCY	-0-	
-0-	0.5% MORTGAGE INSURANCE (2 YEARS)	38,380	
-0-	0.3% EXAM.	11,514	
-0-	0.5% INSPECTION	19,190	
-0-	2% FINANCING	76,760	
-0-	2% AMPO (AMT. TO MAKE PROJECT OPERATIONAL)	76,760	
-0-	1.75% FNMA/GNMA FEE	67,165	
<u>\$3,540,000</u>	TOTAL MORTGAGE LOAN AMOUNT	<u>\$3,838,000</u>	(ROUNDED DOWN FROM \$3,839,969)

COST TO GOVERNMENT TO REPAY
 \$3,540,000 AT 5%* OVER 50 YEARS

PRINCIPAL \$3,540,000
 INTEREST 6,102,960
 \$9,642,960

ANNUAL INTEREST SUBSIDY \$201,712
 FOR 40 YRS. WOULD TOTAL
 \$8,068,480 OVER LIFE OF PROJECT.
 (This subsidy based on actual
 \$3,763,700 "conversion" mortgage
 loan.)

REPAYMENT TO GOVT \$3,540,000 AT
 3% OVER 50 YEARS

PRINCIPAL \$3,540,000
 INTEREST 3,299,280
 \$6,839,280

<u>\$2,803,680</u>	<u>NET COST TO GOVT</u>	<u>\$8,068,480</u>
	EXCESS COST OF 236 OVER 202	- 2,803,680
	EQUALS	<u>\$5,264,800</u>

*Interest paid by Government:
 1969=4½%; 1970=4 7/8%; 1971=5½%



APARTMENTS - BROOKLYN, MISSISSIPPI
MANIZABO-ARCHITECT JOHN T. COLLINS-ASSOCIATE ARCHITECT

SANTA MARIA DEL MAR, BILOXI, MISS.
 FHA PROJECT 065-44803 (SH-MISS-05)
 211 DWELLINGS; INITIAL LOAN CLOSING 4/28/70

<u>"202" PROGRAM</u>		<u>"236" PROGRAM</u>	
<u>3% INTEREST; 50 YRS.</u>		<u>8½% INTEREST; 40 YRS.</u>	
\$2,687,900	CONSTRUCTION COSTS, INCLUDING A & E FEES	\$2,687,900	
212,500	TITLE RECORDING, LAND, CONSULTANT, INSURANCE, LEGAL, ORGANIZATIONAL	212,500	
61,000	INTEREST DURING CONSTRUCTION	189,267	
16 MOS. AT 3% (½)		16 MOS. AT 8½% (½)	
45,750	INTEREST DURING DEVELOPMENT ON ENTIRE MORTGAGE LOAN AMOUNT	-0-	
6 MOS. AT 3%			
3,000	PRELIMINARY EXPENSES	-0-	
39,850	PROJECT CONTINGENCY	-0-	
-0-	0.5% MORTGAGE INSURANCE (2 YEARS)	33,400	
-0-	0.3% EXAM.	10,020	
-0-	0.5% INSPECTION	16,700	
-0-	2% FINANCING	66,800	
-0-	2% AMPO (AMT. TO MAKE PROJECT OPERATIONAL)	66,800	
-0-	1.75% FNMA/GNMA FEE	58,450	
<u>\$3,050,000</u>	<u>TOTAL MORTGAGE LOAN AMOUNT</u>	<u>\$3,340,000</u>	<u>(ROUNDED DOWN FROM \$3,341,837)</u>

COST TO GOVT TO REPAY
 \$3,050,000 AT 5%* OVER 50 YEARS

PRINCIPAL	\$3,050,000
INTEREST	<u>5,258,200</u>
	\$8,308,200

ANNUAL INTEREST SUBSIDY \$203,463
 FOR 40 YRS. WOULD TOTAL
 \$8,138,520 OVER LIFE OF PROJECT.
 (This subsidy based on actual,
 \$3,250,000 "conversion" mortgage
 loan.)

REPAYMENT TO GOVT \$3,050,000
 AT 3% OVER 50 YEARS

PRINCIPAL	\$3,050,000
INTEREST	<u>2,842,600</u>
	\$5,892,600

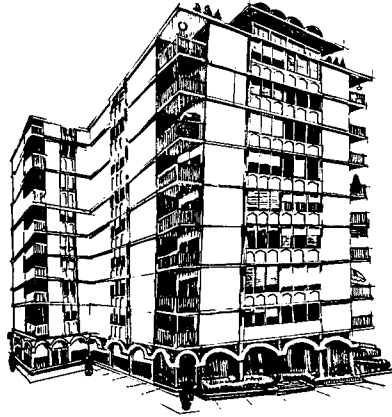
<u>\$2,415,600</u>	<u>NET COST TO GOVERNMENT</u>	<u>\$8,138,520</u>
	EXCESS COST OF 236 PROGRAM OVER 202	- <u>2,415,600</u>
	EQUALS	<u>\$5,722,920</u>

*Interest paid by Government:
 1969=4½%; 1970=4 7/8%; 1971=5½%

Appendix 3

COMPARATIVE CHART: SECTION 202 PROGRAM VS. 236 PROGRAM

(Prepared by Staff, Senate Special Committee on Aging)



Construction Cost
\$3 million

Under Section
202
Direct Loan Program

\$3 million
Loaned to sponsor
is repaid to
Government plus
3% interest

Under FHA Section
236 Program

Bank loans \$3 million to
sponsor at 8% interest

Sponsor pays \$3 million
Principal plus 1% interest

Government pays 7% interest
on \$3 million over 40 years:
 $\$200,000/\text{year} \times 40\text{ years} =$
\$8 million

\$3 Million Project Cost Government
\$8 Million in Interest alone