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HOUSING AND COMMUNITY DEVELOPMENT AMENDMENTS OF 1982

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Mr. GARN, from the Committee on Banking, Housing, and Urban Affairs, submitted the following

REPORT

together with

ADDITIONAL VIEWS

[To accompany S. 2607]

The Committee on Banking, Housing, and Urban Affairs, having considered the same, reports favorably a committee bill (S. 2607) to amend and extend certain Federal laws relating to housing and community development, and related programs, to provide for a rural housing block grant to States, and for other purposes, and recommends that the bill do pass.

HISTORY OF LEGISLATION

The Subcommittee on Housing and Urban Affairs, has held a series of hearings on legislation and issues pertinent to the Committee approval of this bill. Hearings on rural housing programs were held in New Mexico on January 14 and 15, 1982. Hearings on the rural block grant proposal were held in Washington on April 13, 1982. The Administration's housing and community development legislation (S. 2361) and general reauthorization issues were the subject of hearings on March 30 and April 14 and 15, 1982.

The full Committee met on May 6, 1982 and ordered the bill favorably reported by a vote of 13 to 0.

Explanation of the Bill

TITLE I—COMMUNITY AND NEIGHBORHOOD DEVELOPMENT

Section 101 provides basic authorization to the Secretary to mak[e] rental rehabilitation and new construction grants to states and lo[cal] governments within a new Section 122 of the Community Develop[-] ment Act of 1974. Grants would be made available to help suppor[t] the rehabilitation of privately owned real property and in communi[-] ties with severe housing shortages, the construction of new renta[l] units.

Section 122(a) provides basic authority for the program. Provid[es] authority for the Secretary to provide modified Section 8 certificat[es] to units of government administering a rehabilitation or new con[-] struction program. The certificates are provided to minimize the dis[-] placement problems often caused by rehabilitation projects. Th[e] certificates are to be provided to families in buildings to be rehabili[-] tated with incomes of less than 50 percent of the median income fo[r] the area.

The Secretary is expected to provide a rental assistance certifica[te] for every rental unit to be assisted and to the extent that authority [is] available on the same basis for newly constructed units. Howeve[r] the Secretary should ensure that certificates are provided for re[-] habilitation projects before providing certificates on the basis of ne[w] construction projects.

Subsection (a)(1)(C) provides basic authority for the Secreta[ry] to make grants for new construction projects.

Subsection (a)(2) authorizes $300,000,000 for 1983 with $30,0[00,000] available for the Secretary to fund innovative programs, espe[ci]al[ly] expensive programs of rehabilitation or new construction th[at] t[he] Secretary determines cannot be effectively carried out within the fu[nd]ing allocation provided under Section 122(b)(1). One million dolla[rs] is available for the Secretary to provide technical assistance to [st]at[es] and cities to assist in the development of rehabilitation programs, t[o] maximize the effect of the federal funding, to improve local progra[ms] with poor performance, and to develop the capacity of governme[nts] to effectively develop and administer a program of rehabilitation. T[he] use of funds under this section is not limited to the provision of tec[h]nical assistance in connection with Section 122.

Subsection (2)(b)(1) provides for direct allocations of grant fu[nds] to be made to cities of 100,000 or more in population and state[s] [by] formula. The formula composition, which is left to the Secre[tary's] discretion shall use as factors low income renter population, [rental] market conditions, overcrowding of rental housing, the condit[ion of] the rental housing stock. A state's allocation shall be based o[n the] above factors for population not located in cities of more than 1[00,000] and in areas eligible for assistance under the Rural Housing B[lock] Grant established in Title V.

Subsection (b)(2)(A) authorizes the Secretary to establish [mini]mum allocations for direct allocations where a lesser amount w[ould] make a program infeasible. When a city's allocation falls belo[w the] minimum allocation amount its allocation shall be added to the st[ate's] allocation.

[Sub]section (b)(2)(B) authorizes the Secretary to adjust alloca[tions] made pursuant to Section (2)(b)(1) by 15 percent above or [belo]w the amount of the original allocation on the basis of the [gran]tee's performance in rehabilitating units that will rent at a level [tha]t is below the payment standard for the area. The basis for the [adj]ustment shall be the extent to which 80 percent of the units reha[bilit]ated meet the rent standard for the area.

[Th]e adjustment of a grantee's allocation on the basis of program [perf]ormance is fundamentally different from past housing programs. [Inste]ad of requiring rents at an established level or other regulatory [stand]ards, the program uses an incentive system to encourage perform[ance].

[Sub]section (b)(3)(A) requires a city or a State to submit an appli[catio]n for the Secretary's approval prior to the receipt of a grant. The [appli]cation shall show evidence of the grantee's capacity to under[take th]e program, the financial feasibility of the program, the effect [of th]e program on neighborhood preservation, compliance with civil [rights] and other applicable laws. The Committee intends the applica[tion re]view and evaluation to judge an application on an overall basis. [An a]pplication will meet the threshold requirements or it will be [reject]ed. But the Committee expects the burden of proof for rejection [to be o]n the Secretary.

[Becau]se the principal purpose of this section is to expand the avail[ability] of affordable and decent housing and most cities can most eco[nomica]lly meet this need through a program of rehabilitation, the [Commit]tee expects most communities to operate local programs. How[ever, t]he Committee recognizes that in some areas new construction [is] necessary to improve the availability of appropriate rental [housin]g. Because new construction is seen as an exception to the reg[ular p]rogram, an applicant is required to meet the specific condi[tions th]at make a program of new construction reasonable for that [area. S]pecifically, subsection (b)(3)(B) requires that the Secretary [find tha]t an area is experiencing a severe shortage of rental housing, [that it] has very low vacancy rates, and that a program of other than [rehabili]tation is needed to improve rental opportunities, or to advance [neighb]orhood preservation grant. A program of new construction is [required] to be operated within the constraints of a yearly grant [allocatio]n.

[To enc]ourage innovation, full use of available funds, effective pro[gram ad]ministration, and performance, subsection (b)(3)(C) author[izes the] Secretary to make grant awards up to 120 percent of the [amount] provided to a city under paragraph 1 to the extent that [funds are] available. The Committee expects funds to be available [where citi]es and states do not choose to apply for funds or where appli[cations ha]ve been denied.

[Subsec]tion (4)(A) gives the Secretary authority to limit allocation [of modifi]ed Section 8 certificates to the number of units to be reha[bilitated] by a city or a state. To the extent that authority for certi[ficates is a]vailable the Secretary shall make those certificates available [on the bas]is of the number of units to be constructed under the provi[sions of (b)]1)(1).

Subsection (b)(4)(B) requires that all very low income tenants of buildings to be rehabilitated under this program be offered assistance under the modified Section 8 certificate program. To the extent of available authority, housing assistance may be provided to existing tenants with incomes of 50 to 80 percent of area median income at the discretion of the local agency. In no case shall housing assistance be provided to families with incomes of more than 50 percent of median income if the family was not a tenant in a building to be rehabilitated under this section.

Subsection (b)(5) requires each grantee to submit to the Secretary an annual performance report and the Secretary to review each grantee's performance on an annual basis. Each grantee shall be reviewed for its performance in carrying out a program as described in its application, its performance in carrying out activities in a timely manner, and the use of funds in accordance with law.

For states that distribute funds to local governments for administration, the Secretary shall review performance in terms of timely distribution, and the state's review of local performance.

The Secretary may adjust, reduce, or withdraw resources as appropriate in accordance with the findings of the reviews. Amounts that become available through action under this section shall be reallocated in the year in which they become available as determined by the Secretary.

Subsection (b)(6) provides that funds that are not obligated in a fiscal year are added to the amount to be allocated to all cities in the succeeding year.

Subsection (c) establishes the basic requirements of the program. Rehabilitation assistance is limited to residential rental property in low and moderate income neighborhoods as chosen by the grantee. The rehabilitated units shall meet the housing quality standards established for section 8. Subsection (c)(3) limits the grant provided for rehabilitation to 50% of the total cost of the rehabilitation. However, in special circumstances where refinancing costs and the nature of the property increase the rehabilitation costs substantially, the Secretary may approve assistance up to 50% of total development costs including the cost of refinancing.

Subsection (c)(4) prohibits rental restrictions such as rent control to be placed on properties assisted under this program.

Subsection (c)(5) prohibits discrimination against families receiving rental assistance by owners of units assisted under this program.

Subsection (c)(6) requires that to the maximum extent practicable borrowers shall be personally liable for any new project indebtedness. However, this provision may be waived in cases where the Secretary determines that the application of this requirement will unduly restrict the use of the program, where there are projects involving new construction, where syndication will allow greater leverage of program funds, and in other cases where the Secretary determines that personal liability is not practicable.

Subsection (d)(1) establishes the requirements for programs which include new construction or rehabilitation which is so costly as to be comparable to new construction. Cities are permitted to develop programs which include new construction provided that the Secretary approves the program and the program can be carried out within the amount of the allocation for that city. Where a city chooses to build new units, that city will be expected to build those units within the constraints of its annual allocation of funds and within the more restrictive rules contained in Section (d)(2).

Subsection (d)(2)(A) requires an owner of a newly constructed project to enter into agreements to assure compliance with all rules and restrictions of the program and to agree to such conditions as may be required to assure financial feasibility.

Subsection (d)(2)(B) requires that a newly constructed project must maintain 25% of the units constructed in occupancy or available for occupancy by very low income families for 10 years. This requirement is in direct contrast to the requirement in the regular rehabilitation program where low income occupancy is a performance goal which has an effect on subsequent grants. In the new construction program, low income occupancy is a mandated requirement.

Subsection (d)(2)(C) requires an owner to pass on to tenants reduction in costs due to the assistance provided. It prohibits an owner from refusing to rent to a family solely because the family is receiving rental assistance. It also prohibits an owner from converting a rental project to condominium ownership unless the low income occupancy requirements of (d)(2)(B) continue to be met.

Subsection (d)(2)(D) establishes additional requirements that limit total mortgage principal amounts to the limits contained in Section 207 of the National Housing Act. It also establishes authority for grantee to establish interest rate and other conditions on projects.

Subsection (d)(2)(E) requires that a new construction project must contain five or more units and must be used for residential purposes.

Subsection (d)(3)(A) requires an owner of a project to repay any assistance received under this section plus interest if the owner fails to continually meet the low income occupancy requirements for 10 years. Subsection (d)(3)(B) the authority of the previous section is established as a lien against the property.

Subsection (d)(4) authorizes mortgages on projects assisted under this section to be eligible for insurance under the National Housing Act.

Subsection (d)(5)(A) requires that rents for units to be maintained for low income occupancy be approved by the grantee and that those rents meet the requirements of the U.S. Housing Act of 1937.

Subsection (d)(5)(B) provides that rents submitted for approval under (d)(5)(A) will be deemed to be approved if the grantee has not acted within 60 days. It further provides that a grantee cannot place restrictions on any of the rents for units not maintained for occupancy by low income families under subparagraphs (A) and (B).

Subsection (e)(1) authorizes states to administer grants not directly administered by cities under subsection (b)(2)(A). A state's grant may be used for areas not administering their own grants and for areas not eligible for assistance under the rural block grant established under Part B of the National Rural Housing Act. Under this section a state may administer its own program or distribute resources to eligible local governments.

Subsection (e)(2) makes the state run program optional with HUD administering the resources where states choose not to administer program.

Subsection (f) requires the Secretary to establish regulations governing relocation payments and standards.

Subsection (g) prohibits the use of any federal funds under the program for the payment of administrative expenses.

Subsection (h)(1) requires the Secretary to establish regulations which support national historic preservation objectives by requiring rehabilitation that would meet historic preservation standards for historic buildings or by providing the Advisory Council on Historic Preservation an opportunity to comment.

Subsection (h)(2) exempts projects from NEPA requirements beyond those required under the CDBG Act.

Subsection (i) defines grantee for this program to be equivalent to the use of the term in the CDBG Act of 1974.

Section 101(b) authorizes $4,196,000,000 for the CDBG Act of 1974 for fiscal year 1983.

Subsection (c) limits obligations under the Section 108 loan guarantee program to $225,000,000 for fiscal year 1983.

Subsections (d)(e)(f) and (g) makes conforming amendments to the changes contained in this section.

Subsection (h) provides: In the case of a mortgage insured under Section 223(f) of the National Housing Act on a property which is eligible for rental rehab grants, Section 244 National Housing Act coinsurance includes provisions that—

(1) insurance benefits equal the sum of (A) 90% of the mortgage on the date of institution of foreclosure proceedings (or on the date of acquisition of the property otherwise after default), and (B) 90% of interest arrears on the date benefits are paid; (2) the mortgagee remit to the Secretary 90% of any proceeds of the property, including sale proceeds, net of the mortgagee's actual and reasonable costs related to the property and the enforcement of security; and (3) payment of benefits be made in cash, unless the mortgagee submits a written request for debenture payment. No commitment for insurance under this authority may be issued on or after October 1, 1985. (sec. 7(a))

Subsection (i) provides: In the case of any purchase or refinancing of a property eligible for rental rehab grants under Section 223 of the National Housing, Secretary may—(A) include rehabilitation costs of not to exceed $20,000 per unit, with up to 25% more for specific properties where cost levels so require; (B) permit subordinate liens securing up to the full amount of mortgage financing provided by State or local governments or agencies thereof; and (C) pay benefits in cash unless the mortgagee submits a written request for debenture payment. (sec. 7(b))

Subsection (j) makes conforming amendments in accordance with the foregoing Section.

Urban homesteading

Section 102(a) provides authorizations of $12,000,000 for 1983 and such sums as may be necessary for 1984.

Section 102(b) amends several sections of the Urban Homesteading Act to allow properties to be transferred at greater than no cost

... more valuable properties to be used within this program than available previously. It also provides that in those cases where ...ality receives more compensation for a property than it paid the ...al government, 50 percent of the excess payment must be re... to the Federal government.

...section (c) provides authority for the Secretary to demonstrate ...gram of multifamily homesteading under this section.

...section (i) provides new authority for the Secretary to experi... with the use of modified Section 8 certificates to be used in con... with the Urban Homesteading program to help low income ... purchase homes. The Committee is eager to explore the feasi... of using Section 8 certificates to advance homeownership for ... low income families, especially within the context of rehabilitated ... homesteading properties. The Secretary is authorized to utilize ...000 under this section.

...ers

...tion 103(a) (1) and (2) provides for the repeal of the Section ... Rehabilitation Loan program with the exception of those pro... concerning the creation and use of the program's revolving ...

...section (b) repeals the Surplus Land Program contained in ... 414 of the Housing and Urban Development Act of 1969. Sec... 414 permits the General Services Administration to transfer ... Federal real property to HUD and the Department of Agri... for sale or lease at fair value for use for predominantly low ...oderate income housing.

...ddition to repealing Section 414, this proposal would permit ... and FmHA to dispose of surplus property within 120 days ... the effective date of this Act if either Secretary had requested ... to transfer the land prior to the effective date of this Act. This ...sary to assure that adequate time is afforded the Secretaries to ... processing of projects in the pipeline at the time of enact... the 1983 legislation.

...tion (c) repeals provisions of the Urban Renewal, Open ... Land and Neighborhood Facilities Programs in order to reduce ... involvement in decisions which are more appropriately made ...cal level.

...graph (1) of subsection (c) would repeal section 106(g) of the ... Act of 1949. This provision requires localities to obtain a ... housing study before an Urban Renewal Plan can provide ...construction of hotels or other transient housing in the Urban ... area. The study is to assure that there is a need for this type ...ng in the area. This requirement would be deleted, since the ...concerning whether to perimt transient housing is one that ... made by local authorities who are most familiar with local ... and marketing conditions.

...graphs (2) and (3) of subsection (c) would eliminate provi... the Open Space Land and Neighborhood Facilities Programs ...rohibit the conversion of land or property obtained with assist... the Programs for uses other than those intended at the time ... was made, without prior Federal approval. These changes ...ive the locality complete discretion in determining the appropriate use of its land or property, and would thereby promote the ef[illegible] to decentralize the decisionmaking process and speed its return to lo[illegible] control. The locality in which the land and/or property is situated [illegible] best able to determine what is the most appropriate use of its resour[illegible] and whether or not a conversion to another use is consistent with [illegible] needs and objectives.

Specific provisions to be repealed include:

Section 703(d) of the Housing and Urban Development Act [illegible] 1965. This authority prohibits the Secretary from approving [illegible] conversion in the use of neighborhood facilities during a 20 ye[illegible] period following the grant, unless HUD finds that the conver[illegible] is in accordance with the then-applicable program of heal[illegible] recreational, social, or similar community services in the area. [illegible] is consistent with comprehensive planning for the development [illegible] the community in which the facility is located.

Section 704 of the Housing Act of 1961. This provision allo[illegible] the Secretary to approve a conversion of open space land to ot[illegible] purposes only where HUD finds that (1) there is other comp[illegible] able land available for substitution; (2) it is needed for order[illegible] growth and development; and (3) it is in accord with the compr[illegible] hensive plan for the urban area.

The second sentence of Section 706 of the Housing Act of 19[illegible] which gives the HUD Secretary general authority to deny [illegible] proval of the conversion of land for which a grant was made [illegible] acquire interests to guide future urban development.

The Department of Housing and Urban Development's utilizat[illegible] of the Secretary's Discretionary Fund to develop the Rehabilitat[illegible] Advisory Service has clearly demonstrated a highly effective [illegible] technical assistance resources. It is unfortunate that a project of t[illegible] kind has been terminated. The National League of Cities shoul[illegible] commended for its efforts to make the Advisory Service such an ef[illegible] tive tool for local governments. By providing direct assistance to [illegible] 70 cities, this service helped local government secure millions of do[illegible] in private funds for housing rehabilitation, while streamlining [illegible] programs and reducing administrative costs. We believe HUD s[illegible] focus use of its technical assistance funds on such projects and [illegible] the Secretary to reconsider discontinuation of effective efforts [illegible] area.

TITLE II—HOUSING ASSISTANCE PROGRAMS

Title II of the Committee bill contains significant modificat[illegible] subsidized housing programs administered by the Departm[illegible] Housing and Urban Development. Faced with continuing [illegible] growth of federal outlays for housing subsidies, the Committee [illegible] directed its attention to improving the operations and efficiency [illegible] going housing assistance programs while maintaining the stock of [illegible] sidized housing already built. With the modifications of Title II [illegible] Committee brings the discipline of market transactions to sub[illegible] housing rather than continuing reliance on Congressional m[illegible] and HUD regulations. This discipline will improve the efficien[illegible] effectiveness of housing assistance programs.

In the Committee bill, a "modified certificate program" will [illegible] the Section 8 existing housing program. A new two-tier sys[illegible]

[illegible] funding of public housing operations will improve HUD's over- [illegible] and funding of the nation's stock of public housing units. Im- [illegible]ments to the specification of rents for subsidized housing tenants [illegible] increase the fairness of rent collections between subsidized tenants [illegible] different states while avoiding undue hardships to needy families. [illegible]ous miscellaneous housing assistance changes are also made.

[illegible]dified certificate program

[illegible]awing upon HUD's experience with the current Section 8 exist- [illegible]ing program and the Experimental Housing Allowance Pro- [illegible] "modified certificate program" is created in Title II of the [illegible] This modified certificate program will improve the Section 8 [illegible] housing program by giving very low-income families more [illegible]ty to "shop around" for housing best suited to their needs. [illegible] can keep any savings if they lease an apartment at a lower [illegible] than the program payment standard and are allowed to lease [illegible] expensive unit if they want to pay the excess. This shopping [illegible] will give assisted tenants the same choice between housing [illegible]er needs they would exercise in using their own money. This [illegible] by tenants will constrain the inflationary impact on rents in [illegible]ent Section 8 program where landlords often just raise rents [illegible] the maximum fair market rents since tenants get no savings [illegible] lower rent.

[illegible] modified certificate program also will improve the responsive- [illegible] the subsidies to local rental market changes. In the current [illegible] program, fair market rent ceilings are increased automati- [illegible] HUD regulation applied around the country. As indicated [illegible] landlords generally just raise rents up to the ceiling each year. [illegible] modified certificate program, the local public housing agencies [illegible] administering the program are given the discretion to ad- [illegible]stance payments twice during the 5 year contract term based [illegible] rental market conditions. These adjustments are paid for by [illegible] from an extra 10 percent funding beyond the estimated [illegible] payments in the first year plus any amounts that become [illegible] through higher tenant incomes or through tenants dropping [illegible] program. The PHA can also use these extra funds to bring [illegible] low income families into the program.

[illegible] the new "modified certificate" program will focus assist- [illegible] neediest families. Except for families now receiving sub- [illegible] expiring Section 8 contracts that may be converted to [illegible] program, entering families must have very low income (or [illegible] percent of the area median income with adjustments for [illegible]. Local public housing agencies must also give priority [illegible] who occupy substandard housing, are involuntarily dis- [illegible] are paying more than one-half their income for rent.

[illegible]gard to the payment standards which set the initial target [illegible] the modified certificate program, the Committee has di- [illegible] HUD Secretary to establish payment standards on the [illegible] formula set forth in a regulation within 60 days after date [illegible] that will thus be subject to Congressional and public [illegible] payment standard is to be based on rents of decent, safe [illegible] housing in the local area so the program will assist very [illegible] families to be able to find and rent adequate housing.

Public housing operating subsidies

The Committee bill contains a major restructuring of the public housing program in an effort to assure its continuing viability while providing some certainty as to the funding level of operating subsidies.

Public housing is the oldest federal housing program for low income people. The President's Commission on Housing noted that the 1.2 million households living in public housing have incomes averaging only 28 percent of median family income. Moreover, public housing accommodates households which are especially difficult to place in the private rental market, including many single-parent, minority, and large families. Because public housing operating subsidies require a separate, annual authorization and appropriation, the cost of the program is evident. Yet, again according to the President's Commission on Housing, the 1981 costs of public housing (debt service plus operating subsidies) were approximately equivalent to the direct Federal subsidy that would have been required for public housing tenants had they been in the Section 8 Existing housing program. While costs do vary widely from project to project, public housing costs are not out of line with those of private rental housing.

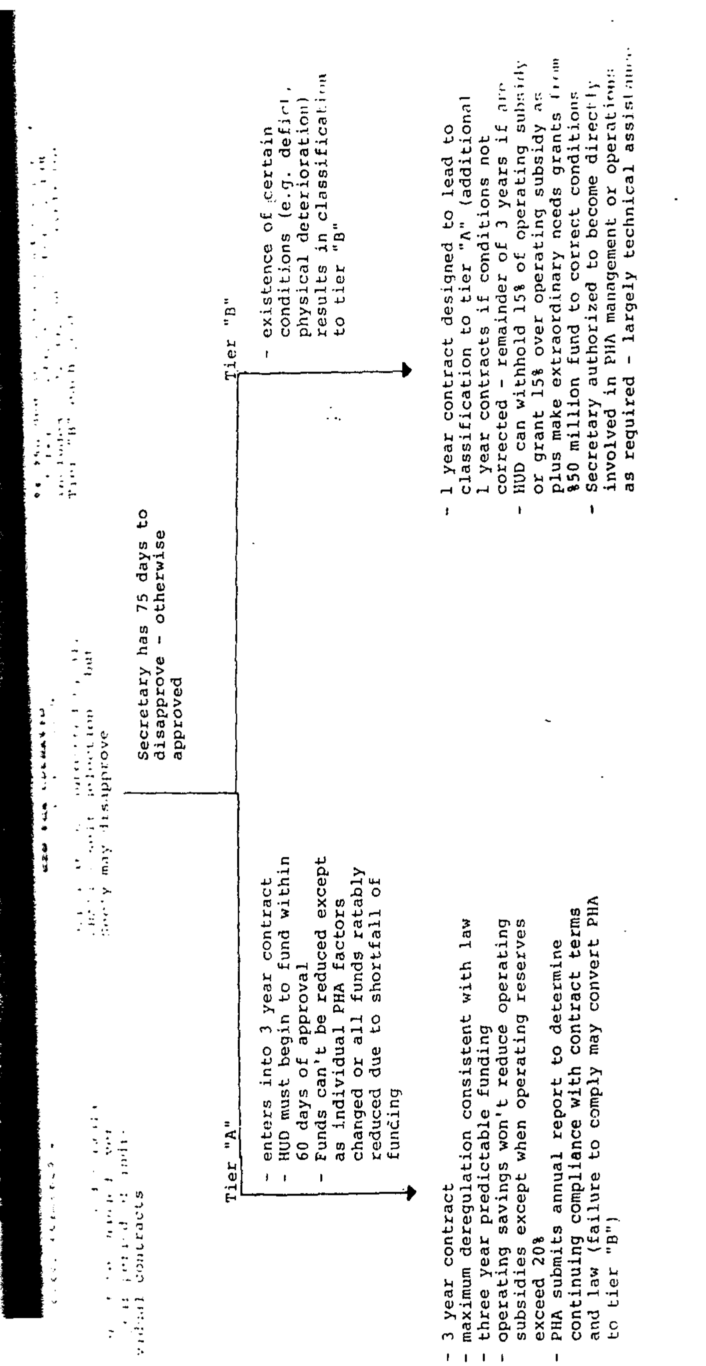
In proposing the restructuring program, the Committee intends to meet three objectives:

Provide a predictable source of operating subsidy funding for a three year period;

Deregulate, to the maximum extent consistent with the specific requirements of law, the operation of those public housing projects which are efficiently managed;

Provide resources and authority for HUD to work with public housing agencies experiencing adverse management, operation or physical conditions which prevent maximum deregulation of such agencies and which require special attention and resources.

The Committee proposes substantial relaxation of HUD regulations governing public housing, particularly for the vast majority of units that do not fall in the category of experiencing some form of managerial or operating difficulty and financial incentives designed to ultimately wean them off federal operating assistance. The Committee bill provides the legislative vehicle for this reassessment of public housing subject to the overriding concerns that the program provide adequate housing for low income households at the lowest feasible cost to the federal government. The separation of public housing authorities into "Tier A" and "Tier B" categories will provide substantial deregulation of Tier A authorities, those with the bulk of the public housing units that are not troubled. This separation will permit HUD to focus its attention and resources on Tier B authorities, with the intent and purpose of working with those local agencies to resolve their problems and convert them to Tier A status. The goal is to have all authorities become Tier A authorities. A chart schematically depicting the new program's structure appears below.



Tenant rents and utility collections

Title II makes several changes to provisions governing tenant r[illegible] and utility allowances in order to improve the fairness of rents [illegible] lected from housing tenants assisted by welfare in different States [illegible] to avoid the current problems with negative rent payments to [illegible] tenants in States with high utility costs.

First, the tenant rent requirements are modified to establish welfa[illegible] program "shelter allowances" as a minimum rent in all States. U[illegible] current law, tenants pay as rent the greater of: 1) 30% of adjus[illegible] family income, 2) 10% of gross family income, or 3) the shelter al[illegible] ance from welfare grants if the allowance is designated by the St[illegible] and adjusted for actual housing costs (which 10 States and territo[illegible] now do). This third item for shelter allowances is changed in the C[illegible] mittee bill so that amounts allowed by the States for shelter cost[illegible] become the minimum rent even if the allowance isn't adjusted [illegible] actual housing costs. For States that don't designate a shelter al[illegible] ance portion of the welfare grant, the HUD Secretary would de[illegible] mine the minimum rent but at no more than 30% of the welfare gra[illegible] In either case, the HUD Secretary can prescribe adjustments to [illegible] "shelter allowance" minimum rent. Such an adjustment is exp[illegible] to be made, for example, to avoid forcing a large welfare-aided fam[illegible] to pay higher rent than a similar family with the same incom[illegible] from other sources.

This change to minimum rents will not impose an undue har[illegible] on currently subsidized families because it is subject to a cap on r[illegible] increases of 10% per year which has been maintained by the Com[illegible] from legislation enacted last year. In addition, the Committe[illegible] strengthens the protection this 10% cap provides to current tena[illegible] expanding the cap to cover rent increases caused by regulation[illegible] as changes in law.

Secondly, the Committee bill changes the way utility allowa[illegible] provided in subsidized housing to avoid "negative rents". Cur[illegible] an allowance for utility costs is made as part of HUD rent st[illegible] so that families directly paying their own utilities won't hav[illegible] housing costs than families in buildings with master utilit[illegible] where the utilities are part of the rent. If the utility allow[illegible] greater than the rent the subsidized family is supposed to p[illegible] public housing agency sends the tenant a "negative rent" check [illegible] the difference. The Committee bill avoids these "negative rent[illegible] quiring the PHA to pay the utility company on behalf of the [illegible] The PHA thus collects the rent plus any excess utility charge[illegible] the utility allowance. While this change may increase the adm[illegible] tive costs to public housing agencies, these costs can be offset b[illegible] utility rates for bulk utility purchases by the PHA.

Finally the Committee bill corrects a provision in the O[illegible] Reconciliation Act of 1981 that would have allowed States the [illegible] of reducing AFDC grants for households receiving housing s[illegible] No state has yet taken this option but such reductions would [illegible] some of the costs of welfare grants from the states and the H[illegible] Human Services Department to housing programs (by po[illegible] $361 million in fiscal year 1983) and would leave welfare fa[illegible]

[illegible]sidized housing with less income for non housing items than wel[illegible] families in unsubsidized housing.

[illegible]llaneous changes

[illegible]tle II also makes numerous other changes to housing assistance [illegible]grams. These are identified more completely in the section-by-[illegible]on analysis, but the more important provisions are:

1. New reservations of housing assistance in fiscal year 1983 are limited to $7,222,730,000 budget authority and $582,200,000 annual contract authority. This could be funded from deobligation and recapture of prior reservations under HUD's projections but if necessary authority for new appropriations is contained in the Committee bill. The program activity allowed by this total is as follows:

FUNDS PROVIDED FOR SUBSIDIZED HOUSING

Program	Units	Annual contract authority	Budget authority
[illegible] certificates:			
[illegible] rehabilitation and development	50,000	110,000,000	550,000,000
[illegible] housing block grant	10,000	22,000,000	110,000,000
[illegible]steading demonstration	400	880,000	4,400,000
[illegible] contracts	76,615	168,553,000	842,765,000
[illegible]otal	137,015	301,433,000	1,507,165,000
[illegible] housing:			
[illegible] from Sec. 23 program	5,000	13,555,000	203,325,000
[illegible]ments	NA	17,000,000	152,000,000
[illegible]otal		30,555,000	355,325,000
[illegible] and substantial rehabilitation:			
[illegible] housing	15,000	100,612,000	2,012,240,000
[illegible]ments	NA	43,600,000	1,048,000,000
[illegible]otal		144,212,000	3,060,240,000
[illegible]			
[illegible]ments	NA	16,000,000	500,000,000
[illegible]ation	NA	90,000,000	1,800,000,000
[illegible]otal		106,000,000	2,300,700,000
[illegible]		582,200,000	7,222,730,000

[illegible] Authorizations for the Section 202 program of elderly hous[illegible] loans are increased by $790,290,000 to support 15,000 new and [illegible]antially rehabilitated units in FY 83. The associated con[illegible]ate services program is also authorized at levels of $10 million FY 83, $11 million in FY 84, and $12 million in FY 85.

The Section 8 new construction and public housing new con[illegible]tion programs are repealed except for obligations entered into [illegible] FY 83 and for use of Section 8 assistance to elderly housing [illegible]ed with 202 program loans. The long-term (20–40 year) [illegible]ractual obligations and other costly features of these programs [illegible]led the Committee to adopt a program of up-front housing [illegible]. Title I of this bill contains the rental rehabilitation and [illegible]uction program as a substitute for the public housing and [illegible] 8 new construction programs.

TITLE III—PROGRAM AMENDMENTS AND EXTENSIONS

Title III provides two years reauthorization of FHA insuran programs except for Sec. 235 which is extended for one year onl Reauthorization is not provided for a number of unused or previou eliminated programs.

The Committee expresses its continued support of the hou industry by authorizing GNMA to make commitments up $68,000,000,000 during FY 1983. FHA is authorized to make up $41,000,000,000 in commitments to insure loans.

The FHA interest rate is allowed to float with national mortg market interest rates. Home buyers have been paying for disco points charged by mortgagors when the FHA interest rate was l than the market rate. Ironically, this additional cost has the effect increasing the amount of cash required from the home buyer in pr grams designed specifically to limit the down payment.

In response to the need for innovative financing, FHA is authori to insure a limited number of adjustable rate mortgages (ARM and shared appreciation mortgages (SAM's). The use of gradua payment mortgages (GPM's) is extended to multifamily mortga Restrictive provisions on the insuring of cooperatives, condomini and manufactured homes have been lifted.

FHA is given special abilities in order to insure mortgage made on Indian trust lands. In the past, otherwise eligible Ind home buyers have been unable to obtain financing due to the inabil to transfer title to the land. These provisions address the serious for housing on trust lands.

In order to prevent fraud and abuse, applicants for benefits un HUD and FmHA programs are required to provide their social rity numbers. They are also required to sign a consent for other Fe eral and State agencies to release information in order to verify inf mation supplied on the application.

The Neighborhood Reinvestment Corporation is reauthorized $15,512,000 for fiscal year 1983.

Restrictive requirements contained in the Federal National Mo gage Association Charter Act have been eased allowing some cha in FNMA's capital structure. Mortgage purchase limits are remo FNMA is authorized to purchase mortgages held by the FDIC FSLIC regardless of the requirements of its regular mortgage p chase programs.

The Federal Home Loan Mortgage Corporation Act is also am to remove mortgage purchase limits and to authorize purchase FDIC and FSLIC held mortgages.

TITLE IV—ALTERNATIVE MORTGAGE TRANSACTIONS

Title IV authorizes all housing creditors to make purchase a force alternative mortgage transactions, notwithstanding state law long as such transactions conform to regulations issued by the C troller of the Currency, the National Credit Union Administrati the Federal Home Loan Bank Board. Within three years of the e tive date of this title, any state may reject the provisions of this with respect to transactions subject to the laws of such state.

The Committee is aware that there is ongoing litigation regarding authority of the Comptroller of the Currency to issue an adjustable mortgage regulation insofar as it preempts state laws and it that the litigation will be resolved in accordance with the judi- process.

TITLE V—RURAL HOUSING

The Committee on Banking, Housing and Urban Affairs has re- the objectives and operations of the Farmers Home Adminis- n, as directed in the Report on the Housing and Community lopment Amendments of 1981.

examining the housing problems faced by low income residents ral areas, there was grave concern that despite the high level of al spending for rural housing, most of the benefits have not gone ose who need help the most. The structure of the FmHA pro- is such that without long term obligations and excessive ex- e, low income persons cannot be assisted. Although single fam- dwellings represent the predominant form of housing in rural s, the emphasis on this form of assistance has skewed the thrust program toward moderate income persons. The Committee sees approach toward housing production inappropriate as long as eds of poor rural residents go unmet. Therefore, this legislation les that assistance must go to the neediest segment of the popu- . It is the intent of this Committee however, to avoid entering ny additional long term commitments which will compound the ion of federal expenditures in future years.

Committee has also become cognizant of the hidden costs of rrent FmHA programs, which result mainly from the budget- stem and practices employed by the agency. It is the intent of ommittee to make FmHA accountable for its activities by pro- for them in the annual budget.

Committee contends that FmHA direct lending activities may private lenders from developing as a source of mortgage The availability of credit at below market rates has inhibited wth of private institutions which were unable to compete with HA for business.

quiring FmHA to make loans at the prevailing market rate aranteeing loans made by private lenders, the gap in the avail- of credit in rural areas should be closed.

Rural Housing Block Grant provides States with the flexibility op new mechanisms to serve the housing needs of the poor. ailored program initiatives will be more responsive than the FmHA programs which are now in place.

State may engage in a variety of activities including the re- tion of existing units, the provision of rental assistance pay- r the construction of new units and will blend these activities ively meet local needs. Congress set a precedent in acknowledg- apabilities of the States by endorsing the Small Cities Block The Committee continues this sentiment and believes that deci- arding the most suitable type of housing assistance for low ural residents can best be made by the State.

of Title V amends the Housing Act of 1949 authorizing s Home Administration to extend credit for rural housing through direct loans and the guarantee of loans made by priv[ate] lenders.

Farmers Home Administration's original role was that of a lend-ing agency. The agency made loans in rural areas where, because of a lack of private lenders or an unwillingness of lenders to exten[d] credit, financing for housing was unavailable. While financial instit[u]tions have greatly expanded their mortgage lending outreach in m[ost] parts of the country, the Committee believes that credit availabili[ty] may still be a problem in some rural areas. To ensure a ready sour[ce] of housing credit in such places, this legislation authorizes the FmH[A] to make direct loans at prevailing market rate and to guarant[ee] private loans as required.

Of the total 895 million dollars authorized for the loan program[s] 666 million dollars is available for direct lending at the prevaili[ng] market interest rate. The Secretary will use the best available info[r]mation to determine the effective market rate in eligible rural are[as]. The Secretary may use data sources such as the unpublished rat[es] which are compiled on a monthly basis for nonmetropolitan areas b[y] the Federal Home Loan Bank Board.

While the operation of the direct loan programs has remained con[-] sistent with existing law, the Committee proposes changes to the 5[04] program to facilitate rehabilitation activity. Section 504 participa[nts] would no longer be precluded from the program if they are eligib[le] for the 502 or 503 program and could use 504 funds to improve th[eir] living conditions without having to bring their dwelling up to f[ull] building code standards. The Committee has also made the constru[c]tion standards for residential buildings financed with loans made [or] insured by the FmHA consistent with the Minimum Property Stand[-] ards prescribed by the Secretary of Housing and Urban Developme[nt].

Activity under the loan guarantee program would be capped at [...] million dollars. The Committee feels that by reinstating FmHA [as] a "lender of last resort", the incentive to obtain credit from FmH[A] rather than a private lender has been diminished. If a lender c[an] receive guarantees for rural loans and is no longer in direct compe[ti]tion with the FmHA office, the lender may be more inclined to exte[nd] its activity to areas which it normally does not serve.

During FY 1982, FmHA made the review and servicing of ex[ist]ing loans a top priority and we encourage the continuation of t[his] process. FmHA has recognized the importance of evaluating th[e] existing loans, especially as the interest credit contracts near expi[ra]tion. The Committee has provided for the renewal of single fa[mily] interest credit agreements entered into before the enactment d[ate of] this Act, if the renewal involves the same borrower. FmHA ha[s the] authority to renew both interest credit and rental assistance con[tracts] for all multifamily projects, if the contract was entered into b[efore] the effective date of this Act.

FmHA has demonstrated its ability to provide credit in rural [areas] through the existing network of state, district, and county offi[ces. It] has been unable, however, to match this success in terms of pro[viding] adequate housing for very low income families. For example, on[ly ...] percent of the very low income rural households living in substa[ndard] or inadequate housing can be expected to be assisted by FmHA [...]

[...] programs in fiscal year 1982. The need for very low income housing [in] rural areas has been traditionally overshadowed by urban needs. [Con]gress has largely overlooked the mechanisms used to provide hous[ing i]n remote areas of our nation. Thus, Rural Housing programs are [base]d on antiquated models that were discarded from urban housing [pro]grams years ago because of their high cost and inefficient opera[tion]. Yet, the FmHA programs have continued to receive annual fund[ing] with minimal review or modification. In 1977 the FmHA appeared [befo]re our Committee. The testimony shows that FmHA housing pro[grams] had been unable to reach low income families in rural areas. [Thi]s evidence supported their advocacy of a new program called Home [Owne]rship Assistance Payments. Although HOAP was enacted, funds [we]re never appropriated for this purpose. Despite the fact that [Fm]HA has difficulty in providing an accurate profile of the population [serve]d by its programs, it is abundantly clear that the agency is no [bette]r equipped to meet the needs of the poor than it was five years ago. [The]se problems are compounded by the diversity of the roles assumed by [the] FmHA local officials. These officials are expected to provide hous[ing a]ssistance, as well as to make and service farm operating loans, [farm] ownership loans, community service loans, water and waste [gran]ts, and business and industry loans, and to conduct the inspections [of the]se sites. The obstacles in providing housing services in rural [areas] are significant enough to require a concentrated effort which is [dil]uted by this diversity of responsibilities.

[Par]t B of Title V therefore contains a restructuring of the rural [housi]ng delivery system which the Committee finds necessary to [...]y expand the flexibility of rural housing programs, multiply the [use] of Federal resources and enable these resources to aid the truly [needy] in rural areas.

[Last] year, this Committee recognized that many state governments [have b]ecome increasingly active in economic and community develop[ment a]nd that they have established the capacity to solve many of the [pressi]ng problems facing their non-urban areas. Last year the Con[gress e]ndorsed the state administration of HUD's Community Devel[opmen]t Small Cities Program. The inherent success of the new small [cities p]rogram lies in its ability to adapt to and serve specific state con[cerns] and needs. Thirty-seven states have seized the opportunity this [progr]am presents to provide imaginative, responsive programs.

[Th]e Rural Housing Block Grant in Title V of this year's Act has [been de]signed as a complementary program and gives states the oppor[tunity,] flexibility and resources to develop programs that meet the [...] conditions of their rural low income population in ways the [...] rigid program cannot. The flexibility provided in this legisla[tion wi]ll allow states to use creative approaches in designing effective [hou]sing delivery systems. The legislation will however require [Fed]eral assistance serve very low income persons in rural areas [more e]fficiently than it has in the past. To accomplish this very low [income i]s defined at or below 50 percent of median income.

[The c]oncepts behind this rural housing block grant proposal are [consiste]nt with and closely tied to the recommendations made in the [...]sued by the President's Commission on Housing. The Com[mission] feels that:

The housing credit programs of the Farmers Home Administration should be conducted without subsidy and in a manner that encourages the development of private housing credit institutions in rural areas. State and local programs can be more flexible and responsive than Federal housing production programs. Therefore, the Commission believes that the appropriate way to meet housing supply problems is through a block grant approach. Through a block grant approach, states would have maximum opportunity to design housing programs that meet their particular needs.

The block grant provides a permanent option to assume administration of the program. In this way a state can determine whether it has sufficient capacity to fulfill the obligations of the Act. It is antici-pated that most states will choose to administer this program.

For a state that chooses to participate in the block grant program it may administer housing programs directly as a state program or it may distribute funds to general units of local government or other instrumentalities. To qualify to receive funds, states must develop and publish a statement of housing objectives and projected use of funds. The state must inform its citizens of the amount of funds available for proposed housing activities; publish a draft of its program for comment; and hold one or more public hearings on the program. After taking the views of citizens into consideration, a final statement must be made available to the public and submitted to the FmHA. This must be accompanied by the certifications detailed in the Section by Section analysis.

The Committee has avoided a cumbersome, highly detailed application process and complicated public hearing requirement, by using the criteria established in the CDBG Small Cities Program. However, we are seriously concerned that the Secretary of Agriculture monitor and evaluate the performance of states through annual reviews and evaluations. These evaluations must determine that states have carried out their programs in a timely manner, complied with the objectives of the law and efficiently and effectively discharged their responsibilities.

Beyond the evaluation procedure described above, Section 301 and 302 of Title V of the U.S. Code gives all Secretaries the authority to issue rules and regulations for the programs under their jurisdiction. Therefore, the Secretary may issue any regulations which may be necessary to facilitate the implementation of the block grant and ensure that the program is carried out properly.

As mentioned earlier, a state may use its allocation for a wide range of housing activities. Emphasis, however is placed on rehabilitation activities, as this will take advantage of the resources already invested in the existing housing stock. The lower cost of rehabilitation versus new construction stretches resources in order to serve a greater number of very low income persons needing assistance. To further the aim of serving the needs of low income families in a cost effective manner, rehabilitation activities will be given preference if they are carried out in conjunction with a Federal or state interest assistance program. States may apply for a share of 10,000 contracts for assistance payments, which will be provided through the Department

of Housing and Urban Development to distribute to residents of eligible rural areas.

In areas where there is an insufficient supply of existing low income housing and low vacancy rates, the State may finance the construction and purchase of modest single family homes or the construction of multifamily units. This financing must include manufactured housing. The State may also provide rental assistance for very low income persons. Section 526 gives a more extensive description of eligible activities.

Section 527 provides that block grant funds will be distributed by the Secretary on the basis of an allocation formula which will be issued in the form of a regulation no later than 60 days after the enactment of this act.

Section 527 also requires that a State must "buy-in" to the rural housing block grant. As in the Small Cities Program, the Committee adopted this approach to encourage those States which have already demonstrated an interest in providing housing services in rural areas and to discourage those whose only attraction is the availability of Federal funds for building their own infrastructure.

In the initial years of the block grant States may deduct up to 50% for administrative costs, as long as this does not exceed 5 percent of the allocation received under the block grant. This allowance is made so that States will be capable of providing support activities such as technical assistance. It is our intention that this will ensure a smooth implementation of the program in the State. The Committee expects therefore that the need for this deduction will taper off as State capacities improve.

Second, the State has to put up one dollar of cash for every ten received from the Federal Government. This "hard match" can take the form of capital or operating funds but has to be spent in rural areas in the same year that the Federal funds are obligated.

Ten percent of funds State cash match requirement is met by State operating appropriations or through State general obligation or revenue bonds the proceeds of which are used in any rural areas. Funds must be provided for direct State expenditures, grants, loans, interest subsidies, loan guarantees and other assistance or by the contribution of State fixed and moving capital. Examples of such expenditures, which occur within rural areas include:

Housing, including but not limited to new construction, rehabilitation, weatherization, operating assistance to housing for low- and moderate income households, rent, or ownership assistance or subsidies, land and the improvement, repair and development of infrastructure necessary to provide or maintain housing for low- and moderate income households.

Community Development, including but not limited to infrastructure facilities, streets and highways, sidewalks, sewer treatment plants and lines, water treatment plants and lines, storm drainage, recreation facilities, open space, transit facilities and other public facilities used for or in conjunction with the improvement of distressed areas of benefit to low- and moderate-income households.

Activities identified in the Housing and Community Development Act of 1974 as amended, including relocation, planning, administration and technical assistance for such purposes.

The state match need not correlate directly with the use of Federal funds by rural grantees. The funds may supplement the Federal funds directly or may merely be expenditures by the state for housing or community development activities in the rural areas equivalent to 10 percent of the Federal Funds.

Finally, states are required to consult with local elected officials from rural areas in devising a procedure for distributing funds to rural areas. It is important to emphasize that all federal funds received under this program will have to be distributed to rural areas. Nothing in the proposed bill requires some particular method or procedure for distributing funds. Nor does the bill require that all rural areas receive funds. These matters would be left to the discretion of the states. However, the intent of the consultation provision is to require that states seek out, on a good-faith basis, the intended recipients for real involvement in devising a procedure. Consultation can take any form including working through state municipal associations developing the ultimate state plan. It is important to note that local officials are not given veto power over any state proposal. But it behooves the state, for the sake of equity, to involve local officials to the extent necessary to assure a logical, appropriate and equitable process for using the federal funds. States are free to develop whatever purposes and procedures for distributing funds that state and local priorities dictate. Whether funds are distributed by formula or competitive process, or to all or only some of the eligible rural areas is clearly within the purview of the state abetted by the fruits of consultation with local officials. States will be responsible for overall administration of funds distributed. FmHA's role is limited to the reviews and audits described in proposed Section 525(c).

If the state does not participate in the block grant program, the Secretary is authorized to allocate the amount of funds received under the distribution formula to the State Farmers Home Administration Office.

The FmHA would be authorized to: design new programs; "piggyback" grant funds onto existing programs; or contract out to units of local government, nonprofit organizations or any individual approved by the Secretary, located within the state.

The Committee has authorized the Rural Housing Block Grant at a level of not more than 850 million dollars for each of the following fiscal years: 1983, 1984, 1985. A three year authorization will give states the ability to carry out long range planning activities in order to implement more effective far reaching programs. This authorization figure which will be distributed in the form of a pure grant represents subsidy funds rather than budget authority. Therefore neither the 1982 budget level nor the Administration's budget proposal is comparable with the block grant figure. The authorization is based on the present value of the projected stream of subsidy associated with an estimated level of activity for fiscal year 1983. There will be 23 million dollars available for Farm Labor Housing Grants during FY 83. States, nonprofit organizations, units of local government and individuals may apply to the Farmers Home Administration in order to receive grant funds. Mutual Self Help Grants have been funded at a level of 13 million dollars for FY 83 and will be

awarded on the basis of the provisions in existing law. There will be 3 million dollars available under the Self Help Development Land Fund.

Part C of Title V contains a provision for legislative veto which conforms with S. 1080, the Regulatory Reform Act of 1982, as passed by the Senate this year.

The committee added these provisions to insure that any regulations which are required to administer this Act conform to the intent of the Committee and Congress. The consideration of a regulation under the veto provision should not consume an unreasonable amount of Congressional time or resources.

Title VI—Flood, Riot, and Crime Insurance

Title VI reauthorizes the Floor, Crime, and Riot insurance programs and provides additional funding for flood mapping studies.

Section-by-Section Analysis

Title I—Community and Neighborhood Development

Section 101 provides basic authorization to the Secretary to make rental rehabilitation and new construction grants to states and local governments within a new Section 122 of the Community Development Act of 1974. Grants would be made available to help support the rehabilitation of privately owned real property and in special cases, construction of new rental units.

Section 122(a) provides basic authority for the program. Provides authority for the Secretary to provide modified Section 8 certificates to units of government administering a rehabilitation or new construction program. The certificates are provided to minimize the displacement problems often caused by rehabilitation projects. The certificates are to be provided to families in buildings to be rehabilitated with incomes of less than 50 percent of the median income for the area.

The Secretary is expected to provide a rental assistance certificate for every rental unit to be assisted and to the extent that authority is available on the same basis for newly constructed units. However, the Secretary should ensure that certificates are provided for rehabilitation projects before providing certificates on the basis of new construction projects.

Section (a)(1)(C) provides basic authority for the Secretary to make grants for new construction projects.

Section (a)(2) authorizes $300,000,000 for 1983 with $30,000,000 available for the Secretary to fund innovative programs, especially innovative programs of rehabilitation or new construction that the Secretary determines cannot be effectively carried out within the funding allocation provided under Section 122(b)(1). One million dollars is available for the Secretary to provide technical assistance to states and units to assist in the development of rehabilitation programs that maximize the effect of the federal funding, to improve local programs and their performance, and to develop the capacity of governments to effectively develop and administer a program of rehabilitation. Th use of funds under this section is not limited to the provision of tec nical assistance in connection with Section 122.

Subsection (2) (b) (1) provides for direct allocations of grant fun to be made to cities of 100,000 or more in population and states b formula. The formula composition, which is left to the Secretary discretion shall use as factors low income renter population, rent market conditions, overcrowding of rental housing, the condition o the rental housing stock. A state's allocation shall be based on the abo factors for population not located in cities of more than 100,000 an in areas eligible for assistance under the Rural Housing Block Gra established in Title V.

Subsection (b) (2) (A) authorizes the Secretary to establish min mum allocations for direct allocations where a lesser amount wou make a program infeasible. Where a city does not receive an allocatio under this part its allocation shall be added to the state's allocation.

Subsection (b) (2) (B) authorizes the Secretary to adjust allocatio made pursuant to Section (2) (b) (1) by 15 percent or below th amount of the original allocation on the basis of the grantee's perfor ance in rehabilitating units that will rent at a level that is below th payment standard for the area. The basis for the evaluation shall b the extent to which 80 percent of the units rehabilitated meet the re standard for the area.

The adjustment of a grantee's allocation on the basis of progra performance is fundamentally different from past housing program Instead of requiring rents at an established level or other regulato controls, the program uses an incentive system to encoura performance.

Subsection (b) (3) (A) requires a city or a state to submit an applic tion for the Secretary's approval prior to the receipt of a grant. Th application shall show evidence of the grantee's capacity to underta a program, the financial feasibility of the program, the effect of th program on neighborhood preservation, compliance with civil rig and other applicable laws. The Committee intends the applicati review and evaluation to judge an application on an overall basis. A application will meet the threshold requirements or it will be reje te But the Committee expects the burden of proof for rejection to be the Secretary.

Because the principal purpose of this section is to make grants f the rehabilitation of rental housing, the Committee intends most i programs to rehabilitate housing. However, the Committee recogniz that in some areas new construction may be a desirable component of community development program. Because new construction is s an exception to the normal program, an application is requir demonstrate the special conditions that make a program of new c struction reasonable for that area. Specifically, subsection (b) (3) requires that the Secretary find that an area is experiencing a s shortage of rental housing, that it has extremely low vacancy ra and that a program of other than rehabilitation is needed to imp rental opportunities, or to advance a neighborhood preservation g Thus a city or state is expected to administer a program of rehabi tion except under special circumstances as determined by the S

ary. In any case a program of new construction is expected to be operated within the constraints of a yearly grant allocation.

To encourage innovation, full use of available funds, effective program administration, and performance, subsection (b) (3) (C) authorizes the Secretary to make grant awards up to 120 percent of allocation provided to a city under paragraph 1 to the extent that funds are available. The Committee expects funds to be available cities and states do not choose to apply for funds or where applications have been denied.

Subsection (4) (A) gives the Secretary authority to limit allocation of modified Section 8 certificates to the number of units to be rehabilitated by a city or a state. To the extent that authority for certificates is available the Secretary shall make those certificates available on the basis of the number of units to be constructed under the provisions of (d) (1).

Subsection (b) (4) (B) requires that all very low income tenants in buildings to be rehabilitated under this program be offered assistance under the modified Section 8 certificate program. To the extent available authority, housing assistance may be provided to existing tenants with incomes of 50 to 80 percent of area median income at the discretion of the local agency. In no case shall housing assistance be provided to families with incomes of more than 50 percent median income if the family was not a tenant in a building to be rehabilitated under this section.

Subsection (b) (5) requires each grantee to submit to the Secretary annual performance report and the Secretary to review each grantee's performance on an annual basis. Each grantee shall be reviewed on its performance in carrying out a program as described in its application, its performance in carrying out activities in a timely manner, and the use of funds in accordance with law.

States that distribute funds to local governments for administration, the Secretary shall review performance in terms of timely distribution, and the state's review of local performance.

The Secretary may adjust, reduce, or withdraw resources as appropriate in accordance with the findings of the reviews. Amounts that become available through action under this section shall be reallocated in the year in which they become available as determined by the Secretary.

Subsection (b) (6) provides that funds that are not obligated in a fiscal year are added to the amount to be allocated to all cities in the succeeding year.

Subsection (c) establishes the basic requirements of the program. Rehabilitation assistance is limited to residential rental property in low and moderate income neighborhoods as chosen by the grantee. The rehabilitated units shall meet the housing quality standards established for Section 8. Subsection (c) (3) shall not exceed 50 percent of the total cost of rehabilitation. However, in special circumstances where refinancing costs and the nature of the project increase the rehabilitation costs substantially, the Secretary may approve assistance up to 50 percent of total development costs including the cost of refinancing.

Subsection (c) (4) prohibits rental restrictions such as rent control imposed on properties assisted under this program.

Subsection (c)(5) prohibits discrimination against families receiving rental assistance by owners of units assisted under this program.

Subsection (c)(6) requires that to the maximum extent practicable that borrowers shall be personally liable. However, this provision may be waived in cases where the Secretary determines that the application of this requirement will unduly restrict the use of the program, where there are projects involving new construction, where syndication will allow greater leverage of private funds, and in other cases where the Secretary determines that personal liability is not practicable.

Subsection (d)(1) establishes the requirements for programs which include new construction or rehabilitation which is so costly as to be comparable to new construction. Cities are permitted to develop programs which include new construction provided that the Secretary approves the program and the program can be carried out within the amount of the allocation for that city. It is expected that most cities will not utilize this authority. But where a city chooses to build new units, that city will be expected to build those units within the constraints of its annual allocation of funds and within the more restrictive rules contained in Section (d)(2).

Subsection (d)(2)(A) requires an owner of a newly constructed project to enter into agreements to assure compliance with all rules and restrictions of the program and to agree to such conditions as may be required to assure financial feasibility.

Subsection (d)(2)(B) requires that a newly constructed project must maintain 25 percent of the units constructed in occupancy or available for occupancy by very low income families for 10 years. This requirement is in direct contrast to the requirement in the regular rehabilitation program where low income occupancy is a performance goal which has an effect on subsequent grants. In the new construction program, low income occupancy is a mandated requirement.

Subsection (d)(2)(C) requires an owner to pass on to tenants reduction in costs due to the assistance provided. It prohibits an owner from refusing to rent to a family solely because the family is receiving rental assistance. It also prohibits an owner from converting a rental project to condominium ownership unless the low income occupancy requirements of (d)(2)(B) continue to be met.

Subsection (d)(2)(D) establishes additional requirements that limit total mortgage principal amounts to the limits contained in Section 207 of the National Housing Act. It also establishes authority for a grantee to require additional interest rate and other conditions on projects.

Subsection (d)(2)(E) requires that a new construction project must contain five or more units and must be used for residential purposes.

Subsection (d)(3)(A) requires an owner of a project to repay assistance received under this section plus interest if the owner fails to continually meet the requirements of this section for 10 years. (d)(3)(B) the authority of the previous section is established as a lien against the property.

Subsection (d)(4) authorizes mortgages on projects assisted under this section to be insured under the National Housing Act.

Subsection (d)(5)(A) requires that rents for units to be maintained for low income occupancy be approved by the grantee and that those rents meet the requirements of the U.S. Housing Act of 1937.

Subsection (d)(5)(B) provides that rents submitted for approval under (d)(5)(A) will be deemed to be approved if the grantee has not acted within 60 days. It further provides that a grantee cannot place restrictions on any of the rents for units not maintained for occupancy by low income families under subparagraphs (A) and (B).

Subsection (e)(1) authorizes states to administer grants not directly administered by cities under subsection (b)(2)(A). A state's grant shall be used for areas not administering their own grants and for areas not eligible for assistance under the rural block grant established under part B of the National Rural Housing Act. Under this section a state may administer its own program or distribute resources to eligible local governments.

Subsection (e)(2) makes the state run program optional with HUD administering the resources where states choose not to administer a program.

Subsection (f) requires the Secretary to establish regulations governing relocation payments and standards.

Subsection (g) prohibits the use of any federal funds under this program for the payment of administrative expenses.

Subsection (h)(1) requires the Secretary to establish which support national historic preservation objectives by requiring rehabilitation which would meet historic preservation standards for historic buildings and providing the Advisory Council on Historic Preservation is afforded an opportunity to comment.

Subsection (h)(2) exempts projects from NEPA requirements beyond those required under the CDBG Act.

Subsection (i) defines grantee for this program to be equivalent to use of the term in the CDBG Act of 1974.

Section (b) authorizes $4,196,000,000 for the CDBG Act of 1974 fiscal year 1983.

Section (c) limits obligations under the Section 108 loan guarantee program to $225,000,000 for fiscal year 1983.

Sections (d), (e), (f), and (g) makes conforming amendments to changes contained in this section.

Section (h) provides: In the case of a mortgage insured under section 223(f) of the National Housing Act on a property which is eligible for rental rehab grants, Section 244 National Housing Act insurance may include provisions that—

insurance benefits equal the sum of (A) 90% of the mortgage on the date of institution of foreclosure procedings (or on the date of acquisition of the property otherwise after default), and (B) 90% of the arrears on the date benefits are paid; (2) the mortgagee remit to the Secretary 90% of any proceeds of the property, including sale proceeds, net of the mortgagee's actual and reasonable costs related to the property and the enforcement of security; and (3) payment of benefits be made in cash, unless the mortgagee submits a written request for debenture payment. No commitment for insurance under this authority may be issued on or after October 1, 1975. (sec. 7(a))

Subsection (i) provides: In the case of any purchase or refinancing of a property eligible for rental rehab grants under Section 223(f) of the National Housing, Secretary may—(A) include rehabilitation costs of not to exceed $20,000 per unit, with up to 25% more for specific properties where cost levels so require; (B) permit subordinated liens securing up to the full amount of mortgage financing provided by State or local governments or agencies thereof; and (C) pay benefits in cash unless the mortgagee submits a written request for debenture payment. (sec. 7(b))

Subsection (j) makes conforming amendments in accordance with the foregoing Section.

Urban homesteading

Section 102(a) provides authorizations of $12,000,000 for 1983 and such sums as may be necessary for 1984.

Section 102(b) amends several sections of the Urban Homesteading Act to allow properties to be transferred at greater than no cost to allow more valuable properties to be used within this program than were available previously. It also provides that in those cases where a locality receives more compensation for a property than it paid the Federal Government, 50 percent of the excess payment must be returned to the Federal Government.

Subsection (c) provides authority for the Secretary to demonstrate a program of multifamily homesteading under this section.

Subsection (i) provides new authority for the Secretary to experiment with the use of modified section 8 certificates to be used in connection with the Urban Homesteading program to help low income families purchase homes. The Committee is eager to explore the feasibility of using section 8 certificates to advance homeownership for very low income families, especially within the context of rehabilitated urban homesteading properties. The Secretary is authorized to utilize $4,400,000 under this section.

Repealers

Section 103(a)(1) and (2) provides for the repeal of the section 312 Rehabilitation Loan program with the exception of those provisions concerning the creation and use of the program's revolving fund.

Subsection (b) repeals the Surplus Land Program contained in section 414 of the Housing and Urban Development Act of 1969. Section 414 permits the General Services Administration to transfer surplus Federal real property to HUD and the Department of Agriculture for sale or lease at fair value for use of predominantly low- and moderate-income housing.

In addition to repealing section 414, this proposal would permit HUD and FmHA to dispose of surplus property within 120 days after the effective date of this Act if either Secretary had requested GSA to transfer the land prior to the effective date of this Act. This is necessary to assure that adequate time is afforded the Secretaries to complete processing of projects in the pipeline at the time of enactment of the 1983 legislation.

Subsection (c) repeals provisions of the Urban Renewal, Open Space Land and Neighborhood Facilities Programs in order to reduce Federal involvement in decisions which are more appropriately made at the local level.

Paragraph (1) of subsection (c) would repeal section 106(g) of the Housing Act of 1949. This provision requires localities to obtain a transient housing study before an Urban Renewal Plan can provide for the construction of hotels or other transient housing in the Urban Renewal area. The study is to assure that there is a need for this type of housing in the area. This requirement would be deleted, since the decision concerning whether to permit transient housing is one that should be made by local authorities who are most familiar with local housing and marketing conditions.

Paragraphs (2) and (3) of subsection (c) would eliminate provisions in the Open Space Land and Neighborhood Facilities Programs which prohibit the conversion of land or property obtained with assistance under the programs for uses other than those intended at the time the grant was made, without prior Federal approval. These changes would give the locality complete discretion in determining the appropriate use of its land or property, and would thereby promote the effort to decentralize the decision-making process and speed the return to local control. The locality in which the land and/or property is situated is best able to determine what is the most appropriate use of its resources and whether or not a conversion to another use is consistent with its needs and objectives.

Specific provisions to be repealed include;

Section 703(d) of the Housing and Urban Development Act of 1965. This authority prohibits the Secretary from approving a conversion in the use of neighborhood facilities during a 20-year period following the grant, unless HUD finds that the conversion is in accordance with the then-applicable program of health, recreational, social, or similar community services in the area, and is consistent with comprehensive planning for the development of the community in which the facility is located.

Section 704 of the Housing Act of 1961. This provision allows the Secretary to approve a conversion of open space land to other purposes only where HUD finds that (1) there is other comparable land available for substitution; (2) it is needed for orderly growth and development; and (3) it is in accord with the comprehensive plan for the urban area.

The second sentence of Section 706 of the Housing Act of 1961, which gives the HUD Secretary general authority to deny approval of the conversion of land for which a grant was made to protect interests to guide future urban development.

TITLE II—HOUSING ASSISTANCE PROGRAMS

Section 201(a). The current requirements regarding allocations of assistance contained in Section 213(d) of The Housing and Community Development Act of 1974 are modified to require that the allocation formula be specifically established by regulation. "fair share" distribution will apply to Section 202 elderly housing loans, any modified certificates that aren't linked with the rental rehabilitation and construction program or with formerly assisted units, and any other new funds that become available under housing assistance programs.

Existing provisions are retained which require that a) allocated funds first be made available for other areas in the state before reallocation to another state and b) HUD must accommodate the desires of state and local governments regarding the type of housing assistance, subject to the limits of total available funds. Under the provisions the use of recaptured or deobligated funds would follow this procedure: first, the state or locality with the original allocation could choose to use the funds for another type of housing assistance such as modified certificates, second, if the original locality couldn't obligate the funds, then other parts of the original state could choose to use them for any legal type of housing assistance, finally, if the Secretary determines that the funds can't be used in the same state during the fiscal year, then funds could be made available in another state. The Committee intends that recaptured, deobligated, or newly appropriated funds be committed by the end of the fiscal year so the Secretary should set clear deadlines by which states and localities must decide the type of housing assistance desired and by which funds must be obligated in a state before losing them to another state.

This section of the bill also replaces the current set aside for non-metropolitan areas of between 20 and 25 percent of each year's funds. A set-aside assistance under the modified certificate program is required for up to 10,000 units for use with the rural housing block grant or to replace rental assistance payments under existing contracts as the Secretary of Agriculture sees fit.

Section 201(b). Authorization limitations for new reservations of housing assistance in FY 1983 are set at \$7.22 billion budget authority and \$582.2 million annual contributions contract authority. From total annual contributions funds no more than \$30.5 million can be used for the Section 8 existing housing program, \$301.4 million for the modified certificate program, \$144.2 million for Section 8 new construction amendments, or additional elderly units financed [illegible] loans, and \$106 million for public housing amendments, modernization, demolition, or disposition. All of these funds are expected by HUD to be available from deobligations and recaptures. The bill authorizes new appropriations if necessary.

Section 202. The new modified certificate program is established in this section through several specific amendments to Section 8. Section 202(a) amends Section 8(b) of the United States Housing Act of 1937 to permit, under Annual Contributions Contracts [illegible] executed after enactment of the Housing and Community Development Amendments of 1982, assistance contracts using the payment standard for family-selected existing housing. It is anticipated that all new ACC's providing Section 8 Existing Housing [illegible] after fiscal year 1982 will be under the modified program, except "project-based" Existing Housing subsidies in connection with [illegible] Supplement, Section 236 RAP and Section 23 Conversions.

Section 202(b) amends Section 8(c) to retain most of the [illegible] of the current Section 8 program authority, but aspects [illegible]

authority formerly contained in Section 8(d) have been merged into subsection (c) as well. Thus, subsection (8)(d), completely revised, will describe the new modified certificate program as a component of the Section 8 Existing Housing Assistance Program.

Three minor changes in Section 8(c) are proposed. First, fair market rents must be established on the basis of a formula contained in regulation prescribed by the Secretary within 60 days of the bill's enactment. This procedure will ensure that the type of housing units, the data sources, and other factors used in determining fair market rents are reviewed by Congress and the public. The Committee expects the procedure for determining fair market rents to reflect actual local rents for different sized housing units rather than make an arbitrary percentage adjustment from the average local rent. Secondly, this subsection clarifies that the 90 day notice by the owner to the tenant of possible rent increases after contract expiration applies only to new and sub rehab projects, as clearly stated in the Conference Report on the 1981 Act. Finally, tenant selection policies are modified by adding a new preference for families who are paying more than ½ their income for rent.

Section 202(c) establishes the modified certificate program in a new Section 8(d).

The new subsection (d)(1) requires the Secretary to establish payment standards (based on dwelling size and type) for different market areas, and to use these standards to determine the monthly assistance payment. Payment standard levels must be designed so as to assist families in securing decent, safe and sanitary housing and include an amount for utilities. The payments must be based on a formula in a regulation prescribed by HUD within 60 days after enactment and the formula must exclude the rents from substandard units. This regulation procedure will provide an opportunity for review of the same items indicated in the discussion of fair market rents under Section 8(c). Furthermore, the Committee accepts the soundness of the basic principle of setting a payment standard and providing recipients with more choice of housing than is currently possible under the Section 8 program. There is evidence that under the Experimental Housing Allowance Program rents tended to be lower than under the Section 8 existing program, and that, although rents clustered around the standard, a substantial number of EHAP participants paid either higher or lower rents. The Committee is concerned, however, at testimony that the payment standard tentatively proposed by HUD will be so low that recipients will, in fact, have no option but to pay more than the law envisages. The standards adopted by HUD should be adequate to provide reasonable housing choice to recipients without requiring them to exceed the statutory tenant contribution.

The new Section 8(d)(2) sets out the basic formula for determining assistance paid to a family under the modified certificate program. The formula sets the monthly assistance payment at the amount by which the payment standard exceeds 30 percent of the family's monthly adjusted income. However, this formula is subject to a "minimum rent" exception. The assistance payment also may not exceed the amount by which the actual rental (i.e. rent to the owner plus the allowance for utilities) exceeds the greater of 10 percent of family income or the welfare shelter component which is described more fully in the discussion of Section 203(d).

Proposed new Section 8(d)(3) allows only those families determined to be very low income (i.e., at or below 50 percent of area median) to qualify for assistance under the modified certificate program, unless the family had been previously receiving assistance under the United States Housing Act of 1937. Preference is required to be given to families which, at the time they are seeking assistance, occupy substandard housing, are involuntarily displaced, or are paying more than 50 percent of family income for rent. The first two of these preference criteria are already included in the United States Housing Act of 1937. The high rent burden preference is established in this program, the other Section 8 programs and the public housing program, in recognition of the fact that families with a high rent burden have greater need for housing assistance. These preferences follow the recommendations of the President's Commission on Housing in an effort to assure that the limited number of certificates and other assistance which can be made available under current budget constraints go to families with the greatest housing needs. The substandard preference should apply to households whose present accommodations are seriously substandard, or present a threat to health or safety (as distinguished from relatively minor code violations). The involuntary displacement preference should include homelessness, reflecting past displacement, as well as displacement from any factors beyond the reasonable control of the family, even if no public action is directly or indirectly responsible for the displacement.

Subsection (d)(4) would authorize the Secretary to override the normally applicable preference criteria in order to use annual contributions contract authority for special purposes. Thus, the Secretary under the modified program could use certificates for (1) families who previously were assisted under the public housing or present Section 8 program, (2) eligible families occupying units in formerly assisted projects acquired by the Secretary, or (3) families in units being rehabilitated under the Rental Rehabilitation and Development Program.

Subsection (d)(5) limits payments for vacant units to the month during which the tenant leaves the unit.

Under subsection (d)(6), contracts with a public housing agency to administer the modified certificate program would be for an initial term of five years. PHA's would be required to inspect a unit selected for occupancy by a family holding a certificate, to determine that the unit met housing quality standards set by HUD before any assistance payment could be made. Thereafter, the PHA is required to make annual or more frequent housing quality inspections. If a dwelling unit failed inspection, no assistance payment could be made unless the failure was promptly corrected and the PHA verified the correction.

Under subsection (d)(7) public housing agencies are allowed to increase the assistance payments twice during the 5 year contract period to assure continued affordability. Under the annual contributions contract the PHA receives 10 percent more funds than the estimated assistance needs in the first year. Any adjustments to the

assistance payments must be paid for from these additional funds plus any funds which become available because of families dropping out of the program. Funds not needed for adjustments can be used by the PHA for aiding additional families.

Section 8(j) of the United States Housing Act of 1937, authorizing special terms and conditions for section 8 assistance to families renting manufactured homes and spaces or manufactured home spaces, is also revised to accommodate a certificate program for such units.

Section 202(e) exempts the establishment of the specific amounts for fair market rents or payment standards from Congressional review procedures. The Committee believes that formal Congressional and public review of the formula and methodology for determining rents is sufficient to allow the particular figures to merely be published in the Federal Register.

Section 203. This section makes changes in the 1937 Act and in the gradual implementation provisions of the Omnibus Budget Reconciliation Act of 1981 occasioned by the new modified certificate program.

In 203(a) the requirement for annual review of family income has been moved from section 8(c)(3) to section 3(a) of the Act, to make the same annual recertification requirement applicable to both the present section 8 authorities and the new modified section 8 program. Also the rent payment formula in section 3(a) of the Act is revised to provide that the 3(a) formula does not apply to "rents" paid by certificate holders under the modified section 8 Existing Housing Program. (A similar, but not identical formula for determining assistance levels under the modified program is set out separately in the revised section 8(d)(2) of the 1937 Act.) Certificate holders under the modified program will pay "rent" at levels higher or lower than those provided for in 3(a), depending upon the price of housing selected by the families and the amount of subsidy produced by application of the payment standard formula.

In section 203(b), section 3(b) of the Act is amended to clarify that the Secretary may establish income ceilings higher or lower than 50 percent of median on the basis of the Secretary's findings that such variations are necessary because of unusually high or low family incomes. The Secretary already has this adjustment authority for establishing income ceilings higher or lower than 80 percent of median, and comparable authority at 50 percent of median is appropriate, especially in light of the continued shift of emphasis toward assistance for very low-income families.

In section 203(c), the Secretary is required to exclude medical costs that exceed 3 percent of gross income in determining the adjusted income of elderly families. This requirement is the same as in current regulations.

Section 203(d) modifies the requirement for a minimum rent equal to the "shelter allowance" portion of public assistance grants. Currently this applies only if the State specifically designates a shelter allowance and adjusts the allowance based on the family's actual housing costs. With the modifications in the bill, a minimum rent will be established for all public assistance recipients either as the amount designated by the State or, if the State doesn't make a designation, as the amount identified by the Secretary (but no more than 30 percent).

In either case the Secretary can prescribe adjustments to the minimum "shelter allowance" rent to avoid excessive burden on families receiv- ing public assistance.

Section 203(e) and (f) amends the provisions of Section 322(i) of the Omnibus Budget Reconciliation Act of 1981 which give the Secretary discretion to gradually phase-in the rent increases (from 25 to 30 percent of adjusted income) for tenants receiving assistance when that Act was enacted. Rent increases resulting from this phase- in and from changes in Federal laws of regulations dealing with what benefits can be "counted" as income for housing assistance purposes are limited by this provision to 10 percent a year.

Subsection (e) of this Section provides for the gradual phase-in of rent increases caused by the shift to a payment standard-based modified certificate program and extends the gradual phase-in feature of the 1981 Act to tenants occupying assisted housing at or before the time regulations implementing the modified certificate program become effective. This subsection also applies the 10 percent annual limit on rent increases to increases arising from regulations.

The provisions require the Secretary to assure that no family as- sisted at the time the modified certificate amendments are implemented would experience an increase in rent or contribution, as appropriate, greater than 10 percent in any 12-month period, if that increase were attributable to (1) percentage-of-income increases mandated by the Omnibus Budget Reconciliation Act of 1981; (2) modified certificate program amendments in this bill and (3) any other provision of Federal law or regulation unless the increase comes from increases in income unrelated to the amendments, laws, or regulations. Any combination of these factors—which would otherwise cause a family's statutory contribution toward the cost of assisted housing to increase by more than 10 percent a year—would be limited to 10 percent per year. In addition, the amendments would apply these gradual imple- mentation provisions to the determination of a family's contribution under the new modified certificate program. Tenants who were not occupying assisted housing at the time the modified certificate amendments are implemented would be subject to immediate rent pay- ment or contribution determinations in accordance with applicable law, with no "phase in". However, any such tenant who was occupy- ing assisted housing at the time of a (future) change in Federal law redefining which governmental benefits are required to or may be con- sidered as income would have the effect of such a change in law lim- ited by a 10 percent cap.

Subsection (f) repeals Section 322(i) of the Omnibus Reconcilia- tion Act because it is replaced by the provisions of Subsection (e) described above.

Section 204(a)(1) and (2) amends Section 9(c) of the Nat... Housing Act authorizing a three year appropriation of $4.25 bil... for operating subsidies of which $50 million each year will be avail... for special assistance to PHA's envisioned by the new subsection 9... (3). Subsection (a)(3) specifies that the amounts appropriated for ... three year period for operating subsidies will remain available ... expended. After the $150 million is set aside for purposes of sub...

...(3), the balance of the operating subsidies fund should be divided ...o three parts for the purpose of establishing annual allotment ...ounts. The Committee intends that this division occur in a manner ...at increases the amount of each successive year's allotment. Specifi- ...ally, the Secretary would use 30⅓ percent of the available appropria- ...n in fiscal year 1983, 33⅓ percent in fiscal year 1984 and 36⅓ ...cent in fiscal year 1985, thus building-in a modest increase each year ...the amount of operating subsidy funds distributed.

...ction 204(b) amends Section 9(a) of the National Housing Act to ...quire the Secretary to establish a formula for distribution of the ...erating subsidies to PHA's, and to propose the formula as a regula- ...n not more than 60 days after the date of enactment of this bill. It ...o gives the Secretary new authority to enter into contracts with ...propriate organizations (governmental or nongovernmental) to ...ovide technical assistance and other services to PHA's on behalf of ... Secretary. This section also prohibits the Secretary from making ... changes, revisions or amendments of the formula or standards for ...ribution of the operating assistance applicable to individual ...HA's which are under one or three year contracts with the Secretary ...er the provisions of the new Section 9(e) of the National Housing ... The provision also specifically prohibits the Secretary from re- ...ing the amount of operating subsidies payable to a PHA except ...re the PHA's allowable reserve would otherwise exceed 50 percent ... operating budget. This provision is intended to increase the ...ncial incentive for a PHA to realize cost savings in management or ...erations, such as reduction of utility consumption rates, improve- ...s in cash management, and any other action which reduces the cost ... operations. This provision further prohibits the reduction of oper- ... subsidies for individual PHA's due to unavailability of funds ...ring rather, that all agencies would take an across-the-board ...tion.

...tion 204(c) creates a new Section 9(e) deregulating the majority ...PHA's which experience no significant management, operation, or ... physical condition problems but also increasing the authority ... Secretary to directly assist authorities which are experiencing ... problems overcome them and be moved to a deregulated status. ...accomplish this, two categories of Public Housing Authorities ...tablished, Tier A and Tier B. A PHA may select, by submission ... application, designation as either a Tier A or Tier B agency. ...sumption is made that a PHA is a Tier A agency unless it elects ... Tier B agency or the Secretary finds that it should be a Tier B ...

...termining the appropriateness of a PHA's election, the Secre- ...hall consider the existence of such conditions as continuing ... deficits, high levels of utility consumption, wages or other oper- ...osts, inadequacy of project security or maintenance, physical ...ration of an agency's projects, excessive vacancies, failure to ...rsons who are required to be served by the Act, low rent collec- ... forth, and, whether designation of the agency as a Tier B ... results in the correction of the condition or conditions. These ... to the maximum extent possible, should be objectively meas- ...ased on quantitative or qualitative analysis of the conditions

The Committee intends that the administration of these provisions be neutral as to assignment of fault (except where laws or regulations are clearly broken or require punitive action). The purpose of the Tier B designation is singular—to bring additional resources, supervision and incentives to bear on correcting problems or conditions which prevent an agency from being designated Tier A.

To receive designation, a PHA must submit an application or information when, and in the form required by the Secretary except that the Secretary is expected to take into account the timing of the fiscal years of the local agencies.

Once an application is submitted, it is deemed approved unless the Secretary disapproves it within 75 days of submission. The Secretary must begin distributing operating assistance to PHA's within 60 days after approval of applications, whether a PHA is a Tier A or Tier B agency.

Once designation is completed, the Secretary enters into a contract with the individual's PHA's. In the case of Tier A agencies, the Secretary enters into a three year contract. The terms of the contract with Tier A agencies require that: they submit data annually to permit the Secretary to determine that an agency continues to be in compliance with the contract and the law and applicable regulations; the contract may be terminated and an agency reclassified to Tier B if it is not in compliance with the contract; agencies be permitted maximum flexibility to establish and implement, at the local level, its own management, financial and operating procedures; agencies adequately maintain the physical condition of housing projects, serve the households required to be served by the NHA and meets other requirements of this Act governing the operation of lower income housing projects.

These Tier A provisions contemplate maximum deregulation and minimal day-to-day supervision by the Secretary of PHA's consistent with the basic requirements of the NHA. They do, however, contemplate effective monitoring, review and performance evaluation on an annual basis, not only as to compliance with the terms of the contract but most importantly to ascertain that conditions which permitted designation as a Tier A agency have not changed.

Tier B agencies enter into a one year contract with the Secretary. The contract emphasizes correcting those conditions which led to Tier B designation and in order to permit the agency's designation as a Tier A agency. The Committee clearly intends that designation as a Tier B agency not be deemed a punitive action. The Secretary is given authority to involve himself directly in the management or operation of the "B" agency in order to expedite the correction of the adverse conditions which exist in that agency. The Secretary, however, is expected to exercise prudent restraint when intervening. Congress does not expect nor authorize the Secretary to become the operator of the agency nor substitute for a local agency's policy making board.

During the period of the one year contract, the PHA retains its operating subsidy allocation. But the Secretary may increase or withhold up to 15 percent of the amount as an incentive to achieve the goals enumerated in the contract. It is important to note here that a PHA is always entitled to its allocation of funds under the formula established by the Secretary. Each PHA is treated as if that allocation was in place for a full three year period. Thus, if an agency designated initially as a Tier B agency becomes a Tier A agency, its allocation "travels" with it and vice versa.

When the Secretary decides to increase a Tier B agency's allocation by up to 15 percent as an incentive, the extra funds are drawn from the $50 million per year fund established under subsection (a). When the Secretary withholds up to 15 percent of an agency's allocation, that amount returns to the credit of the PHA and may be paid to the PHA as the contractual agreement provides.

The $50 million fund is also to be used by the Secretary in meeting extraordinary needs identified as subject to correction by the contract. It is intended that these funds to be used where the resources normally available to a PHA do not meet the expenses of correcting a specific ... or effecting a needed management improvement.

Finally, the $50 million fund may be used to provide technical assistance to a PHA to meet the goals established in the agency's Tier B contract. The Secretary may use either HUD personnel for this purpose or may employ persons outside the government who have the professional and technical expertise necessary to act in the Secretary's ...

Unlike Tier A contracts, the one year Tier B contracts provide for: ... and commitments from the PHA to achieve specific management improvements or mitigation of extraordinary needs necessary to become a Tier A agency; the direct involvement of the Secretary, as required, in the agency's management and operations to meet the goals set out in the contract.

Tier B contracts can be extended for an additional year if the goals ... in the initial contract, are not meet. However, the purpose of ... contracts is to convert the PHA to Tier A status as soon as ...

Section 205. A new Section 17 is added to the U.S. Housing Act of ... to authorize approval by the HUD Secretary of demolition and disposition of public housing. Demolition or disposition is now allowed ... in the context of a complete plan and HUD funding for comprehensive improvements to all projects managed by a PHA.

... as a shortage of low rent housing persists, the Committee ... that every effort should be made to retain the present stock of ... housing. However, some public housing buildings are so ... by their condition, location, or other factors that no feasible ... of modification can return the building to useful life. The bill ... includes reasonable and workable restrictions which nevertheless allow the demolition and/or disposition of public housing projects or parts thereof, if there is no reasonable or viable alternative to ... project back to useful life. If the condition of the project is ... it would be less expensive to demolish and replace it than to ... it, or if the location is such as to preclude residential use, or the density is so high that the project should be "thinned out", the Secretary may approve of demolition provided families to be displaced, and local government officials, have been consulted. This consultation should include plans for relocation provisions and replacing the units, if appropriate.

In cases where the PHA requests permission to dispose of a public housing project, the Secretary can approve the application only if (a) there has been consultation with displaced families and local government officials, (b) retention of the property is not in the best interests of the tenants because of adverse changes in the surrounding area or better opportunities for a more effective or efficient lower income housing project, and (c) the proceeds of the disposition will be set aside to retire outstanding bonds and any extra proceeds used by the PHA to improve other public housing projects, to provide assistance under Section 8, or develop other public housing opportunities.

Section 206.—This section prevents HUD from contracting with the Federal Financing Bank to make interest differential payments in connection with FFB financing of tax exempt public housing loans. These loans would thus continue to be sold in the tax exempt securities market.

Section 207.—Would amend Section 201 of the Housing and Community Development Amendments of 1978 to delete the Secretary's discretionary authority to provide operating subsidies under Section 201 to troubled multifamily housing projects which, though HUD-assisted, are not covered by a mortgage which is insured or was formerly insured under the National Housing Act.

Section 208.—This section amends the Section 202 program of housing for the elderly and handicapped. Under the Section 202 program, the Federal Government makes direct loans to project sponsors to use in developing rental housing that is specifically designed to meet the needs of the elderly and handicapped. The bill provides authorization for $790 million in direct loans for the development of no more than 15,000 units of Section 202 housing. Sufficient Section 8 budget authority is assumed to be available from previous years' appropriations. In addition, the bill (1) provides that the interest rate on Section 202 loans be set annually at the rate of the average interest rate on Federal obligations as of the end of the previous fiscal year or at 9 percent, whichever is lower; (2) permits any sponsor to voluntarily provide funds from other sources for appropriate amenities if they are not financed or supsidized with federal money; (3) directs the Secretary to assure the inclusion of special design features and congregate space necessary to meet the needs of elderly and handicapped; (4) encourages the provision of small and scattered site group homes and independent living facilities for non-elderly handicapped persons and families; and (5) provides that a Section 202 sponsor or borrower may select the contractor to be employed in the construction of a Section 202 project on either a negotiated basis or a competitive basis, unless the Secretary disapproves the selection. The Secretary is encouraged to establish such additional basis or bases for contractor selections by sponsors or borrowers as the Secretary may deem appropriate. This language will assure that the current standard practice in HUD FHA housing loan programs, which permits contractor selection on either

a negotiated or competitive basis will continue to be available for the Section 202 program provided selection of contractors on a negotiated basis is demonstrably more cost efficient than competitive bidding in the individual circumstance. This policy has been in effect since reauthorization of the Housing and Community Development Act of 1974.

The Committee supports the popular and workable Section 202 program. It has been and will continue to be helpful in meeting the needs of the constantly growing elderly portion of our population. The provisions of the Committee bill are designed to preserve those aspects of current program operation deemed essential to ongoing, successful program performance while we search for longer range solutions to the high cost of 202 projects. We are supportive of the need to assure that Section 202 units are * * *.

Section 209. This section repeals the numerous references to new construction and substantial rehabilitation contained in the public housing and Section 8 program authorities. These costly forms of assistance for rehabilitation and new construction have been replaced by the Rental Rehabilitation and Development Grants for urban areas and by the Rural Housing Block Grants for rural areas. The new construction authorities are retained, however, for obligations made before fiscal year 1983 and for elderly housing projects financed with Section 202 loans.

Section 210. This section establishes a new procedure for handling utility allowances to avoid "negative rent" payments from PHA's to tenants in apartments with individual utility metering. Under this new procedure the PHA will pay the utility company on behalf of the tenant. The PHA will collect the required rent from the tenant for any excess utility charges beyond the utility allowance.

Section 211. This section repeals a provision in the Omnibus Reconciliation Act of 1981 which would have allowed states to reduce AFDC grants for households receiving housing subsidies.

TITLE III—PROGRAM AMENDMENTS AND EXTENSIONS

Extension of Federal Housing Administration mortgage insurance programs

Section 301 of the bill extends for two years (through September 30, 1984) the authority of the Secretary of Housing and Urban Development to insure mortgages or loans under certain HUD–FHA mortgage or loan insurance programs contained in the National Housing Act. A one-year extension is proposed for the section 235 program of homeownership for lower income families.

Under existing law, the authority of the Secretary of Housing and Urban Development to insure mortgage and loans under these programs will expire on September 30, 1982. After that date, the Secretary may not insure mortgages or loans under any of the major HUD–FHA insuring authorities contained in the National Housing Act except pursuant to a commitment to insure issued before that date.

The insuring authorities which are extended for two years to include ... for the following HUD–FHA mortgage or loan insurance programs: title I—property improvement and manufactured home loan insurance; section 203—basic home mortgage insurance; section 207—rental housing insurance; section 213—cooperative housing insurance; section 220—rehabilitation and neighborhood conservation housing insurance; section 221—housing for moderate-income and displaced families; section 222—mortgage insurance for servicemen; section 223—miscellaneous housing insurance, including insurance in older, declining urban areas and for existing multifamily housing projects and hospitals; section 231—housing for the elderly; section 232—nursing homes; section 233—experimental housing; section 234—condominiums; section 237—special mortgagors; section 240—homeowner purchases of fee simple title; section 241—supplemental loans for multifamily housing projects, health facilities and energy conserving improvements; section 242—hospitals; section 243—homeownership for middle-income families; section 244—mortgage insurance on a co-insurance basis; section 245—mortgage insurance on graduated payment mortgages; and title X—land development. Authority to insure mortgages under section 235 is extended for one year with unconditional termination on September 30, 1983.

Extensions have not been included for the following provisions of the National Housing Act: section 235(q) (countercyclical economic stimulus), section 236 (rental and cooperative housing for lower income families), title VIII (armed forces-related housing) and title XI (group practice facilities).

The section 235(q) authority (countercyclical economic stimulus), scheduled to expire on September 30, 1982, is not extended. This emergency authority has never been activated.

Section 236 was also extended for one year by the Housing and Community Development Amendments of 1981 to permit projects in the pipeline to be processed. Most such projects have now been processed or cancelled, and those still in the pipeline have secured commitments which will make possible the provision of insurance after September 30, 1982 pursuant to a commitment to insure made before that date. Thus, there is no necessity to extend the insuring authority.

The authority to insure armed forces housing under title VIII of the National Housing Act (sections 809–810) is not extended beyond the current September 30, 1982 expiration date. These programs have been inactive for several years; no insurance was written under their authority during fiscal year 1981, and no applications for insurance are currently pending.

Finally, there has been little activity under the Title XI authority to insure Group Practice Facilities, suggesting that whatever need exists is being met adequately by the private market. Accordingly, no further extension of this authority is necessary.

Commitments to insure under Title VIII and Title XI entered into before the scheduled September 30, 1982 expiration date will be honored after that date.

Federal Housing Administration general insurance fund

Section 302 amends section 519(f) of the National Housing Act to authorize the appropriation of such sums as may be necessary to cover losses of the General Insurance Fund. Existing law contains

...rall ceiling on the amounts which may be appropriated for this ...rpose.

Losses sustained as a result of the sale of acquired property are not a function of the amount authorized for appropriations to restore the ...es. The losses represent the difference between the purchase price of units acquired through the Department's insurance activities, ex...es incurred through maintenance and repair and the proceeds ...lized from sale of these properties. The authorization does not ...t the loss but merely places a limitation on the amount which may ...ought in recompense for losses already sustained. The present ...thorization limitation requires the Department to seek an increase ...the amount authorized for appropriation before an appropriation to restore the losses can be enacted. This amendment simplifies this ...cess by authorizing the appropriation of the sums necessary for ... purpose.

...arch authorizations

...tion 303 authorizes the appropriation of $20 million in fiscal ...r 1983 for the Department's Research and Technology Program. ...ticular areas of study in fiscal year 1983 will include:

Strategies for increasing the efficiency and effectiveness of ...sisted-housing programs through reforms of existing programs and evaluation of alternative programs;

Analysis of (1) the relationship between tax policies and hous...ng, (2) alternative housing finance mechanisms (such as alter...native mortgage instruments), (3) financial institution regula...tion and reform, and (4) alternative tax and other financial ...centives for housing;

Ways to reduce the component costs of housing (costs of de...velopment, building, financing, and operating);

Development and dissemination of better methods for com...munity management and delivery of local government services;

Identification of successful neighborhood strategies;

Analyses of new or improved alternatives for urban economic ...velopment, including an examination of enterprise zones, the ...le of small businesses, regulatory and tax relief, public finance and tax policy, changes in capital investment by cities, the im...pact of Federal tax and grant policies on central cities, and the formulation of a viable and realistic urban policy; and

Issues related to fair and nondiscriminatory housing.

...ation of requirements that FHA interest rates be set by law

...ion 304 amends the insuring authorities in the National Hous... Act which are proposed for extension beyond fiscal year 1982 ... section 235) to allow an insured mortgage or loan to bear ... at a rate agreed upon by the borrower and the lender. These ...ties are: title I—property improvement and manufactured ...an insurance; section 203—basic home mortgage insurance; ...207—rental housing insurance; section 213—cooperative hous...urance; section 220—rehabilitation and neighborhood conser... housing insurance; section 221—housing for moderate-income ...placed families; section 231—housing for the elderly; section ...rsing homes; section 234—condominiums; section 240—homeowner purchases of fee simple title; section 241—supplemental loans for multifamily housing projects, health facilities and energy conserving improvements; section 242—hospitals; and title X—land development.

The proposal repeals section 3 of Public Law 90-301—HUD's interim authority to establish maximum FHA interest rates—as well as section 4 of that Act, which established a commission on interest rates which expired in 1969.

The amendment to section 235 provides for continuation of the Secretary's authority to set interest ceilings, essentially in the same manner as is authorized under present law in Public Law 90-301. This reservation of authority for purposes of section 235 mortgages is necessary to close out, during fiscal 1983, the section 235 homeownership program for lower income families. Since the section 235 subsidy is the difference between the actual interest rate on the mortgage and a below market rate set by HUD, to allow negotiated interest rates in this program might prove prohibitively expensive. Since the authority to insure under section 235 is proposed for expiration on September 30, 1983, the need for a continuation of Secretary-established interest ceilings is only temporary.

The administered ceiling on the FHA contract interest rate has outlived its usefulness. The ceiling is an outdated manifestation of concern that some lenders would take advantage of buyer ignorance and charge an "above market" rate of interest. Mortgage rates were relatively stable in the post-WW II years by today's standards, but differed among various regions of the country. This difference reflected the relatively greater demand for funds in some areas and the immobility of mortgage funds across regions. In the interest of promoting a truly national mortgage market and facilitating the flow of funds between regions, FHA attempted to set a national mortgage rate.

Over the years the perception has developed that, by setting a ceiling, FHA determines mortgage interest rates. This is simply not the case. FHA mortgages are sold to investors at market yields. Investors discount the loans to bring the yield up to those available on alternative investments. These discount "points" can be ultimately passed on to borrowers, typically in the price charged by the seller.

Mortgage markets are now national in scope and extremely competitive. Homebuyers can readily obtain information on the going rate for a mortgage loan, and can negotiate for themselves a market interest rate. Thus, the ceiling is no longer needed.

The recent volatility in interest rates has made the ceiling extremely difficult to administer. The FHA ceiling must reflect current market interest rates if homebuyers are to obtain mortgage credit. When interest rates move by as much as five discount points within a week, as they have recently, it becomes increasingly difficult to administer the contract interest rate effectively.

In summary, the FHA will follow the conventional mortgage market by letting the borrower and lender determine the mortgage interest rate.

Subsection (c) of section 304 amends title V of the National Housing Act by adding a new section entitled "SEC. 533. LIMITATION ON DISCOUNT POINTS AND INTEREST RATES." This new section provides that the Secretary may limit the amount of discount points which may be paid by the borrower or mortgagor in connection with mortgages insured under this Act. This action may be determined to be necessary to maintain the low downpayment feature of the loan and mortgage insurance programs of this Act.

The Secretary may also prescribe limitations on a maximum rate of interest on a mortgage or loan under a particular authority or for a particular type of mortgage.

Treatment of FHA single family mortgage insurance premiums

Section 305 amends the single family insuring authorities of the National Housing Act to exclude the amount of the mortgage insurance premiums paid at the time the mortgage is insured from the applicable maximum mortgage and down payment requirements. These changes are intended to complement the Department's proposed revision to the single family insurance premium collection structure. Under this plan, the Department will, by regulation, require the purchaser to pay at the time of settlement the total expected amount of premium due, based upon the average expected term of the loan. The premium will be calculated on a discounted present value basis and will be considered as an eligible expense, included within the amount of the approved loan.

This new procedure will result in significant reductions to the workload of the Department, and also will free loan servicers from the monthly remittance requirement on new loans. The change is expected to have only a small impact on the home purchaser's monthly payment requirement, while increasing premium receipts early in mortgage life.

Under current law, however, the amount of the mortgage insurance premium payable at settlement is included in the amount of the principal obligation of the loan against which the statutory maxima are applied. If the higher amounts contemplated by the new procedure were similarly included, there would be a corresponding decrease in the insurable mortgage amount attributable to the dwelling being purchased. The amendments would prevent this result by excluding the amount of the premium from the maximum mortgage determinations. Similarly, since insurance premiums are presently included in determining down payment amounts, the amendments would exclude them from down payment determinations. The amendments would, however, not reduce the amount of insurance protection which is afforded the lender.

Non-occupant single family mortgagors

Section 306 provides higher maximum mortgage amounts for non-owner-occupant, one- to four-unit dwellings insured under section 203 of the National Housing Act.

Current law limits the principal amount of an owner-occupant mortgage which may be insured under section 203(b) to the lesser of specific dollar amounts or loan-to-value ratios. Thus, the maximum insurable amount for a typical single family home is the lesser of $67,500 or the sum of 97 percent of the first $25,000 of value and 95 percent of the remainder. Section 203(b)(8) of the Act limits the maximum insurable amount for investor-owners to 85 percent of the owner-occupant ceiling. Thus, for a typical single family home, the limit is 85 percent of $67,500 or $57,350.

This amendment sets the investor limit at the lesser of the otherwise applicable dollar amount or 85 percent of the otherwise applicable loan-to-value ratio for owner-occupied units. This will make the maximum dollar amount which may be insured for investors the same as that for owner-occupants, while at the same time retaining existing restrictions on the percent of value which could be insured for investor-owners. The proposed change will help stimulate investor interest in one- to four-unit dwellings, thereby resulting in increased rental housing supply.

Premium changes for insurance of alternative mortgage instruments

Section 307 authorizes the Secretary to increase, if necessary, premium charges for insurance of mortgages involving alternative financing mechanisms such as graduated payments, adjustable interest rates, shared appreciation, or growing equity.

Section 203(c) of the National Housing Act authorizes the Secretary to vary premium charges for the insurance of mortgages under the separate sections of title II of the National Housing Act, but premium charges among mortgages insured under a particular section of the Act must be uniform. The alternative mortgage plans authorized pursuant to revised section 245 and new sections 247, 248 and 249, (and other alternative mortgage instruments which may be developed under existing authority) may require additional premium charges to make the provision of insurance actuarially sound. Alternative financing mechanisms are intended to be used in conjunction with existing basic mortgage insurance statutes contained in title II. Thus, for example, a single family home with an adjustable rate mortgage might be insured "under" section 203(b), "pursuant to" section 247. This amendment makes clear that, when alternative fifinancing is used in conjunction with a particular section of title II authorizing insurance, the Secretary may provide for premium charges which are not the same as those which would be applicable to a level payment mortgage insured under the same section, and that premium charges applicable to such alternative mortgage instruments may exceed 1 percent per year where necessary.

GNMA and FHA limitations

Section 308 amends section 306 of the National Housing Act to allow GNMA to make commitments to issue guarantees up to the aggregate amount of $68,000,000,000 during fiscal year 1983.

Section 531 of the National Housing Act is amended to allow FHA to make commitments to insure loans and mortgages up to the aggregate principal amount of $41,000,000,000 in fiscal year 1983.

Discretionary authority to regulate rents and charges

Section 309(a) removes language in section 207 of the National Housing Act mandating that the Secretary regulate project rents and rates of return, and substitutes discretionary authority in the Secretary to provide for such regulation. This change (and the parallel amendment of section 234(d)(2) contained in subsection (b)) will conform these authorities to other National Housing Act multifamily authorities (sections 220(d)(2)(A), 221(d)(4), and 231) which provide for discretionary authority to regulate rents and charges.

The purpose of these changes is to permit the Department to deregulate rent levels in unsubsidized insured projects. Deregulation is expected to help assure the financial stability of insured projects, and to reduce administrative costs for the Department by eliminating the review and processing of applications for rent increases.

It should be noted that such deregulation would have applicability, not only to future unsubsidized project mortgages, but to existing mortgages as well. After appropriate regulatory changes were promulgated pursuant to these amendments, existing mortgagors would be permitted to amend their regulatory agreements to remove requirements for HUD approval to rent increases. The Department would, however, reserve the right to resume regulation of rents and charges for any such project in the future.

Mortgage insurance for manufactured home parks for the elderly

Section 310 amends section 207(b)(2) to permit the insurance of manufactured home parks designed exclusively for occupancy by the elderly. Present law states that the insurance of section 207 mortgages is intended to facilitate particularly the production of rental accommodations "suitable for family living." Section 207(b)(2) goes on to prohibit the provision of insurance under section 207 unless the mortgagor certifies under oath that there will be no discrimination "by reason of the fact that there are children in the family. . . ."

This amendment retains this basic rule, but provides language clarifying that exception may be made with regard to manufactured home parks designed exclusively for the elderly. Recent surveys indicate that about one-third of all manufactured home units are occupied by elderly persons. Since section 207 is the only authority for insuring manufactured home parks, the change in section 207(b)(2) proposed by this section of the bill is necessary to meet the need for insurance to help parks designed, constructed and managed for occupancy exclusively by the elderly.

Revised mortgage limits for substantial rehabilitation

Section 311 amends the mortgage limit provisions of Sections 220, 221(d)(3) and 221(d)(4) of the National Housing Act to facilitate refinancing to perform substantial rehabilitation. Currently under these provisions, the limits on mortgages for substantial rehabilitation of properties are 90 percent of the sum of the cost of repair plus the value of the property before rehabilitation. However, where there is an existing mortgage, and application to insure a new mortgage under these provisions is made, the mortgage limits would be based on the estimated cost of repairs plus the existing indebtedness (rather than the value of the property before repair). The amendment deletes the latter formula, so that the mortgage limits would be the same for refinancing as it is for new financing for substantial rehabilitation.

The limitation involving existing indebtedness for refinancing in the current laws prevents owners from realizing any of their equity if they wish to rehabilitate a project and retain ownership. This forces sales of properties if the owners are to realize any equity from the project. This limitation is contrary to a policy of encouraging rehabilitation and retention of rental property by present owners. As a result of this policy, many projects requiring rehabilitation cannot receive the needed rehabilitation without the sale to another owner.

This section further amends sections 207(c)(3), 220(d)(3)(B)(iii), and 221(d)(3)(ii) and 221(d)(4)(ii) to a uniform schedule of mortgage limits at a level 20 percent higher than the existing level in section 221(d)(4). These basic mortgage limits have not been increased since 1976 in the case of section 207, and not since 1978 in the case of section 221(d)(4).

In addition, section 311 provides a special schedule of higher mortgage limits for projects which fall into one of the following three categories: (1) projects which receive assistance under the new Rental Rehabilitation Program; (2) projects in which at least 20 percent of the units are available for occupancy for at least ten years by persons and families who incomes do not exceed 80 percent of area median income; and (3) projects which are subject to a mortgage which is coinsured with a private lender under section 244 of the National Housing Act.

The following table describes the proposed limits:

Type of housing unit	Proposed uniform limits	Proposed special limits
Efficiency	$23,287	[illegible]
1 bedroom	26,434	[illegible]
2 bedrooms	31,950	[illegible]
3 bedrooms	40,104	[illegible]
4 bedrooms	45,440	[illegible]
Elevator-type structures:		
Efficiency	25,154	[illegible]
1 bedroom	28,836	[illegible]
2 bedrooms	35,064	[illegible]
3 bedrooms	45,360	[illegible]
4 bedrooms	49,793	[illegible]

Section 207 has a limit of $9,000 per manufactured home space that does not appear in the other sections. This limit has been increased to $10,800.

Assignment of section 221(g)(4) mortgages to the Government National Mortgage Association

Section 312. Section 221(g)(4) permits mortgagees holding [illegible] 221 mortgages which are not in default to assign them—twenty [illegible] from the date of insurance endorsement—to the Secretary, and [illegible] receive the benefits of insurance.

The purpose of this amendment is to authorize the Secretary to direct mortgagees exercising this assignment option to deliver [illegible] mortgage and credit instruments directly to the Government National Mortgage Association. Upon such an assignment to GNMA, the [illegible] of the mortgagee would be identical to those provided in the [illegible] law. The amendment establishes a more effective process within HUD for dealing with these assignments. GNMA, acting as agent [illegible] Secretary, will take delivery of the mortgages and would pay for [illegible] with debentures issued pursuant to the current procedure [illegible] section 221(g)(4). These debentures will be debited against the [illegible] fund. Upon sale of the loans, GNMA would provide the proceeds [illegible] FHA. GNMA will be reimbursed for all administrative costs.

Without this amendment, FHA could continue to be responsible for taking assignment and servicing these mortgages, but an [illegible]

[illegible] staffing in HUD's Office of Finance and Accounting would be required, since that office is not prepared to take on the additional responsibility caused by the forthcoming eligibility of numerous section 221 mortgages for 20-year assignment.

Explicit statutory authority to instruct mortgagees to transfer these mortgages directly to GNMA eliminates the paperwork and time delays within HUD involved in requiring receipt of the mortgages by the Office of Finance and Accounting, and subsequent transfer to GNMA for purposes of handling debenture issuance and subsequent sale of the mortgages.

GNMA has the greater experience in handling such sales, and will also be in a position to "space" its sales, so that HUD mortgages will not be sold in competition with GNMA's own mortgage sales.

[illegible]mination of section 221 buy-back provision

Section 313 amends section 221(g)(4) of the National Housing Act [illegible] eliminate the "buy-back" feature of that provision with respect to commitments to insure under section 221 entered into after the effective date of the Housing and Community Development Amendments of [illegible]. Section 221(g)(4) now permits mortgagees to assign to HUD [illegible] mortgages which are in their 20th year of amortization. HUD exchanges the mortgages for debentures at the going rate for the face [illegible] of the outstanding debt. The amendment only affects those mortgages for which commitments to insure were made *after* the effective date of the provisions.

Because of the current high interest rates, it has become more and [illegible] advantageous for mortgagees to assign mortgages to HUD and [illegible] debentures at the "going rate" of interest. This proposal would [illegible] expected future losses to the FHA insurance funds based on [illegible] transacted after the provision's effective date.

[illegible] insurance for condominiums

Section 314 amends section 234(c) of the National Housing Act to [illegible] insurance of any condominium unit in a project that has been [illegible] by the Secretary. The amendment expands HUD's authority [illegible] insuring individual condominium units in a project by eliminating the conditions to such insurance contained in existng law. Under current law, HUD may insure individual condominium units if one [illegible] following conditions is met: (1) the project is or has been FHA- [illegible] or VA-approved; (2) there are less than 12 units in the building [illegible] (3) if the building has 12 or more units it is more than a year [illegible] also provided that the mortgagor is limited to the purchase of [illegible] than four units covered by mortgages insured under section [illegible] These restrictions are eliminated. The separate provisions for [illegible] maximum mortgage amounts are also eliminated and the [illegible] will be determined under the same provisions as section 203 [illegible] changes will simplify the insuring process and eliminate [illegible] and degree of FHA review and regulation.

[illegible] is an additional amendment to section 234 with special provi[illegible] projects converted from rental housing to condominium own[illegible] In this case, insurance may not be provided unless (1) the con[illegible] occurred more than one year prior to application for insurance,

(2) the mortgagor was a tenant of that rental housing, or (3) the conversion of the property is sponsored by a bona fide tenants organization representing a majority of the households in the project.

Cooperative housing

Section 315 amends section 203(n) of the National Housing Act to provide that the Secretary may insure loans to purchase stock or a membership in a cooperative ownership corporation not previously insured under the Act if the Secretary examines and does not disapprove the underlying mortgage, and if construction was completed more than a year before application for mortgage insurance. Additionally, the limitation of eligibility for mortgages to nonprofit cooperatives only is removed. These actions are necessary to expand the ability of the Secretary to meet the insuring needs of this important sector or the housing industry.

Removal of restriction on FHA co-insurance

Section 316 strikes the second and third sentences of section 244(d) of the National Housing Act. These provisions limit the amount of mortgages and loans which may be insured on a coinsured basis by the FHA to 20 percent of the aggregate principal amount of all mortgages and loans insured under Title II of the Act. The 20 percent limitation also applies separately to multifamily and single family mortgages.

With respect to multifamily mortgages, HUD anticipates fewer insurance applications in both fiscal year 1982 and fiscal year 1983, as well as a drop in the overall amount of multifamily mortgage insurance written. This will occur at a time when HUD has developed regulations for coinsurance for purchase of refinancing of multifamily properties (under section 223(f)) and for private lender financing of new construction or substantial rehabilitation (under section 221). State Housing Finance Agencies already may coinsure and perform delegated processing under section 221, which accounts for approximately two-thirds of FHA's multifamily business. The new incidence of diminishing overall multifamily insurance activity and increased policy and program emphasis upon coinsurance makes the existing 20 percent limitation of section 244(d) a severe inhibiting factor in carrying out FHA multifamily operations. Removal of the restriction will permit a more extensive and more effective FHA multifamily insurance program than would otherwise be possible.

With respect to single family insurance, HUD estimates that both applications and the amount of insurance written will increase in fiscal year 1982 and fiscal year 1983. In fiscal year 1981, coinsurance written represented about 1.25 percent ($156 million) of single family insurance written ($12.5 billion). Although single family operations may continue to work within the 20 percent limit for the present and in multifamily operations, HUD will be making improvements in the coinsurance regulations with a view toward making the coinsurance approach more attractive to lenders. HUD anticipates a substantial increase in coinsurance activity as a consequence.

The benefits of coinsurance are clear and compelling: it maximizes the role of the private sector, it reduces processing time through

gated processing, and it limits HUD's exposure to losses through risk sharing. By removing the current 20 percent restriction, increased cooperation and direct involvement of the private sector in FHA insurance programs will be possible.

Alternative mortgage instruments

Section 317 expands the Secretary's authority to insure mortgages using alternative mortgage instruments. Subsection (a) amends section 245 of the National Housing Act to consolidate the separate authorities now contained in section 245(a) and (b) into a single graduated payment mortgage (GPM) authority for one- to four-family dwellings in accordance with the more generous limitations now contained in section 245(b), and to eliminate certain restrictive features of the present section 245(b) GPM program. In addition, there are amendments in revised subsection (c) to make possible the use of GPM's for multifamily projects.

The revisions to section 245(b) delete the threshold requirement that a mortgagor be unable reasonably to afford to finance a purchase by means of any other mortgage insurance program. This change makes any otherwise qualified mortgagor eligible for an insured graduated payment mortgage.

Second, the requirement limiting section 245(b) insurance to mortgagors who have not owned dwelling units within the preceding three years is stricken.

Finally, restrictions on the number of mortgages or the aggregate amount of initial principal obligation of mortgages insured under section 245 are removed.

Section 245(c) amendments provide authority for GPM's for multifamily insured projects. A major deterrent to the production of multifamily housing is the high cost of financing. Availability of GPM's will assure lower principal and interest payments on the mortgage in the early years of a project. Later, as debt service payments increased, reasonable rental increases would cover these costs. Use of the GPM approach in the multifamily context will assist the badly sagging rental housing market without the help of Federal subsidies.

GPM's for multifamily projects will not, however, have requirements identical to those applicable to single family insuring authorities. The initial principal obligation of a multifamily mortgage will not be permitted to exceed the percentage of value or replacement cost required by the particular title II insuring authority with which the GPM authorization was linked. During the term of the mortgage, the principal obligation (including interest deferred and added to principal) will not be permitted to exceed the property's projected value at any time.

Projected value of a multifamily project will be determined in the same manner as under current section 245 for single family dwellings—by means of a HUD calculation based on the initial value of the property, projecting increased value at a rate not to exceed 2½ percent per year.

Adjustable rate single-family mortgages

Subsection (b) of Section 317 of this Act provides authority for HUD to insure single-family Adjustable Rate Mortgages (ARM's) on a limited basis. Under the authority, insurance activity would be limited to 125,000 mortgages in any fiscal year. Interest rate adjustments will be indexed to a national interest rate index which the Secretary of HUD would specifically approve in regulations.

These FHA-insured adjustable rate mortgages will include safeguards for the consumer. To protect participating homeowners, statutory limits would control the size and frequency of interest rate adjustments. A limit of one adjustment per year, with maximum increases in the interest rate of 1 point a year and 5 points over the life of the mortgage, will be established. In carrying out this section, the Secretary is instructed to consult with the Comptroller of the Currency and the Federal Home Loan Bank Board to assure that regulations under this section are, to the maximum extent possible, consistent with the adjustable rate mortgage regulations of those agencies. The mortgagee will be required to provide information to the mortgagor describing particular features of the variable rate mortgage, including a hypothetical "worst case" payment schedule.

At present, HUD cannot insure a mortgage financed with a variable interest rate. If inflation rates and interest rates remain high, the ARM is likely to become a primary mortgage instrument available to a purchaser in the conventional market. In that event, it would be desirable for FHA to be able to offer a choice between ARM's and fixed-rate mortgages.

Shared appreciation mortgages—single family

Section 317(b) proposes a new section 248 of the National Housing Act which would provide authority for HUD to insure Shared Appreciation Mortgages (SAM's) for single-family housing, including cooperatives. Insurance activity would be limited to 50,000 mortgages in any fiscal year.

Because of current economic conditions, including high and volatile interest rates, alternative mortgage instruments such as the SAM should be insurable by FHA in order to supplement the standard fixed-rate mortgage, and to provide homebuyers with an alternative to the Department's Graduated Payment Mortgage (GPM) program and the proposed Adjustable Rate Mortgage (ARM). SAM's make possible substantial reductions in down payments, early year monthly mortgage payments or both, in return for a percentage share of any appreciation accruing to the property. The SAM is particularly well suited to prospective secondary market purchasers; to the extent effective yields are keyed to property appreciation, such mortgages in most cases will provide a direct hedge against inflation.

Under this amendment a lender's share of the appreciated value of the property or share in the cooperative will be due and payable at the time the insured property is sold or transferred, or, in the event there is no such sale or transfer, upon payment of the mortgage.

The Secretary shall prescribe safeguards for buyers and owners which will include maximum shaaring provisions and full disclosure of the terms and conditions of the mortgage contract.

In the event of a default, the mortgagee will have a right to receive an insurance claim, but insurance benefits will not include the mortgagee's share of net appreciated value.

This proposal reflects HUD's intent to serve first-time homebuyers, and to generally upgrade the Department's insuring authority to be responsive to current needs and effective in the current mortgage market.

Shared appreciation mortgages—multifamily

Section 317(b) also provides authority for HUD to insure Shared Appreciation Mortgages (SAM's) for multifamily housing. Insurance activity would be limited to 50,000 mortgages in any fiscal year. In addition, subsections (c) through (f) would amend sections 207(c)(3), 220(d)(4), 221(d)(6), and 231(c)(5), respectively, to allow HUD discretion to insure loans which do not completely amortize over the loan term.

Current economic conditions have made the production of multifamily rental housing difficult. A particular problem facing the multifamily housing industry is the reluctance of lenders to invest in fixed-rate mortgages of 30 or 40 years duration. Alternatives to traditional long-term mortgage instruments need tobe insurable by HUD in order to stimulate unsubsidized rental construction.

The multifamily SAM will allow HUD to insure loans of 15 years or longer which have level payment amortization schedules which would completely amortize in 30 years or less. Mortgagors would be allowed to take advantage of the generally lower interest rates available for shorter term financing.

Under this amendment, a lender's share of the appreciated value will be due and payable at the time the insured property is sold or transferred or at the expiration of the loan term.

Used either in tandem or separately, the multifamily SAM proposal and the proposed discretion in the Secretary to insure mortgages which do not provide for complete amortization will substantially lower the monthly mortgage payments on multifamily loans and thereby encourage the production of rental housing.

Structural defects in insured property

Section 518(a) of the National Housing Act authorizes the Secretary to make expenditures to correct or compensate for structural defects in single family homes which were approved for FHA insurance prior to construction. Section 318 amends section 518(a) to clarify that the Secretary may also correct or compensate for structural defects in FHA-insured new homes which were approved for guaranty by the Veterans Administration prior to construction. Section 203 of the National Housing Act states that VA loan guaranty, insurance or direct loan approval prior to the beginning of construction may be substituted for the Secretary's approval. The proposal clarifies that VA approval is the equivalent of the Secretary's for purposes of correcting or compensating for structural defects.

Form of payment of premium charges

Section 319 amends section 530 of the National Housing Act to clarify that the Department's obligation to collect mortgage insurance premiums on a monthly basis, and to charge interest for late payment of monthly premiums, applies only to the Department's single family programs. The amendment permits continuation of the existing practice of collecting premium payments from multifamily mortgagees on an annual basis, with interest payable only in the case of later remittance of the annual payment.

In the past, HUD has not required monthly collection of premiums for its multifamily mortgages. Premiums for those programs are paid by the mortgagor in advance and are escrowed by the mortgagee. Collection of these premium payments on a monthly basis would increase paperwork and would be staff-intensive. It would also unnecessarily disrupt existing finance and accounting operations, which are geared to annual receipt of such payments.

As amended, section 530 will continue to require that premiums be paid "promptly upon their receipt from the borrower" in the case of the single family programs, but will require, for all other insuring authorities, that premiums be paid "promptly when due to the Secretary" i.e., annually). Interest payable to the Secretary will continue to be required for late payment of premiums, but such interest will accure beginning twenty days after the mortgagee's receipt of premium payments from the borrower in the case of single-family mortgages, while in the multifamily programs, interest will be due for the period beginning twenty days after the premium payment's due date.

Single family mortgage insurance on Indian reservations

Section 320 adds a new section to title V of the National Housing Act authorizing the Secretary to insure a mortgage covering a one- to four-family dwelling executed by an enrolled member of an Indian tribe covering property located on an Indian reservation or other trust or restricted land without regard to limitations in the NHA, such as those regarding marketability of title, or any other statutory restriction which impedes the availability of mortgage insurance on Indian lands. The insured dwelling will have to be a principal residence.

The unique nature of the ownership of land on Indian reservations and laws governing the disposition of Indian land makes lenders unwilling to provide mortgage financing for housing * * *. HUD can induce lenders to make mortgage loans by providing insurance but the National Housing Act has requirements for insurability relating to marketability of title that cannot be met by land held in trust or otherwise restricted by the Department of the Interior. The proposal enables the Secretary to make mortgage insurance available without regard to such statutory restrictions. Mortgages insured under this section will be obligations of the General Insurance Fund.

Amendment to Multifamily Mortgage Foreclosure Act

Section 321 repeals section 367(b) of the Multifamily Foreclosure Act. This section now requires that the purchaser of a foreclosed project must continue to operate the project under the terms of the original program if the majority of residential units are occupied at the time of sale. The Secretary is also given the discretion to require operation under the terms of the original program in all other foreclosure sale situations.

The Secretary has requested that he be given the flexibility to dispose of projects in such a way that will balance the need to maintain an adequate supply of low and moderate income housing with

...work of protecting the financial interests of the Federal Govern- ...t. The effects of the existing requirements reduces the already ... number of buyers interested in such properties as well as re- ...ing the price which the remaining buyers are willing to bid.

...ntion of fraud and abuse in HUD and FmHA assisted programs

...tion 322 contains a number of provisions to help prevent fraud ... abuse in HUD and FmHA assisted programs. Subsection (a) ...res an applicanat for assistance involving loans, grants, interest ...idies, other financial assistance of any kind or mortgage or loan ...ance to (1) include his or her social security number or em- ...r identification number on forms designated by the Secretary ... (2) sign a consent form authorizing the Secretary to verify and ... information furnished by the applicant and authorizing other ...rnment agencies and private sources to release information related ... determination of eligibility or benefit level or post-verification ...of. Information provided pursuant to this subsection will be ...dential except for use pursuant to this section as determined ... Secretary. Such information can include, but is not limited to, ... unemployment compensation, VA benefits, and benefits under ...ocial Security and Food Stamp Acts. Failure to comply with the ...ements of this subsection will be grounds for rejection of the ...ation or termination of participation in the program involved. ... Secretary will define the term "applicant" for purposes of this ...ection.

...bsection (b) requires State unemployment agencies to release ...rmation to HUD, the Department of Agriculture, and public ...ng agencies concerning applicants' wage information and un- ...oyment benefits.

...section (c) provides that the entity responsible for determining ...bility and/or level of benefits under the United States Housing ... of 1937, section 101 of the Housing and Urban Development Act ... or section 221(d)(3) or 236 of the National Housing Act, in- ...g PHA's and owners of such projects, or under title V of the ...ng Act of 1949, of the National Rural Housing Act, shall deny ...pation in the particular program benefits to any applicant who ...ly made incorrect or misleading statements, concealed or ...ld any relevant facts or otherwise violated these Acts or any of ...egulations.

...ection (e) amends section 214(b) of the Housing and Commu- ...evelopment Act of 1980 to extend the prohibition against finan- ...stance to certain aliens to include the 221(d)(3) program.

...epartment must have social security numbers and employee ...ation numbers in order to make efficient and effective reviews ...tance eligibility and level, to reduce administrative error, and ...raudulent transactions. The social security numbers are the ...iform and accurate means of identification, and their unique- ...akes it possible accurately to identify individuals in records of ...ncies. Provision of the social security numbers and the appli- ...ent to the Secretary obtaining data from other agencies, as ... by subsection (a), would enable HUD to verify the accu- ...applicants' information and, accordingly, prevent fraud and ... The requirement to provide social security numbers is similar to that used in the food stamp program to prevent fraud. Additionally, the General Accounting Office has recommended enactment of such legislation on a government-wide basis.

Access to data bases maintained by State unemployment agencies, as authorized by subsection (b), is needed to enable the Department to undertake post-audit, quality control, and other investigative reviews, based on computer matching to such data bases. This amendment will help the Department to assure that complete and accurate information has been submitted by beneficiaries of HUD programs. The Department of Agriculture has been given similar authority in connection with its Food Stamp program.

Subsection (c) provides clear statutory authority for public housing agencies and owners of projects assisted under the public housing, section 8, rent supplement, section 221(d)(3), section 236 and title V of the Housing Act of 1949 programs to disqualify applicants from eligibility for admission or for continued benefits if the applicant makes false and misleading statements or concealed relevant facts. The public housing agencies and owners of assisted projects will follow up and verify information affecting eligibility and benefits levels based on data furnished by the Secretary. By allowing resolution of such matters at the local level, several goals are achieved. The Department will be providing a means for combating fraud, assisting in debt collection efforts, and allowing for greater local administration of the program.

Since the 221(d)(3) program also provides a financial benefit to tenants, it should be included, as provided by subsection (e), along with the other rental assistance programs in the prohibition against financial assistance to aliens. Also, the amendment is needed to prevent the anomalous situation where some of the tenants in a [illegible] 221(d)(3) project are subject to the section 214 prohibition (rent supplement tenants) while others are not.

Housing counseling assistance

Section 323 amends section 106(b)(3) of the Housing and Urban Development Act of 1968 to authorize $5,000,000 for Housing Counseling Assistance for fiscal year 1983. Additionally, section 101 of the Act, which authorizes housing counseling assistance for mortgagors under section 235(i) or 235(j)(4) of the National Housing Act, is repealed. Finally, section 230(d) of the National Housing Act, which directs the Secretary to provide housing counseling to persons assisted under the TMAP program, is also repealed.

Neighborhood reinvestment corporation

Section 324 amends section 608(a) of the Housing and Community Developments of 1978 to include $15,512,000 in authority for fiscal year 1983 for the Neighborhood Reinvestment Corporation.

Section 325 amends section 2(b) of the National Housing Act to bring the insuring of mortgages on manufactured homes into relation with homes insured under section 203(b). The mortgage limit for a manufactured home is set at 80 percent, and a manufactured home and lot is set at 90 percent of the maximum limit under section 203(b). The term of a mortgage is lengthened to 30 years. A redundant provision regarding high cost areas is eliminated.

A new paragraph is added to subsection b(6) allowing an existing manufactured home purchased with other financing to be refinanced under this section if the home was constructed to the HUD code.

Section 203 is amended to allow the insuring of a mortgage secured by a home constructed to the HUD code and fixed to a permanent foundation.

Federal National Mortgage Association amendments

Section 326 contains six amendments to the Federal National Mortgage Association Charter Act.

Subsection (a) removes all references in section 302(b)(2) to mortgage purchase limits, and gives FNMA discretionary authority to determine any limitations. Removal of the limits will enable the secondary market to more fully support primary lenders. Congress removed all such restrictions on savings and loan associations and other originators in 1980.

Subsection (b) authorizes FNMA to issue preferred stock and makes the preferred stock freely transferable. The ability to issue preferred stock will enhance the Association's flexibility in making financial arrangements.

Subsection (c) repeals the provision that restricts the amount of subordinated obligations of the Association may be outstanding at any time to twice the amount of the corporation's capital, surplus and undistributed earnings. Removal of this limitation will allow the normal operation of the market place to determine the appropriate relationship between FNMA's subordinated obligations and the sum of its capital, surplus and undistributed earnings.

Subsection (d) repeals the provision that limits to twelve month the loans made by the Association on the security of mortgages. Removal of this limit will enable FNMA to make these loans for such terms as it deems appropriate. This will provide a profitable source of business to mitigate losses during this period of adverse financial conditions and will enable FNMA to satisfy the need for longer-term loan arrangements expressed by many homebuilders.

Subsection (f) authorizes FNMA to purchase any mortgage held by either the FDIC or the FSLIC whether or not such mortgages meet the requirements of FNMA's regular mortgage purchase programs.

Federal Home Loan Mortgage Corporation amendments

Section 327 amends section 305(a)(2) of the Federal Home Loan Mortgage Corporation Act to remove all references to mortgage purchase limits and gives the Corporation discretionary authority to determine any limitations. The Corporation is also authorized to purchase any mortgage held by either the FDIC or the FSLIC whether or not such mortgages meet the requirements of the Corporation's regular mortgage purchase programs.

Prepayment

Section 328 adds a new section to the National Housing Act entitled "Sec. [illegible] Prepayment." This new section provides guidelines for the [illegible] in the event an owner of a project offers to prepay the mortgage and thereafter be exempt from the requirements of the original program under which the project was insured or funded.

In the case of projects which require approval of the Secretary for prepayment, the Secretary must determine that the project is no longer meeting a need for rental housing for low income people. Alternatively, the Secretary can determine that the needs of the tenants can be more efficiently and effectively met through other Federal housing assistance taking into account the remaining time the project could meet such needs.

The tenants of the project must be notified and have an opportunity to comment on the owner's request for prepayment. In addition to considering these comments, the Secretary must also ensure that there is a plan for providing relocation assistance to those lower-income tenants who will be displaced.

In the case of projects where the owner has the right to prepay the mortgage without the Secretary's approval, the Secretary shall attempt to forestall the prepayment by giving a priority for additional section 8 and troubled project assistance for the project to the extent that funds are available.

An owner of a project which receives the priority assistance must agree to maintain the low-income character of the project for at least the remaining term of the mortgage to the extent that assistance is provided. The owner must also grant priority to applicants to become tenants who have the lowest incomes, and must fully utilize the assistance which is available to the project.

Mortgage interest rate survey

Section 329 requires the Federal Home Loan Bank Board to include in its Mortgage Interest Rate Survey for the next two years median mortgage loan and median purchase price data for each State and the standard metropolitan statistical areas of each State.

TITLE IV—ALTERNATIVE MORTGAGE TRANSACTIONS

Section 401.—The short title of Title IV is the "Alternative Mortgage Transaction Party Act of 1982".

Section 402.—The "Findings and Purpose" section declares Congress' concern over the inability of housing creditors to continue to provide traditional fixed-term, fixed-rate credit secured by residential property. Recognizing that the Federal regulatory agencies have issued regulations authorizing federally chartered depository institutions to provide alternative mortgage financing and that such financing is essential to the maintenance of an adequate supply of housing credit for the Nation, the Congress finds it necessary to eliminate discrimination against non-federally chartered housing creditors by authorizing such creditors to make, purchase and enforce alternative mortgage transactions so long as they are undertaken in accordance with Federal regulations.

Section 403.—Two terms are defined in this section.

An "alternative mortgage transaction" is defined as any transaction other than a traditional fixed-rate, fixed-term loan or credit sale secured by an interest in residential real property, the stock of a residential cooperative, a residential manufactured home or any other dwelling.

"Housing creditor" includes depository institutions, HUD approved mortgagees, any other person who regularly makes loans secur-

interest in residential property and any transferee of such creditors. If State law requires persons to be licensed in order to transact business, then in order to be a "housing creditor" under this title, a person must be licensed and must comply with all regulatory requirements applicable to such licensing, other, of course, than any requirements that are displaced by this title.

Section 404.—In order to prevent discrimination against non-federally chartered housing creditors, this section authorizes a federal alternative to state law for such creditors which permits them to engage in the same alternative mortgage transactions as those authorized for federally chartered depository institutions by the Comptroller of the Currency, the National Credit Union Administration and the Federal Home Loan Bank Board. Through this legislation, banks, credit unions and all other housing creditors, respectively, are being authorized to engage in transactions in accordance with regulations issued by those federal agencies for the institutions that they charter. This does not place non-federally chartered housing creditors under the supervision of the federal agencies, but instead merely enables them to follow a federal program as an alternative to state law. Recognizing traditional industry lines, Title IV authorizes commercial banks, including their subsidiaries, to engage in transactions in accordance with regulations of the Comptroller of the Currency, credit unions to follow the regulations of the National Credit Union Administration and all other "housing creditors", including savings and loan, savings banks, mutual savings banks, industrial banks and similar financial institutions, nonbank subsidiaries of bank holding companies, etc., to follow the Federal Home Loan Bank Board's regulations.

Alternative mortgage transactions may be made by housing creditors in accordance with the authorization provided in this section, notwithstanding any state law, including judicial constructions of such law.

Section 405.—This section provides the states with the opportunity to reject the alternative federal program authorized in this title for transactions that are subject to the laws of the state, so long as, the state takes action within three years of the enactment of this title.

Section 406.—This section makes clear that certain provisions of the Depository Institutions Deregulation Act of 1980 which are inconsistent with this title and which would interfere with its operative provisions are not applicable to transactions undertaken pursuant to this title.

Section 407.—This title becomes effective upon enactment. Within 60 days of enactment, this section requires the federal regulatory agencies to make conforming amendments, including any necessary terminology changes, to existing regulations. This is necessary in order to clarify which provisions are inappropriate for, and therefore inapplicable to, nonfederally chartered institutions and to modify any provisions which may be inconsistent with the objectives of this title. In addition, it is expected that any future amendments that the agencies make to regulations that are within the scope of this title will conform to the objectives of, and creditors covered by, this title. The Committee also expects that the regulatory agencies will not discriminate against non-federally chartered housing creditors in providing guidance regarding their regulations and will respond to requests for clarifications and guidance from creditors that are authorized to follow their regulations in the same manner as they do for the institutions they charter.

TITLE V—RURAL HOUSING

Section 501 states that this title may be cited as the "National Housing Act."

Part A—Amendments to title V of the Housing Act of 1949

Section 511: Termination of Interest Credit Programs

1. Section 501(a) of the Housing Act of 1949 authorizes the Secretary to extend financial assistance through the Farmers Home Administration to farmowners, their tenants or laborers; owners of other real estate in rural areas or other rural residents; and elderly or handicapped persons who own land in rural areas. This assistance is to be used for the construction improvement, alteration, repair or replacement of dwellings related facilities and farm buildings. The reference to the extension of financial assistance has been changed to "to make and insure loans", in order to reflect the elimination of subsidized loans and grants.

2. Section 501(c) provides the eligibility criteria for the assistance to construct, improve, alter, repair or replace a dwelling, related facility or farm building. The reference to assistance has been changed to "loan" in order to reflect the elimination of subsidized loans and grants.

3. Section 501(b)(2) defines the term "owner" and "mortgage" to include lessee and lease. It provides that the lease must be for a period which is longer than the repayment period of the loan. Language referring to grants under this provision has been deleted.

Loans for Housing and Buildings on Adequate Farms

4. Section 502(a) of the Housing Act of 1949 authorizes the Secretary to make loans with interest to an eligible applicant with the ability to repay the loan. Loans may be made for a period of 33 years. The reference to "assistance" has been changed to "a loan", and the provision which allowed eligible owners of farms, owners of real estate and rural residents to receive a loan at a rate of no more than 5 percent per year has been deleted. The provision which allowed elderly or handicapped owners of land to receive loans at a rate of no more than 4 percent per year has also been eliminated.

5. Section 503 provides that if the income of an eligible applicant from the farm will increase in a period of less than 5 years so that he could repay both the principal and interest of the loan, the Secretary may issue the loan under the terms and conditions outlined in Section 502. The borrower may make annual contributions equaling the annual installment of interest and half of the principal payments up until and including the fifth year. It also provides that the borrower's indebtedness is not assumable and cannot benefit a third party without the consent of the Secretary. This section has been repealed.

Other Special Loans and Grants for Minor Improvements to Farm Housing and Buildings Rehabilitation Loans and Grants

6. Section 504(a) of the Housing Act of 1949 authorizes the Secretary to make a rehabilitation loan or a combination loan and grant to any eligible applicant who cannot qualify for a loan under Section 502 and 503. A grant given to a family under this provision may not exceed 5,000 dollars and a combined loan and grant must be less than 7,500 dollars. Any portion of the assistance which is treated as a loan must be repaid within 20 years. The references to grants have been deleted throughout the provision. The limitations on loans and combined loans and grants have been deleted. In subsection (b) the reference to Section 503 has been eliminated. The reference to clause (b) of Section 513 has been changed to read "clause (a) of Section 513." Subsection (c) provided the Secretary with the authority to develop and conduct a weatherization program. The subsection has been deleted.

Moratorium on Payments Under Loans

7. Section 505 authorizes the Secretary to grant a moratorium on the payment of interest and principal on a loan for as long as necessary. The provision which authorizes the Secretary to cancel the interest due on the loan during the moratorium has been eliminated.

Technical Services and Research

8. The reference to "financial assistance" in Section 506 has been changed to read "loans."

Preference for Veterans and Families of Deceased Servicemen

9. The reference to "assistance" in Section 507 has been changed to read "loans."

General Powers of Secretary

10. Section 509(b) of the Housing Act of 1949 requires a borrower to agree that the improvements made with a loan under this title will not be a justification for detrimentally changing the terms or conditions of the lease or occupancy agreement held by the occupants of the farm. All references to grants have been removed from the provision.

Administrative Provisions

11. Section 510(f) provides that if the Secretary has determined that an area is no longer "rural" the office should continue to process the applications which were on hand before the determination. The reference to grants has been deleted from this provision.

Loan Funds

12. Section 511 authorized the Secretary to issue notes and other obligations for purchase by the Secretary of the Treasury in order to make direct loans under this title. This section has been repealed.

Contributions

13. Section 512 authorized the Secretary to make commitments for contributions of no more than 10,000,000 dollars between July 1, 1956 and October 1, 1969. This section has been repealed.

Insurance of Loans for the Provision of Housing and Related Facilities for Domestic Farm Labor

14. Section 514(a)(2) stipulated that a loan issued under this subsection with an interest rate above 1 percent will not be insured. This subsection has been deleted and subsections (a)(3), and (a)(4) and (a)(5) were renumbered accordingly. Subsection (g) authorized the Secretary to waive the interest rate limitation of 1 percent if qualified public and private nonprofit sponsors are not available and if the waiver is necessary to permit farmers to provides housing for farm laborers. The interest rate was to have been no less than one-eighth of 1 percent higher than the average interest rate on notes issued under Section 511. This provision has been eliminated.

Direct and Insured Loans to Provide Housing and Related Facilities for Elderly Persons and Families in Rural Areas

15. Section 515 authorizes the Secretary to make loans for rental or cooperative housing which will be occupied by elderly persons, handicapped persons or families of low or moderate income. Subsection (a)(2) provided that these loans must not have an interest rate which exceeds the maximum rate provided in Section 202(a)(3) of the Housing Act of 1959. This subsection has been eliminated, and subsections (a)(3) and (a)(4) have been renumbered accordingly. Subsection (b)(2) provided that insured loans for rental or cooperative housing for elderly or handicapped persons or families or other persons and families of moderate income in rural areas must have an interest which doesn't exceed the maximum rate provided in Section 203(b)(5) of the National Housing Act. This provision has also been deleted, and subsections (b)(3), (b)(4), (b)(5) or (b)(6) have been renumbered accordingly.

Subsection (f) authorized the Secretary to make and insure loans to consumer cooperatives to finance the transfers of memberships in the cooperatives with terms and conditions that low and moderate income persons can afford. These loans may not have been made at rates which are more favorable than those authorized under Section 521(a). The total loan to the cooperative could not have exceeded the value of the property. This subsection has been deleted.

Insured Rural Housing Loans

16. Section 517 authorizes the Secretary to insure loans meeting the requirements of Section 502 and make loans to be sold and insured. Subsection (a) provides that loans made to low and moderate income persons cannot exceed amounts necessary to provide modest yet adequate housing. This subsection held the interest rate to below 5 percent for these loans and required that all loans be insured and made before September 30, 1982, except if a commitment had been made before

that date. The provision required other borrowers to bear interest and provide for insurance or service charges at rates comparable to the combined rate of interest and premium charges in effect under Section 203 of the National Housing Act. This provision has been deleted and replaced with language which would again require that loans made to persons of low and moderate income not exceed amounts necessary for the provision of modest yet adequate housing. Subsection (a) also provides that no loan under this subsection can be insured or made after September 30, 1983, unless a commitment has been entered into before that date. In subsection (b) the reference to (b)(4) has been changed to (b)(3) to reflect the renumbering of the subsections in Section 515.

Loans to Provide Occupant-Owned, Rental and Cooperative Housing for Low and Moderate Income Persons and Families

17. Section 521(a) provides that loans to provide rental or cooperative housing will bear interest at the government's cost of borrowing, and describes the process of reducing the interest rate for developers as well as the requirements for the rental assistance payments.

Subsection (A) amends Section 521(a) to provide that all loans made by the Secretary after the effective date of the National Rural Housing Act will be made at the prevailing market rate. The subsection (a)(3)(A) also provides that interest rates for loans made by private lenders insured under this title after the effective date will be agreed on by the borrower and lender. These rates may not however, be in excess of the market rate determined by the Secretary.

Subsection (a)(3)(B)(1) provides that for single family housing provided under this title prior to the effective date of the National Rural Housing Act, any interest credit contract may be renewed. However, the Secretary may not enter into any new interest credit contracts for single family homes after the date of enactment.

Subsection (a)(3)(B)(2) provides that any interest credit or rental assistance contract for a multifamily project entered into proir to the date of enactment of this Title, may be renewed. This subsection retains the flexibility found in existing legislation so that the Secretary may renew both interest credit and rental assistance contracts in multifamily projects in order to maintain the economic feasibility of the project and avoid the displacement of low income families residing in these units.

Subsection (a)(3)(C) provides that for all multifamily and single family contracts entered into before the date of enactment, the tenant or homeowner's contribution shall be 30 percent of income. This provision shall not increase the individual's contribution more than 10 percent during any 12 month period, unless the increase is attributable to increases in income which are unrelated to this subsection or other law or regulation.

Housing for Rural Trainees

18. Section 522 provided housing to trainees and their families while they are enrolled and participating in training courses designed to improve their employment capabilities. This section has been repealed.

Financial Assistance to Nonprofit Organizations to Provide Sites for Rural Housing for Low and Moderate Income Families

19. Section 524 provides direct loans to nonprofit organizations for the acquisition and development of land on sites to be used for housing low and moderate income persons. Subsection (a) further provides that the interest rate on the loan reflect the current average market yield on outstanding marketable obligations for the United States with remaining periods to maturity comparable to the average maturities of the loans. This portion of the provision has been deleted. The loan shall however be repaid within a period of no more than 2 years or within a period determined by the Secretary.

Programs of Technical and Supervisory Assistance for Low Income Families

20. Section 525(a) authorized the Secretary to make grants or enter into contracts with public or private nonprofit groups for developing and administering technical and supervisory assistance programs. This subsection has been deleted. Subsection (b) authorizes the Secretary to make loans to public or private nonprofit groups for expenses such as planning, obtaining financing for the rehabilitation or construction of low income housing under any Federal, state or local housing program, prior to construction. References to these loans being made without interest and the cancellation of all or part of the debt have been omitted.

Subsection (b), (c), and (d) have been renumbered accordingly.

Conditions on Report Increases in 514, 515, and 517 Projects

21. Section 530 provided that the Secretary may not approve any increase in rental payments where tenants are paying more than 25 percent of their incomes in a 514, 515, or 517 project as well as Section 521(a)(1)(B) unless the project owner is receiving or has applied for rental assistance payments under Section 521(a)(2)(4) or Section 8. This provision has been repealed.

22. This language provides that the assets of, and any future repayments to the loan fund which was established under Section 511 will be transferred to the Rural Housing Insurance Fund.

Section 512: Manufactured Housing in Rural Areas

Section 512(a) amends Section 502 by adding language which requires that FmHA use the HUD Code as the construction standard. It also allows loans or insurance on manufactured homes in states which treat them as personal property instead of real property. Section 527 provided that "housing" shall to the extent deemed practicable by the Secretary include mobile homes and mobile home sites. Loans made for the purchase of mobile homes and sites had been made on the same terms and conditions as are applicable under Section 2 of the National Housing Act. Subsection (b) deletes this provision.

Section 513: Rehabilitation Standards

Section 504(a) authorizes the Secretary to make a grant or a combination loan and grant to cover the cost of improvements or additions if an applicant could not qualify for a loan under Section 502 or 503 and repairs should be made to a rural dwelling in order to make it safe and sanitary and remove health hazards. This also applied to farm buildings if improvements or repairs would remove hazards and make the structure safe. This provision has been amended to provide that the Secretary may make loans to cover the cost of repairs, improvements or certain additions if he determines that these repairs should be made to improve a dwelling occupied by an eligible applicant if it will improve the dwelling, make it safer or more sanitary, or remove hazards. Loans may also be made for farm building in order to remove any hazards or to make the buildings safe.

Section 514: Standards for Adequate Housing

Minimum property standards are required to be identical to those used by HUD.

Section 515: Rural Housing Insurance Fund

Section 517(k) provided that any sale of loans individually or in blocks should be treated as a sale of assets for the purposes of the Budget and Accounting Act of 1921. This provision has been amended to require the Secretary to establish and maintain a reserve against losses insured by the Secretary and sustained by the Rural Housing Insurance Fund. It also requires the Secretary to provide Congress with a report containing the amount of: loans proposed to be sold from the fund; expected repayments to be received; set-aside required as a reserve and funds required to provide interest credits on loans made from the Fund.

Section 516: Condominium Housing

This amendment eliminates the discretion of the Secretary and requires him to make and insure loans on condominium projects if they meet the requirements of the statute.

Section 517: Authorizations

Section 513 is amended to authorize the Secretary to make and insure loans made by private lenders and renew contracts under 521(a)(B) in an aggregate amount of no more than $895 million. Authorizations for loan activities under Title V are specifically identified for the 2 categories of lending activities allowed by the bill: namely loans made by the Secretary and insurance of loans made by private lenders. Of this total no more than the following amounts are available for direct lending under subsection (a):

	Millions
502 loans	$523
504 loans	11
514 loans	11
515 loans	116
524 loans	2

Under subsection (a) the Farmers Home Administration may also insure loans in an aggregate amount of no more than the following amounts:

	Millions
502 loans	$180
504 loans	5
514 loans	1
515 loans	10
514 loans	0

Subsection (b)(3) authorizes no more than $25,000,000 for Section 516 for fiscal year 1982. This subsection has been amended to authorize 22 million dollars for fiscal year 1983 and is renumbered as subsection (b)(2).

Subsection (b)(5) provides funds for the administration of section 235 and 236 of the National Housing Act and Section 8 of the United States Housing Act of 1937. This subsection has been renumbered as (b)(3.

Section 515(b)(5) is amended to extend the authorization of the program through September 30, 1983.

Section 523(f) authorized to be appropriated no more than $5,000,000 for fiscal year 1982. It provided that no grant or loan for Mutual and Self Help Housing could be made or contract entered into after September 30, 1982 unless a commitment or obligation was made before that date. This provision has been amended to authorize to be appropriated no more than $13,000,000 for fiscal year 1983.

Subsection (g) authorizes to be appropriated no more than $3,000,000 for fiscal year 1982. This subsection which gives the authority to make loans for the acquisition and development of building sites has been amended to authorize $2,000,000 for fiscal year 1983.

Part B—Rural housing block grants

Short Title

Section 521 states that this title may be referred to as the Rural Housing Block Grant Act of 1982.

Purpose

Section 522(a) states that the primary purpose of the block grant is to provide safe and sanitary housing for residents of rural areas. The legislation places an emphasis on serving the very low income persons in areas with a population of 2,500 or less, where there is a greater need for housing assistance.

Block grant funds should be used to rehabilitate existing housing; however in areas where the supply of modest housing is insufficient to meet the demands of the area, new single or multi family housing may be built. Assistance may be given to very low income persons who cannot afford to live in safe and sanitary housing and are not provided for under other assistance programs.

Section (b) further explains that this legislation intends to address more efficiently the housing needs in rural areas and will recognize the variations among individual states. This will be accomplished by: providing funds to states on an annual basis; encouraging housing activities which are consistent with local needs and objectives; furthering achievement of the national housing policy; and fostering the undertaking of housing activities in a coordinated and mutually supportive manner by Federal agencies and programs, as well as by states.

Subsection (c) requires that state financial support for housing activities should not be reduced from current levels.

Definitions

Section 523 provides the following definitions for the Act:

(1) "very low income residents" refers to rural persons having a total income of no more than 50 percent of area median income with adjustment for smaller and larger families or for unusually high or low area median income;

(2) "rural area" refers to any open country, place, town or city which is not part of or associated with an urban area and has a population of 2,500 or less. Areas which are rural in character and have a population of 10,000 or less will also be eligible for assistance under this act. If an area has a population between 10,000 and 20,000, it is considered eligible if it is rural in character and has a serious lack of mortgage credit for lower income families. This determination of credit availability will be made by the Secretary of Housing and Urban Development;

(3) "modest" refers to units which are safe and sanitary and comply with applicable state and local codes;

(4) "Secretary" refers to the Secretary of Agriculture;

(5) "unit of local government" means any city, county, town, township, parish, village, or other general purpose political subdivision of a state: a general purpose subdivision thereof; a combination of such political subdivisions recognized by the Secretary. This also includes any other state or local public body or agency, community association, or other entity which is proved by the Secretary for the purpose of this part;

(6) "state" refers to any state of the United States, Puerto Rico, the Virgin Islands, or any territories or possessions of the United States;

(7) "Indian tribe" refers to any Indian tribe, bank, group or nation which is considered eligible to receive assistance under the Indian Self-Determination and Education Assistance Act or under the State and Local Fiscal Assistance Act of 1972.

Authorization

Section 524 provides the authority for the Secretary to make grants in amount not to exceed 850 million, so that states might implement the rural housing programs. This amount will be authorized for each of the following fiscal years: 1983, 1984, and 1985.

Statement of Activities and Review

Section 525(a)(1) requires a state to prepare a statement of housing objectives and projected use of funds. In the case where the state is the grantee, the statement must include the method the state will use in distributing the allocation among the rural areas of the state. The statement will also take into account the needs and conditions of housing for very low income Indians living on trust lands. The assessment must also, however take into considertation the needs of eligible Indians on non trust lands.

Subsection (2) requires that the public be provided an opportunity to examine and contribute to the statement of housing objectives. This subsection also intended to facilitate coordination of activities with different levels of government. The state is required to provide information to citizens on the amount of housing funds that will be available.

There are two additional forums provided for public comment. The state must publish the proposed statement of housing objectives and must hold at least one public hearing on the subject.

Subsection (3) requires that the comments made by the public be taken into consideration in the final version of the statements. If the state modifies the statement it must make the final version available to the public.

Subsection (b) specifies that the grant will not be made unless the state complies with the requirements for developing a statement of housing objectives. It further specifies that the projected use of funds must be developed to benefit the maximum feasible number of low income persons including Indians living on trust land as well as those eligible Indians living off trust territories and eliminate substandard conditions in the existing housing stock. In the instance that other financial resources aren't available, activities with a particular urgency for serving other very low income housing needs may be funded. The state must also certify that activities undertaken under this legislation conform with applicable laws and the provision outlined in the title.

Subsection (c) requires that each grantee must submit a performance report on the actual use of grant funds. The report must state the extent to which the actual expenditure of funds was consistent with the original statement of objectives. The Secretary is required to review the performance of each state at least once a year. The Secretary must determine whether the grantee has carried out its activities and certification requirements, in accordance with the requirements of primary purpose of this part and applicable laws. The Secretary must also determine whether the grantee has a continuing capacity to carry out the activities in a timely manner. If the state has distributed funds to units of local government, the Secretary must also determine whether the state has carried out the required certification procedures and whether the state has made the necessary reviews and audits to determine if units of local government have satisfied their performance criteria.

Subsection (d)(1) states that appropriate adjustments in the amount of future annual grants may be made by the Secretary. However, funds already expended on eligible activities under this part cannot be recaptured or deducted from future assistance.

Subsection (d)(2)(A) provides that if the amount of funding to a unit of local government is reduced because of the Secretary's findings or on the grounds of noncompliance, the funding must be added to the amounts available for distribution in that State during the same fiscal year.

Subsection (d)(2)(B) provides that if the amount of funding is reduced at the State level, this amount would be available in addition to the amount that would be received in the following fiscal year if the Secretary deemed this appropriate.

The agent responsible for distributing the State allocation, be it the Secretary or the State, has the authority to distribute the reallocated funds during the same fiscal year.

Subsection (e) authorizes audits by the General Accounting Office.

Subsection (f) provides that the grant funds made available under this part shall not be subject to the National Environmental Policy Act of 1969 and related laws and authorities identified in the Secretary's regulations.

Eligible Activities

Section 526 authorizes the State to engage in any of the following activities:

(1) Rehabilitation of existing structures for occupancy by very low-income residents through repairs and improvements;

(2) The acquisition and rehabilitation of existing buildings for very low-income housing;

(3) Financing the construction and purchase of modest homes for very low-income persons, including purchase of existing homes and manufactured homes;

(4) Provision of multifamily housing where there is a demonstrated need for very low-income rental housing or farmworker housing;

(5) Provision of rental assistance for those very low-income persons who are not otherwise served by an existing rental assistance program;

(6) The acquisition of real property (including air rights, water rights, and other interest therein) and the development of such property for use in connection with housing to be assisted under this part; and

(7) The disposition (through sale, lease, donation, or otherwise) of any real property acquired pursuant to this part.

Allocation and Distribution of Funds

Section 527(a) provides that the funds appropriated for the purpose of this part will be distributed by the Secretary to the states on the basis of an allocation formula. No later than 60 days after the enactment of this Act, the Secretary shall issue a regulation containing this formula. The Secretary will determine a state's share based on the average of the ratios between: the population of the rural areas in that state and the population of all states; the extent of poverty in the rural areas in that state and the extent of poverty in the rural areas of all states; the extent of substandard housing in the rural areas of that state and the extent of substandard housing in the rural areas of all states.

For a state to receive funds, subsection (b) provides that the Governor must designate a state agency to determine an appropriate program of eligible housing activities. This agency would also be authorized to provide technical assistance in areas where it is necessary.

The state must provide, out of its own resources, funds for housing activities which equal at least 10 percent of the amount allocated for use in the state during any three year funding cycle.

The state must also consult with local elected officials from eligible areas when determining the method of distributing funds to these rural areas. A state may not participate and then withdraw without having contributed its full 10 percent share.

Subsection (c) provides that a state may fund up to 50 percent of the administrative costs incurred in carrying out its responsibilities under this Act, provided that the federal expenditure for administration does not exceed 5 percent of the amount received as the state's allocation. The state must, however, make a separate appropriation for these administrative costs.

Subsection (d)(1) authorizes the Secretary to allocate block grant funds to the state Farmers Home Administration office if the state has opted out of the program or has not met the certification requirements. The Secretary may give a state FmHA office permission to enter into contracts with units of local government, nonprofit organizations or any other appropriate individuals in order to carry out eligible activities.

If the Secretary allocates the block grant funding, the distribution will be made in accordance with the formula derived and agreed upon under Section 525 as well as any other regulations or procedures prescribed by the Secretary.

If the state fails to meet the criteria for participating in the block grant program, the Secretary is authorized to make the funds which are allocated for use available to the State FmHA office. The Committee expects that this will occur in a timely manner so the state FmHA office can obligate the funds for housing assistance projects during the fiscal year.

Subsection (e) entitles the Secretary to set a specific date for the receipt of submissions or qualifications required by this legislation.

Nondiscrimination

Section 508(a) prohibits discrimination on the basis of race, color, national origin, sex, age, or handicap under any of the programs authorized through this title.

Subsections (b) and (c) identify penalties in the event that discrimination does occur.

Remedies for Noncompliance

Section 529(a) provides the actions to be taken by the Secretary if the state has not complied with the provisions of this legislation. The Secretary may—

(1) End block grant payments to the state.

(2) Reduce block grant payments to the state by an amount equal to the amount of such payments which were not expended according to the provisions of this legislation.

(3) Limit the availability of block grant payments to programs, projects, or activities which are eligible and comply with this legislation.

Subsection (b) provides that in addition to any of the actions outlined in subsection (a), the Secretary may refer the matter to the Attorney General, so that civil action may be taken.

Subsection (c) states that the Attorney General may bring civil action to a U.S. District Court, and may, among other decisions, rule to recover the amount of money which was spent improperly.

Subsection (d) outlines the procedure to be taken by both the Secretary and the state if funding is to be ended, reduced or limited as a result of noncompliance.

Reporting Requirements

Section 530 requires the Secretary to submit a report to Congress no later than 180 days after the close of the fiscal year. This report is required to contain a description of the progress made in accomplishing the objectives of this title as well as a summary of the use of funds during the preceding fiscal year. The states must submit the information necessary for the completion of this report.

Interstate Agreements

Section 531 authorizes two or more states to cooperate and assist one another in planning and administering housing programs for those areas.

Effective Date

Section 532 states that this title will take effect on October 1, 1982.

Part C—Congressional review of rural housing rulemaking

Definitions

Section 541 provides the following definitions for this title:

(1) The term "Secretary" means the Secretary of Agriculture;

(2) The term "rule" means any rule issued pursuant to title V of the Housing Act of 1949 or title II of this Act;

(3) The term "resolution of disapproval" means a concurrent resolution of the Congress, the matter after the resolving clause of which is as follows: "That the Congress disapproves the recommended final rule issued by the Secretary of Agriculture dealing with the matter of , which rule was transmitted to the Congress on .", the first blank being filed with the title of the rule and such further description a may be necessary to identify it, and the second blank being filled with the date of transmittal of the rule to the Congress; and

(4) The term "appropriate committee" means the Committee on Banking, Finance, and Urban Affairs of the House of Repre-

sentatives and the Committee on Banking, Housing and Urban Affairs of the Senate.

Congressional Review of Rules

Section 542(a)(1) (A) and (B) states that these provisions do not apply to any findings made by the Secretary pursuant to section 553(3) of title 5, U.S. Code. Nor would these provisions apply to any rule that approves or prescribes wages, prices, services or allowances for corporate or financial structures. This provision would also apply to the reorganization, merger and acquisition or accounting practices and disclosures of corporate or financial structures.

Subsection (C) again refers to section 553(b)(2) of title 5, U.S. Code by stating that any finding made under this section should not be subject to the provisions of this law. This exemption also includes instances where the Secretary determines that the rule is made in response to an emergency situation or exceptional circumstance which needs immediate agency action. Subsection (C)(3) provides that if the Secretary submits a written notice specifying the reasons for the determinations described in subsection (C) (1) and (2) to the Chairman and Ranking Minority Member of the appropriate committees on the day the rules are issued, the rules of this section will not apply.

Subsection (3) provides that a rule which was ruled exempt from the review authorized under this title because of subsection (C) such as an emergency provision will be terminated 120 days after it is enacted, unless it is otherwise provided.

Subsection (b)(1) states that recommendations made by the Secretary will have no force or effect unless they have been reviewed and approved by Congress in a manner which is consistent with these provisions.

Section (b)(2)(A) provides that 45 days of continuous session of Congress must pass from the day the rule was received by the Congress before it becomes effective. Before these 45 days are over, either appropriate committee can order this rule to be reported or discharged from further consideration. A rule may not become effective if one House of Congress agrees to a resolution of disapproval within a period of days. In addition, a rule may not become effective if within 30 days of continuous sessions the other House agrees to the resolution of disapproval transmitted to them.

Subsection (b)(2)(B) states that a committee report specifying the reasons for a committees recommendation must accompany a resolution of disapproval.

When either House of Congress defeats a resolution of disapproval or the Senate disposes of a motion to reconsider a resolution, subsection (b)(2)(C) allows a final rule to become effective at any time thereafter.

Subsection (b)(3)(A) states that if Congress adjourns sine die before the end of the 45 day period specified in subsection (b)(2), the rule will not become effective during that Congress. The Secretary may transmit the rule again after the first day of the following Congress, and be subject to the 45 day period of review specified under this provision.

Subsection (B) provides that if the final rule is submitted to Congress at least 45 days before Congress adjourns and neither House

Congress adopts a resolution of disapproval the rule will become effective at any time after Congress adjourns sine die.

Subsection (4)(A) requires the Secretary to give a copy of the complete text of the final rule and other related materials to the Secretary of the Senate and Clerk of the House of Representatives on the same day that it is submitted for publication in the Federal Register.

If either House is not in session on the day a final rule is submitted for publication in the Federal Register, the 45 day period will begin the day both Houses of Congress are in session. In the event that either House is not in session, either the Secretary of the Senate or the Clerk of the House of Representatives is authorized to receive the final rule and related materials which will be printed in the Federal Register. Subsection (C) requires that the Secretary of the Senate and the Clerk of the House give a copy of the rule and the related materials to the appropriate committees on the same day it is received from the Secretary.

Subsection (c)(1) states that if a recommended rule is disapproved, the Secretary may issue a recommended final rule which relates to the same practices as the rejected rule. The new submission should be based on the rulemaking record of the recommended final rule disapproved by Congress or the supplemental rulemaking proceedings conducted under section 553 and should reflect necessary and appropriate changes in light of the congressional debate which resulted from the submission of the original rule. The same procedures should be followed in submitting a redraft of a rule.

Subsection (d) states that a rule should not be considered approved, unless action is taken or a resolution of disapproval is rejected.

Procedures for Consideration of Resolutions of Disapproval

... provision of the definition of "resolution of disapproval" and "appropriate committee" as well as a requirement that a committee report a copy of the materials which would appear in the Federal Register and specify the reason for recommending a resolution of disapproval ... is enacted as an exercise of the rulemaking power of the Senate and the House of Representatives respectively. The provisions of section ... only apply to the procedure followed in that House in the case of a resolution of disapproval. These provisions supersede other rules only to the extent that they are inconsistent. This legislation was enacted with full recognition that either House has the constitutional right to change the rules at any time as it would any other rule.

Subsection (b) states that except in the case provided for in subsection ... of this section, resolutions of disapproval will be referred to the appropriate House or Senate Committee as soon as it is introduced or received from the other House of Congress.

Subsection (c)(1)(A) states that if the committee does not report a resolution of disapproval which has been referred to it within 30 days, the committee may be discharged from considering any further resolution. Subsection (c)(2) requires that a motion to discharge a committee from the consideration of regulations must be supported in writing by one-fifth of the Members of that House of Congress. Debate on this motion is limited to an hour. In the House of Representatives time would be divided equally between the opponents and proponents of the motion to discharge, while in the Senate the time would be divided and controlled by the majority leader and the minority leader or their designees.

Subsection (d)(1) ensures that the consideration of a resolution of disapproval is carried out in accordance with the rules of the House of Representatives.

Subsection (d)(2) provides that when a committee has reported or has been discharged from further consideration of a resolution of disapproval or when the companion resolution from the other House has been placed on the calendar, it will be in order to move to proceed to the immediate consideration of the resolution. The motion is highly privileged in the House and privileged in the Senate and is not debatable. An amendment to the motion is not in order.

Subsection (d)(3) provides that debate on a resolution of disapproval is limited to no more than two hours. However, when one House has debated its resolution of disapproval, the companion resolution is not debatable. The time is divided in the same manner outlined in subsection (c)(2). A motion to limit debate is not in order. An amendment to, or motion to recommit the resolution is not in order. A motion to reconsider is in order only on the day of the vote on the adoption of the resolution of disapproval, and is not debatable. Any other motions will be decided without debate.

Subsection (e) provides that if a resolution of disapproval has been reported or discharged from the committee it was referred to, and that House receives a resolution of disapproval on the same rule from the other House, the resolution of disapproval of the other House will be placed on the appropriate calendar of the first House. If a House receives the companion resolution of disapproval from the other House before it disposes of its own resolution, the vote in the first House will be on the resolution of the other House.

Subsection (f) states that the provisions of this title supersede other provisions of law requiring action by both Houses of Congress for congressional review or disapproval of agency rules in the event they are inconsistent with this title. This title would not supersede any provision of law requiring action by only one House of Congress for the same activities.

Subsection (g) specifies that for the purposes of this title continuity of session is broken only by an adjournment sine die at the end of Congress. It also provides that if either House is adjourned or in recess for more than 15 days, those days are excluded in the computation of days of continuous session.

Effective Date

Section 544 provides that this title shall take effect on the first day of the Ninety-eighth Congress.

TITLE VI—FLOOD, RIOT, AND CRIME INSURANCE

Authorization of appropriations for studies

The National Flood Insurance Act is reauthorized for two years September 30, 1984. The deadline for completion of flood map studies is extended for five years to September 30, 1987. $45,58... authorized for the continuation of flood plain mapping studies.

Crime and riot insurance

The authority of the Director of the Federal Emergency Management Agency to provide crime insurance and riot reinsurance is extended for two years. The Director must increase the premium for these programs not later than 30 days after the enactment of this legislation. The increase in premium shall exceed the average of rates for ...1 and 1982 by 50 percent. The Comptroller General of the United States is instructed to conduct a study and report to Congress by February 1, 1983 on recommendations for ways to better market the insurance to prospective users.

REGULATORY IMPACT STATEMENT

In compliance with paragraph 11 of Rule XXVI of the standing Rules of the Senate, the Committee makes the following statement regarding the regulatory impact of the bill.

TITLE I

Passage of the proposed to create a rental rehabilitation and housing development block grant will substantially reduce regulatory and administrative burdens on entitlement grants by replacing the heavy ...ation and compliance burden of the previous Section 8 and other ...ing assistance programs. Not only does the new program require ...plified application procedure, but permit state and local governments considerable flexibility in designing and implementing locally ...ived assistance programs.

TITLE II

... II makes a significant contribution to deregulation by substantially reducing the number of regulations and the amount of supervision with which the large majority of public housing agencies ...contend. Changes in the operating subsidy distribution mechanism are tantamount to a block grant approach requiring reapplication ...r agencies once every three years.

... II also repeals all Section 8 new construction and substantial rehabilitation program authority except that which is required for the ...ation of the Section 202 program for handicapped and elderly ...ing assistance.

... remainder of the bill will have no substantial regulatory

CHANGES IN EXISTING LAW

... opinion of the Committee, it is necessary to dispense with the ...ments of subsection 4 rule XXIX of the Standing Rules of the ... in order to expedite the business of the Senate.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, D.C., May 28, 1982.

...AKE GARN,
...*Committee on Banking, Housing, and Urban Affairs, U.S.* ...*Dirksen Senate Office Building, Washington, D.C.*

... MR. CHAIRMAN: Pursuant to Section 403 of the Congressional ... Act of 1974, the Congressional Budget Office has ...

attached cost estimate for the Housing and Community Development Amendments of 1982.

Should the Committee so desire, we would be pleased to provide further details on this estimate.

Sincerely,

ALICE M. RIVLIN, *Director.*

CONGRESSIONAL BUDGET OFFICE—COST ESTIMATE

MAY 28, 1982.

1. Bill number: Not yet assigned.
2. Bill title: Housing and Community Development Amendments of 1982.
3. Bill status: As ordered reported by the Senate Committee on Banking, Housing and Urban Affairs, May 6, 1982.
4. Bill purpose: The bill would make major changes to federal low-income housing programs. Except for housing for the elderly and handicapped, all section 8 new construction authority would be repealed and a new section 8 housing voucher program would be created. Rural housing assistance programs would also be changed. All rural housing direct loans would be made at market rates and current interest subsidies replaced by a new rural housing block grant program. The bill would extend and provide additional funding for certain ongoing housing-related activities.
5. Cost estimate: The estimated budget impact of the bill is summarized below:

[By fiscal years, in millions of dollars]

	1983	1984	1985	1986
Budget function 370:				
Authorization level	1,456			
Estimated outlays	−232	−608	−307	−325
Budget function 450:				
Authorization level	4,436	220		
Less: Existing authorization	4,179			
Net additional authorization	257	220		
Estimated outlays	50	176	78	89
Budget function 600: [1]				
Authorization level	5,147	861	862	
Estimated outlays	727	1,733	2,414	1,721
Total:				
Authorization level	6,860	1,081	862	
Estimated outlays	545	1,301	2,185	1,485

[1] Includes proposed rural housing block grant program.

6. Basis of estimate:

TITLE I—COMMUNITY AND NEIGHBORHOOD DEVELOPMENT

Community development grants.—The bill would increase the authorization for community development grants from the existing Section 103 authorization level of $4,166 million to $4,196 million in 1983 but earmarks $300 million for the new rental rehabilitation/construction grant program. For estimating purposes, CBO divided the re-

maining $3,896 million as follows: 88.7 percent for community development block grants (CDBG) and 11.3 percent for urban development action grants (UDAG), proportional to their 1982 budget authority levels. Past spending patterns were used to estimate outlays. Because of the existing Section 103 authorization, the CDBG and UDAG program outlays in the cost estimate tables reflect only the net increase of $30 million. The principal amount of property acquisition loans that HUD could insure in conjunction with community development loans would be limited to $225 million.

Rental rehabilitation/construction grants.—CBO assumed that 50 percent of this $300 million authorization would be set aside for rental rehabilitation and 50 percent for new construction grants. Estimated outlays for the rental rehabilitation grants were based on information provided by the Department of Housing and Urban Development (HUD): zero in the first year, and 50 percent in each of the next two years. The new construction grants outlays were based on historical patterns for other new construction programs.

Section 312 rehabilittaion loan fund.—Section 312 of the Housing Act of 1964 allows loans to be made from the fund if commitments were made before the end of fiscal year 1983. Resources available for commitment in 1983 are estimated at $57 million. The bill would repeal the existing authorization and would transfer the fund's assets and liabilities to HUD's revolving fund for liquidating programs. The budget impact for this program is based on the assumption that the resources available would otherwise have been committed and eventually disbursed. The positive outlays in the out-years reflect the principal repayments and interest income that would be expected from this activity.

Urban homesteading.—The bill would reduce an existing 1983 authorization from a level of $13.5 million to $12 million. Authorization for 1984 would be such sums as may be necessary, which CBO has estimated by increasing the 1983 proposed level for inflation.

The estimated budget impact of Title I follows:

[By fiscal years, in millions of dollars]

	1983	1984	1985	1986	1987
Community development and rental rehabilitation grants:					
Authorization level	4,196				
Less existing authorization	4,166				
Net authorization	30				
Estimated outlays	−6	−22	−39	75	22
Section 312 rehabilitation loan fund:					
Authorization level					
Estimated outlays	−39	−14	4	4	4
Urban homesteading:					
Estimated authorization level	12	13			
Less existing authorization	13				
Net authorization	−1	13			
Estimated outlays		4	4	4	
Total:					
Estimated authorization level	29	13			
Estimated outlays	−45	−32	−31	83	26

TITLE II—HOUSING ASSISTANCE PROGRAMS

Section 8 and public housing commitments.—Title II of the bill would make substantial modifications to HUD's low-income housing subsidy programs. Except for housing for the elderly and handicapped in projects financed with section 202 loans, authority to enter into assistance contracts with developers of newly constructed or substantially rehabilitated housing would be repealed. In addition, most assistance commitments after the beginning of fiscal year 1983 would not be expected to involve the 15- to 40-year contracts currently typical of section 8 subsidies. Instead, five-year certificates (vouchers) would be issued to public housing agencies on behalf of qualifying households. The annual contract value would be set equal to 110 percent of the estimated yearly subsidy requirement, thus providing for housing cost increases. The bill would allow two adjustments to the annual federal contribution over the five-year contract term. This cost estimate assumes a first-year payment of $2,000 per household, resulting in an aggregate federal commitment of $11,000 for each five-year contract.

The bill would authorize HUD to enter into fiscal year 1983 contracts totaling $7,223 million using unobligated funds already appropriated or recaptured because of deobligations. Authority would be provided, however, for additional appropriations if necessary. This estimated assumes that further appropriations would not be required. Under the various funding set-asides included in the bill, the $7.2 billion could assist about 157,000 units. Of this number, about 137,000 would involve the use of the new certificates and 15,000 would be newly constructed units for the elderly and handicapped. Overall, over half of the 1983 commitments would be expected to go to units already receiving some form of federal housing assistance. Where applicable, outlay estimates were based on program experience for the certificate program, outlays were estimated assuming a first year payment of $2,000 per unit with increases in the third and fifth years resulting in expenditures of $11,000 per unit over the five-year contract term. The outlays shown in this estimates are net of those that could be expected were the $7.2 billion to be obligated pursuant to the specifications conctained in the 1982 HUD appropriations act (Public Law 97-101).

Public housing operating assistance.—Title II of the bill contains provisions that would change significantly the method by which federal operating assistance for public housing projects is administered. Two categories of public housing agencies would be established, Tier A and Tier B, and agencies applying for assistance would specify which classification they seek. The HUD secretary, however, would have the authority to make the final determination. In the case of Tier A agencies, HUD would be authorized to enter into three-year assistance contracts that would provide general federal oversight but maximum flexibility at the local level to establish operating and management procedures. It would appear that Tier A would include the majority of public housing agencies. Tier B agencies would be those experiencing continuing budget deficits, poor security, physical deterioration or other factors indicating financial or management problems. Contracts would have a one-year term and would be designed to encourage the management improvements necessary to achieve Tier A status.

The bill would authorize the appropriation of $4,250 million for use in fiscal years 1983, 1984, and 1985. It is assumed that the full amount would be available for obligation in 1983 and that outlays would be consistent with past experience.

Troubled projects operating assistance.—The bill would authorize the continued use of excess rents collected pursuant to Section 236(g) of the National Housing Act for assistance to certain troubled multifamily housing projects. No additional authority is provided.

Housing for the elderly and handicapped.—Title II would authorize for use in fiscal year 1983 $790 million in direct loan authority for HUD's section 202 elderly and handicapped housing loan program. The bill would also limit the interest rate that could be charged on these loans to 9 percent per year. This estimate assumes that all loan authority would be released in appropriation acts and would be reserved during 1983. The outlays shown in this estimate are loan disbursements less interest and principal payments.

Congregate housing services.—The bill contains an authorization of $10 million for 1983, $11 million for 1984 and $12 million for 1985 to provide certain additional services to elderly or handicapped residents of housing administered by public housing agencies or nonprofit corporations. This estimate assumes full appropriations of the authorized funds and that HUD would enter into three-year contracts with the administrating agencies.

The estimated budget impact of Title II follows:

[By fiscal years, in millions of dollars]

	1983	1984	1985	1986	1987
Section 8 and public housing commitments:					
Authorization level [1]					
Estimated outlays	-30	(2)	137	198	245
Public housing operating subsidies:					
Authorization level	4,250				
Estimated outlays	731	1,376	1,465	678	
Congregate housing:					
Authorization level	10	11	12		
Estimated outlays	3	7	11	8	4
Elderly or handicapped housing:					
Authorization level [3]	790				
Estimated outlays			371	334	-75
Total:					
Authorization level	5,050	11	12		
Estimated outlays	704	1,383	1,984	1,218	174

[1] The bill contains authority for additional appropriations; currently projected levels of unobligated balances and recaptures appear, however, to be adequate.
[2] Less than $500,000.
[3] Direct loan authority.

TITLE III—PROGRAM AMENDMENTS AND EXTENSIONS

Insurance and guarantee authorities.—Title III of this bill would extend HUD's authority to insure mortgage loans under various sections of the National Housing Act. These programs result in contingent liabilities to the federal government and could have significant budget impact in any given year even though they are intended to be actuarially sound in the long-run. Total mortgage insurance commitments would be limited to $41 billion in 1983. In addition, the Government National Mortgage Association's (GNMA) authority to issue guarantee commitments for mortgage backed securities would be limited to $68 billion. No budget impact for these programs is included in this estimate.

Title III would also authorize the appropriation of such sums as may be necessary to cover losses in the General Insurance Fund of the Federal Housing Administration (FHA). This money would be used to pay insurance claims and other liabilities of the fund. Without such an appropriation, these claims and liabilities would be paid with funds borrowed from the U.S. Treasury. Thus, this provision is expected to have no additional budget impact.

Research authorizations.—The bill would authorize the appropriation of $20 million in fiscal year 1983 for HUD research activities. CBO assumes full appropriation of the amount authorized and estimates outlays on the basis of the program's historical spending pattern.

FHA insurance premium collections.—Under current law and procedures, an FHA insured borrower pays, as part of the monthly mortgage payment, an insurance premium equal to 0.5 percent per year of the outstanding principal balance. The bill contains provisions that, if enacted, are expected to allow HUD to collect at loan closing, an amount equal to the discounted present value of the insurance premiums that otherwise would have been paid. The budget impact for this provision shown in the cost estimate assumes a discount rate of 12 percent and that premiums would have been collected for 13 years—the estimated term to prepayment of FHA loans.

Other.—The bill would authorize the appropriation for fiscal year 1983 of $5 million for the housing counseling assistance program and $15.5 million for the Neighborhood Reinvestment Corporation. Assuming full appropriation, the outlay of these funds is expected to follow historical patterns.

The estimated budget impact of Title III follows:

[By fiscal years, in millions of dollars]

	1983	1984	1985	1986
HUD research:				
Authorization level	20			
Estimated outlays	4	12	4	
FHA premium change: Estimated outlays	−686	−698	−687	−651
Other:				
Authorization level	21			
Estimated outlays	18	3		
Total:				
Authorization level	41			
Estimated outlays	−664	−683	−683	−651

TITLE V—RURAL HOUSING

Current law contains a wide variety of programs through which the Farmers Home Administration (FmHA) provides low- and moderate-income housing assistance in rural areas. These range from very specialized grant programs to direct mortgage loans from the Rural Housing

Insurance Fund (RHIF) generally involving deep interest rate subsidies. Total 1982 activity for these programs is expected to exceed ... billion, most of which will be in the form of subsidized-interest-rate mortgages. If enacted, title V of this bill would completely revise these assistance programs.

Loan programs.—Under the bill's provisions, all future FmHA direct housing loans would be made at rates of interest prevailing in the private market. Thus, instead of being FmHA's principal rural housing subsidy mechanism, direct loans would become a source of net income to the federal government. In addition to the altered direct loan program, the bill would continue authorities under which FmHA guarantees loans made by private lenders. Total loan activity authorized for appropriation by the bill would equal $895 million, at least $229 million of which would be for guarantees. The budget impacts of rural housing loans shown in this estimate are based on the assumptions that all authorized activity would be released in appropriation acts and that loan disbursement rates would be similar to those for the current subsidized programs. The estimates also include the projected impact of the change in the treatment of asset sales proposed in the bill. (See below.)

Treatment of asset sales.—Currently, FmHA offsets large portions of its outlays and budget authority requirements through the sale of the Federal Financing Bank (FFB) of certificates of beneficial ownership backed by FmHA loans. Since FFB outlays are off-budget, this procedure obscures the actual impact on the U.S. Treasury of rural housing programs. The bill would alter this situation for the RHIF by treating these transactions as borrowing rather than as the sale of assets.

Although this change would have no impact on program costs, the effect on the unified budget would be substantial. In fiscal year 1981, FmHA sold more than $6 billion of housing related loan assets to the FFB, reducing budget authority needs and outlays by a like amount. If the bill's provisions had been in effect in that year, RHIF loan program budget authority requirements would have been more than ... billion rather than $594 million and outlays would have been $5.9 billion rather than—$130 million. Further impacts on unified budget would be expected as certificates issued in prior years come due for redemption and are rolled over. The Congressional Budget Office estimate for 1983 assumes certificates of beneficial ownership of $5.5 billion—$2.8 billion of which will be associated with loans obligated prior to that year. Over the entire 1983–1987 period, the sales associated with pre-1983 loan commitments are expected to total $10.8 billion. If these transactions were treated as borrowing, they would represent dollar-for-dollar increases to budget authority and outlay totals.

Rural housing grants.—As a substitute for FmHA's subsidized assistance, the bill would create a new rural housing block grant program. This assistance would be made available through the various States for a variety of purposes specified by the bill all of which are intended to increase the stock of and make more affordable suitable housing for low-income rural residents. The bill would authorize appropriation of $850 million for each of the fiscal years 1983, 1984, and 1985. Estimated outlays are based on spend-out rates assumed for HUD's small cities community development block grant program. In addition to the block grant authorizations, the bill would make available for appropriation $37 milion in 1983 funding for existing grant problems. This amount is expected to be disbursed consistent with program experience.

The estimated budget impact of Title V follows:

[By fiscal years, in millions of dollars]

	1983	1984	1985	1986	1987
Rural loans:					
Authorization level [1]	666				
Estimated outlays	454	90	9	−8	1
Rural grants:					
Authorization level	887	850	850		
Estimated outlays	23	350	801	837	514
Total:					
Authorization level	1,553	850	850		
Estimated outlays	477	440	810	829	504

[1] The bill also contains authorization of $299,000,000 for guarantees of loans made by private lenders.

TITLE VI—FLOOD, RIOT AND CRIME INSURANCE

Flood insurance.—The bill authorizes the Federal Emergency Management Agency (FEMA) to enter into contracts for flood insurance in fiscal years 1983 and 1984 and also authorizes the appropriation of $45.6 million in 1983 and such sums as may be necessary for 1984 for flood studies.

Crime and riot insurance.—The bill would continue the crime and riot insurance program until the end of fiscal year 1984, with a 50 percent increase in crime insurance premium rates to occur 30 days after bill enactment. CBO assumes that the 50 percent rate increase, in addition to a rate increase already scheduled by the Federal Emergency Management Agency (FEMA), would cause a number of policyholders to cancel their crime insurance. In the base case, CBO has assumed that without a rate increase the number of crime insurance policyholders in 1983 and 1984 would remain constant at the March 1982 level of 69,900, equalling approximately $13 million annually in premiums. As FEMA has not had sufficient experience with premium increases to predict the demand elasticity for crime insurance, CBO has assumed a −0.5 elasticity with respect to rates. The 56 percent effective increase in the crime premium rates would result in a 28 percent decline in the number of policyholders. Remaining policyholders would contribute annual premiums of $14 million. In addition, the 1982 level of claims was adjusted by the forecasted Consumer Price Index for 1983 and 1984, and reduced by 28 percent to reflect the decrease in the number of policyholders.

For the riot insurance program, premiums in 1983 and 1984 were held constant at the 1982 level of $0.8 million, and claims were estimated at $1 million annually. FEMA has estimated the insurance program's operating expenses at $7 and $8 million in 1983 and 1984, and administrative expenses at $0.3 million.

The estimated budget impact of Title VI follows:

[By fiscal years, in millions of dollars]

	1983	1984	1985	1986	1987
Flood insurance:					
Estimated authorization level	167	184			
Estimated outlays	57	171	101	6	4
Crime and riot insurance:					
Estimated authorization level	20	23			
Estimated outlays	16	22	4		
Total:					
Estimated authorization level	187	207			
Estimated outlays	73	193	105	6	4

7. Estimate comparison: None.

8. Previous CBO estimate: On May 17, 1982, the Congressional Budget Office prepared a cost estimate for H.R. 6296, the Housing and Urban-Rural Recovery Act of 1982, as ordered reported by the House Committee on Banking, Finance and Urban Affairs, May 11, 1982. H.R. 6296 does not contain the changes to the section 8 and rural housing programs proposed in the Senate bill. The House bill would create two new housing subsidy programs designed to encourage production, as well as a new program that would provide temporary mortgage payment assistance to certain borrowers experiencing economic hardship. H.R. 6296 would authorize the appropriation of an estimated [illegible] billion with associated outlays totaling $13.3 billion over the 5-year estimate period.

9. Estimate prepared by: Amy Dines and Brent Shipp.

10. Estimate approved by:

C. G. Nuckols
(For James L. Blum,
Assistant Director for Budget Analysis).

ADDITIONAL VIEWS OF SENATORS RIEGLE, PROXMIRE, CRANSTON, SARBANES, DODD, DIXON, AND SASSER

The housing authorization legislation reported by the Committee represents in many respects substantial improvement over the Administration's housing authorization measure. The Administration had proposed a series of measures that would severely damage the Nation's ability to develop and maintain safe, sound, affordable shelter for all our citizens, but especially for low and moderate income people. The Administration's proposal would have virtually eliminated all federal support for new construction and substantial rehabilitation of multifamily rental projects, imposed heavy, unfair rent increases on assisted housing tenants, threatened the taxpayers' major investment in the stock of public housing, dismantled guidelines for the proper management and disposition of HUD-owned multi-family projects, and sharply curtailed FHA mortgage insurance.

The Committee, on a bipartisan basis, rejected these harsh and ill-advised proposals. In contrast to the Administration's recommendation, the Committee bill would reaffirm that the availability of decent housing for all Americans must be a top national priority. In a cooperative spirit, the Committee agreed on a number of improvements in federal housing programs that could result in greater program effectiveness while respecting the need for fiscal restraint.

Although the Committee bill makes some laudable changes in the federal government's approach to national housing needs, the bill also includes several serious deficiencies that must not be overlooked. It is important that they be brought to the Senate's attention even though the elimination of all of these deficiencies may not be possible in the Senate.

The Committee legislation would replace current low and moderate income housing construction programs with a new program for the construction and rehabilitation of multi-family rental projects. The Administration would have terminated such efforts with virtually no replacement, claiming that despite the current economic climate, the private sector could fill the need unaided.

The Committee legislation promises to improve the manner in which the federal government addresses the problems of housing supply and quality, particularly in urban areas, and at comparatively modest cost. It moves the federal government away from making long-term commitments of federal subsidies, and substitutes instead a flexible system of financing assistance that can be supplemented by short-term rental assistance.

Specifically, the program would allocate funds to states and localities by formula for the purpose of providing financing assistance to public, non-profit, and private entities for multi-family housing construction and rehabilitation. Cities and states would submit applications to the Department, detailing their proposed programs. They would, however, have broad authority to tailor their housing programs to local conditions. For example, federal assistance could be utilized in the form of a grant, loan, or other comparable means to reduce project development or operating costs. While the program would emphasize rehabilitation, it would not neglect the need for new construction in supply short areas. To aid low income people in renting units produced under the program, funding for as many as 50,000 rental assistance vouchers would be made available.

Despite the promise of this rental housing initiative, it is nevertheless very small compared to the vast need among low and moderate income people for better, more affordable housing. According to the President's Commission on Housing, approximately 8.4 million low income households either live in substandard housing or pay excessive shares of their income for rent. Also, as many as 7 million occupied units need rehabilitation. Against this need, the entire Committee bill, including the new rental initiative, units to be produced under Section 8 program, and the rural housing title, would probably assist no more than 85,000 additional households.

The public housing operating subsidy program contained in the Committee bill moves toward more orderly and effective support for the existing stock of public housing. It establishes a two-tier incentive system that adjusts for different degrees of distress in local housing agencies. The Committee bill provides a three-year authorization of [illegible] billion, instead of the one-year $1.08 billion authorization requested by the Administration. As a result, the Committee bill would improve the fiscal planning of local agencies. An additional advantage of the Committee bill is that it would permit agencies to retain without penalty additional revenues raised from tenant rent contributions and other sources.

The public housing stock consists of 1.3 million units, representing a public investment totaling more than $65 billion. Unless sufficient operating subsidies to supplement rent collections and other income are provided, local agencies cannot maintain current projects as decent housing.

This improvement in the means of allocating these subsidies will have little meaning unless accompanied by sufficient funding to meet agency needs. We are hopeful that the Committee's authorization for operating subsidies, along with program changes to allow agencies to keep revenues they raise, will greatly improve the ability of local agencies to maintain and operate their projects. However, we recognize the Committee's authorization may ultimately prove inadequate for unexpected increases in utility and other costs, and in our view the need to protect this housing resource and the public's investment in this housing would justify a Congressional response to a shortfall.

We are pleased that the Committee rejected several Administration proposals to impose unreasonable rent increases on tenants of assisted housing. The Administration proposed to permit rent increases of 20 percent per year, to prevent elderly and handicapped tenants from deducting excessive medical expenses from their income for purposes of determining their rent contribution, and to allow for no growth in rental assistance subsidies to account for rent increases. The Committee bill rejects these proposals. It would permit rent increases for tenants living in assisted housing to grow by no more than ten percent per year, would continue to permit the elderly and handicapped to deduct excessive medical expenses from income, and would provide a means of adjusting the subsidy amount during the term of the contract in order to accommodate increases in unit rents. Additionally, the Committee would prevent states from counting housing subsidies for purposes of determining welfare amounts.

The Committee bill, however, does not address the Administration's proposal to count food stamp benefits as income for purposes of determining rent contributions of assisted housing tenants. While we believe that this proposal would result in great hardship to many of the lowest income tenants of assisted housing, we are persuaded that since the Agriculture Committee has jurisdiction over the food stamp program and received the Administration's proposal, it should be given the opportunity to deny the Administration's request. Should the Administration's proposal survive action by the Agriculture Committee, we would take appropriate steps to overturn it when the HUD authorization measure is considered on the floor.

The bill makes a number of modifications to the Section 8 existing housing program. Tenants would receive a fixed subsidy based upon a local rent standard that HUD would establish, and they could occupy a unit renting for more than the standard if they chose to do so and if they paid the difference in rent. Although this provision can be viewed as an advantage for tenants in that it gives them more flexibility in selecting units, we feel this advantage is offset by the fact that the national average amount of annual subsidy tenants would receive is only $2000, compared to the $3600 they would receive under the current Section 8 program. As a result, the federal assistance may be of little use to those with special housing needs such as large families or frail elderly who cannot find suitable shelter renting for the HUD established standard.

We object particularly to the rural housing title of the Committee bill. It would impose a severe cutback in funds for rural housing purposes and terminate well established housing financial assistance in favor of an untried block grant mechanism. This provision of the Committee bill has not been fully considered and may be poorly designed to serve rural citizens. It would inappropriately cut back on new housing construction during the most depressed housing production levels in almost forty years.

The Committee, by a vote of 7–8 failed to authorize an emergency program to help those who are involuntarily unemployed avoid the loss of their homes through foreclosure. We continue to support legislation that would help as many as 100,000 homeowners with loans for up to 21 months—three months of arrears, twelve months of lost assistance, and six months of extended benefits, if necessary. Loans could not exceed the lesser of $600 per month or 80 percent of homeowner's monthly payment for mortgage, taxes, and insurance. Budget authority and outlays would total $750 million over the 5 years following the program's enactment. This would be offset by [illegible] repayments from program participants who return to work. T[illegible]

severity of the recession, and the widespread unemployment it has caused, makes such a program essential.

The Committee has already reported S. 2226, legislation to aid homebuyers and the housing industry. We support that legislation because the federal government cannot stand idle as housing markets shut down and as the housing industry founders. By the same token, the federal government has at least an equal obligation to aid other Americans who have fallen victim to the recession through the loss of their jobs. Congress must not ignore the plight of these Americans who now face the additional tragedy of foreclosure on the homes that they have worked so hard to obtain. We believe that this growing national need must not go unanswered.

ADDITIONAL VIEWS BY SENATORS CRANSTON, RIEGLE, PROXMIRE, SARBANES, DODD, DIXON, AND SASSER ON RURAL HOUSING

The Farmers Home Administration's (FmHA) rural housing authorization included in Title V of this legislation is a dramatic departure from the existing FmHA programs and funding levels. The program changes call for what we feel is an untimely elimination of the tested rural construction and rehabilitation programs in favor of an untested and generally unconsidered rural housing block grant to the states.

The Committee proposal will result in a drastic cutback in our ability to construct low and moderate income housing in rural areas. Lending authority for the FmHA programs would be reduced from $3 billion to $895 million. The interest rates on FmHA loans would be increased from a flexible rate, currently ranging from 1% to the cost of money to the Treasury, to a rate comparable to loans made in the private market. This shift from a lending program with reduced interest rates to one of high market rates, embodied in the Committee proposal, practically eliminates the ability to deliver new housing in rural areas that is affordable to low- and moderate income consumers. In addition, such a major adjustment in FmHA authority may have an unknown effect on its capacity to deliver the other community development and farm related programs it administers. We cannot, therefore, recommend such a proposal to the Senate and claim that the level and quality of service to rural families will be enhanced or even maintained. We have every reason to believe that just the opposite will result.

As days pass, increasing technical problems emerge which raise serious concerns about the block grant. We believe the committee should have an opportunity to develop more fully any changes to FmHA housing programs. Our preliminary investigations show the block grant proposal apparently contains the following drawbacks:

(1) Severely reduces new and substantial rehabilitation construction;
(2) Increases interest rates to consumers;
(3) Increases financial burdens on states;
(4) Inability of states to match FmHA outreach system;
(5) Increase administrative burden by separating subsidy program from financing mechanism.

LACK OF NEW CONSTRUCTION

A program of new construction is essential to providing adequate housing assistance in rural areas. Over 40% of the nation's substandard housing is located in rural areas. Unlike structures in cities, ...

...ing stock in rural areas is often so substandard that rehabilitation is not feasible.

The rural housing block grant facilitates the construction of few units. To reach the income levels contemplated in the block grant (50% of area median income) requires a subsidy equal to all of capital costs plus a substantial portion of the operating costs. ... that, the block grant bill would produce substantially fewer ... 20,000 newly contructed units.

Rural areas need housing construction not only to meet shelter ... is also as an economic stimulus for the creation of new jobs. If FmHA were allowed to operate at its current funding level financing ... new homes, 170,000 private sector jobs would be created or ...ned. The block grant would, at best, create or sustain only one- ... of that if all of the funds were used for new construction. There ... small irony in the committee authorizing substantial funds to cre... housing stimulus and jobs creation program contained in S. ... and slashing the FmHA new construction program. To the ex... that the block grant will provide some employment, the hiatus in ...ction caused by the necessarily lengthy implementation proc... of this new program would come at the worst possible time.

INCREASED INTEREST RATES

...tion 511(17) of the bill amends section 521(a) of the Housing Act ... Its effect is to change the manner in which interest rates are ...ed for FmHA borrowers, substituting the rate prevailing in ...vate market when the loan is made.

...ding this change, the bill repeals the existing authority to ... interest credits to low- and moderate-income borrowers under ...tion 502 homeownership loan program. These credits reduce the ... borrowers are required to pay, to an effective rate of as low as ...cent. Interest credit is extended to each borrower by contract ... years. Under this legislation, when existing contracts expire, ...A will be unable to grant further interest credit. As a result, the ... rate each family will pay will jump from as low as one percent ...gh as 13.25 percent. This will affect nearly 400,000 borrowers ...d result in massive delinquencies and liquidations or fore... putting many thousands of families out of their homes and ... FmHA with many thousands of repossessed houses to dis...

...tion 515 rural multi-family rental program would be un... the legislation for those projects whose loans and credits ... on interest credit assistance due to the existence of prior ... However, some projects also make use of rental assistance in ... of these projects' tenants come from a very low income seg... local population that cannot afford monthly rents based ... interest credit subsidy. These rental assistance contracts do ... life of the loan. They range in terms from 5 to 20 years and ... to renewal during the life of the loan. If a project cannot ... receive rental assistance, then the tenants who cannot pay ...tially increased rent would have to be evicted.

... distressed that this proposal no longer subsidizes interest ... rural housing. Low- and moderate-income rural families will be hard pressed to pay for shelter in the absence of the interest subsidy. This will effectively eliminate them from the housing market, threatening large scale foreclosures and further injuring the housing industry.

By shifting to a market rate of interest, low- and moderate-income people will not be assisted by FmHA's loan program under this bill because the only households able to take advantage of the program would be those who could pay market rates. The average income of the recipient of interest credits for the 502 programs in 1980 was $11,80[illegible] while the average rate of subsidy was about 7.4 percent below the government market rate. By raising the interest rates to market levels, in order to qualify for a $35,270 loan at 16 percent interest, one would need an income of at least $32,985. Thus, without a further subsidy possibly from the state, the rural housing block grant could not be used to provide homeownership opportunity, for low or even moderate income people as market rate 502 loans would be unavailable to all but a few higher income households in rural areas.

UNDUE FINANCIAL BURDEN ON STATES

Under the rural housing block grant proposal, FmHA loan programs are reduced from $3.7 billion in FY 1982 to $895 million in FY 19[illegible]. To maintain the current level of housing credit in rural areas, state governments will have to raise over $3 billion, probably from tax exempt bonding authority, even though recent federal limitations severely curtail the offering of mortgage revenue bonds.

INABILITY OF STATES TO MATCH FMHA OUTREACH SYSTEMS

Farmers Home Administration currently provides a nationwide network of about 2,000 offices that offer assistance to rural America. Most, if not all, States would find it impossible to match this outreach capacity. The rural housing block grant would trade a system that is decentralized and locally based in rural America, for one largely based in State capitals, many far removed from rural areas.

Nearly half of FmHA assistance pertains to these housing programs. By curtailing them FmHA will be forced to evaluate the feasibility of maintaining its many rural offices. This would affect the general ability of FmHA to provide services other than housing—a [illegible] which is beyond the jurisdiction of the committee.

ADMINISTRATIVE PROBLEMS

By separating the subsidy from the financing, the rural housing block grant will cause substantial problems for potential homebuyers, renters and housing producers. FmHA will continue to have a [illegible] amount of financing available. State government may have add[illegible] financing. In order to provide multi-family housing for low [illegible] people, applicants will be required to secure financing from FmHA, a State finance agency and block grant subsidy dlolars from the S[illegible]. As a result, many will have to go through two sets of applications in order to participate in the program.

We are not opposed to the concept of a housing block grant. In [illegible] we have actively participated in developing a housing block grant [illegible]

[illegible]dominately urban areas. However, it took the committee three years [illegible] develop the urban housing block grant. Its beginnings are found in [illegible] ill fated multi-family rental construction program discussed by [illegible] Senate during consideration of the Housing and Community Development Act of 1980. Although the housing block grants' precursor [illegible] to be enacted, many of its concepts are now embodied in Section [illegible] of this bill. The housing block grant proposal evolved under the [illegible] scrutiny of the Banking Committee; so too should any changes [illegible] rural housing program.

[illegible] is not an easy task to design a new delivery system for rural housing. The Farmers Home Administration (FmHA's) budgetary and [illegible]ing techniques are complex and the demographics of rural areas [illegible]nate particular forms of housing assistance. However, the current FmHA system works well in most areas of the country. Its de[illegible]s are correctable by more modest measures. The FmHA net[illegible] provides over 100,000 newly constructed or substantially re[illegible]ated units to rural America each year through a variety of pro[illegible] The rural housing block grant proposal is in its embryonic [illegible] and any such comprehensive restructuring should be accom[illegible] only with the greatest deliberation and consideration of alter[illegible] That did not occur here.

[illegible]st opportunity to see the text of the legislation came on April [illegible] One week later, on May 6, this committee approved the [illegible]

[illegible]antly, no hearings were ever held on the specific text of the [illegible]n. Over two weeks before its introduction, on April 13, the Housing Subcommittee held hearings on FmHA reauthoriza[illegible] on the concepts embodied in the rural block grant proposal, [illegible]gislative language was then available. Due to time constraints [illegible] witnesses were heard on the concept of the rural housing block [illegible] of whom were from state or community development agen[illegible]ally favoring the proposal. Only one witness in opposition to [illegible] gave testimony at the hearing. Several national groups [illegible]ing low-income consumers as well as housing producers [illegible]cerned with rural housing requested to testify, but could not [illegible] because of lack of time. In addition, the Farmers Home [illegible]rator could take no position on the proposal when questioned [illegible]s, because the Administration has not formulated a position [illegible]posal. This record exhibits a lack of consideration, discussion [illegible]ation essential to the adoption of the far reaching changes [illegible] this legislation that virtually eliminates the rural housing

[illegible] that proponents of this legislation will offer an amend[illegible] the measure is considered on the Senate floor to address [illegible] other concerns not mentioned in these views. Last minute [illegible] the mechanics of the rural housing block grant only under[illegible] contention that the Banking Committee should more fully [illegible] programmatic change. We applaud the desire of the spon[illegible] legislation to improve service to rural America, and we [illegible] a joint effort to develop a more cost-effective system. [illegible] feel very strongly that the issue should be reconsidered [illegible]mittee.

O