THE MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY: A DESCRIPTIVE ANALYSIS OF THE EMERGING ROLE OF STATE GOVERNMENT IN PROVIDING HOUSING FOR FAMILIES OF LOW AND MODERATE INCOME

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ABSTRACT

THE MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY: A DESCRIPTIVE ANALYSIS OF THE EMERGING ROLE OF STATE GOVERNMENT IN PROVIDING HOUSING FOR FAMILIES OF LOW AND MODERATE INCOME

By

Douglas F. Mernitz

The Michigan State Housing Development Authority represents the response of one state in attempting to meet a critical need for quality housing for families of low and moderate income. As one of a small but growing number of state housing finance agencies, it has been functioning in several roles, including the administration of the federal subsidy programs, mortgage lending, land development, and research and technical assistance.

The state housing agencies have been able to provide a fresh look at the whole question of housing for the economically disadvantaged. New and innovative programs are being developed which, it is hoped, will more nearly meet the needs of specific sub-groups within the population. After approximately three years of active operation, the Michigan agency has established a tangible and impressive record in terms of housing produced. Perhaps more

importantly, it has also established the types of administrative and regulatory safeguards and controls and the design and site selection criteria necessary to insure that the housing that is built will succeed, both financially and socially. The nearly total assumption of financial liability for the housing on the part of the state agency has stimulated the development of these programs.

As with any new agency controlling a major funding source, problems and criticisms have been identified and are being dealt with. Future activities of the Michigan State Housing Development Authority, however, may well have to be considerably more diversified than at present; the state agencies could easily become the implementing arms of state-level planning and development activities, stimulating and matching local investment and willing to venture into those programs and activities where conventional mortgage lenders remain hesitant.

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FOREWORD

Not long after entering into the research for this paper, the improbability of the task became painfully apparent. The result is a best attempt to provide a chronicle of the activities of well over 100 imaginative and dedicated persons, over a period of four years, and with hundreds of millions of dollars to dispose of. To readers who are even slightly knowledgeable in the activities of state housing agencies and the federal subsidy programs, I apologize. A constant problem has been to decide what to leave out without damaging the whole--not how to expand meagre information to a paper of respectable length. Any one of the chapters or subtopics in this paper, to which I have only devoted minimal space, could easily have been expanded to hundreds of pages without exhausting the subject.

Because of this, I have come to view this paper as a starting point--a basic and elementary background--which should be, over the years, updated and expanded by other writers. Housing programs and state housing agencies are of vital concern to urban planners and public administrators, because they are able to provide the types of services and funding essential to the effective implementation of housing, community development and renewal programs. To ignore them is to do a disservice to your community.

I would like to express my appreciation to Professor Keith Honey whose assistance has been invaluable. To Bonnie, who has tolerated the long hours and the singleminded obsession to complete the paper, I am more than grateful. I would also like to thank some of the Michigan Housing Authority staff who have consistently encouraged this effort, including: Bill Rosenberg, Dave Froh, Drew Nigrini, Dick Hess, Bill Hague, Sharon Bond and Al Beke. Finally, I would like to express my appreciation to all of the Authority staff members who have taken the time to discuss with me the particular programs and areas of interest in which they are involved.

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CHAPTER I

INTRODUCTION

The Scope of the Housing Crisis in Michigan

No one is prepared to deny that there exists a housing crisis in Michigan and in the rest of the country. The cost of providing capital, labor and materials for the construction of new homes has continued to climb to that point where a large proportion of the population finds itself effectively priced out of the housing market. To be able to afford the purchase of conventional new housing today, a family must earn roughly $14,000 per year. "In Michigan, this leaves out about 70 percent of the people."[1] The Secretary of the Department of Housing and Urban Development has been quoted as stating that 80 percent of the nation's households are unable to afford new housing at today's prices.[2]

The cost of the new housing is one factor in the crisis. The second is the deterioration of the existing

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[1] William G. Rosenberg, Untitled Speech to the Colorado Conference on Housing, Denver, Colorado, December 4, 1970. See Cf. William G. Rosenberg, "State Program Seeks to Relieve Housing Crisis in Michigan," Michigan Municipal Review, LXIII (September, 1970), p. 206.

[2] Robert C. Alexander, "Fifteen State Housing Finance Agencies in Review," Journal of Housing, XXIX (January, 1972). p. 9.

housing stock and the inability to replace this stock at the rate that it is being consumed. In one study for the Michigan State Housing Development Authority (MSHDA), the following statistical data was presented:[3]

State Housing Condition Estimates

Some 158,600 Michigan families live in very poor housing, homes that are dilapidated, and ruined or close to ruin. This housing is affecting the lives of at least 507,000 Michigan residents.

Another 273,000 households are in poor and deteriorating condition. Some 873,000 Michigan residents of all ages live in these homes.

Annual housing starts of about 60,000 each year are not substantially affecting the size of this problem, nor do enough of the starts replace housing in poor and very poor condition.

The amount of dilapidated housing seems to have increased from 85,425 units in 1960 to 158,600 units in 1969 and is expected to decrease to 120,600 due to abandonment and demolition by 1975.

The amount of housing in deteriorating condition in 1960 according to the U.S. Census was 297,118 units; it is now estimated at 273,000 units in 1969 and is expected to reach 318,600 units by 1975 because of the rapidly increasing housing that will be more than 40 years old in the next five years.

Many other statements of housing need in Michigan have been made.[4] That the need exists, and that the two factors--the

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[3]Michigan Office of Planning Coordination, Bureau of Policies and Programs; Michigan State Housing Conditions and Trends; (Lansing: Michigan Office of Planning Coordination, January, 1970), p. ix.

[4]Statistics on housing need vary greatly according to the individual statisticians and their motives for making the studies. Mr. Robert P. Lambrecht, President of the Mortgage Bankers Association of Michigan and a long-time critic of the activities of the MSHDA, has acknowledged that 265,000 Michigan families were living in substandard housing at the time of the

ever increasing cost of new housing and the rapid deterioration of the existing stock--form a housing "crisis" is not disputed. There is an interrelationship between these two factors that is self-evident; the families who most need housing--those who are living in the oldest and most dilapidated of the existing homes--are the same families who can least afford any move which would improve the quality of their living environment. There is an estimate that only two percent of the families now living in substandard homes have the income or savings sufficient to successfully purchase or rent better homes.[5]

Housing need is even more dramatically identified when looking specifically at those people now occupying substandard homes. First are the elderly, living on fixed incomes in an inflationary economy and increasingly hard-pressed to house themselves. The adult physically and

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1970 Census. This figure is basically supported by the Michigan State Housing Development Authority in an internal study titled, "Projection of Housing Need and MSHDA Potential Market 1971-1975 for Michigan, By County," which is dated January 10, 1972. The MSHDA statistics were broken down by income groups and it was indicated that the MSHDA programs could serve 117,400 of the families living in substandard housing. This excluded poverty level families with incomes under $3,000 (145,424 units needed), and affluent families with incomes in excess of $15,000 (4,003 units needed). In both of these data presentations, substandard housing was defined in physical terms, as homes without plumbing, or owner-occupied homes valued at less than $10,000 or renter-occupied homes renting for less than $40 monthly.

[5]William G. Rosenberg, Speech to the Conference on Manufactured Housing, University of Michigan, April 14, 1970.

mentally handicapped are forgotten by most. Rural poverty has produced some of the most atrocious housing conditions in the state; in some areas, running water and toilet facilities are non-existent. It is in these areas in which many of our state's Indians and Spanish American citizens live. Public Assistance recipients are being granted shelter allotments so minimal as to insure that their homes will be the shoddiest housing available in the area.

Finally, the housing in the inner cities of Michigan is decaying, and the ghettos that have developed are expanding daily with no relief in sight. Those living in substandard housing, with very few exceptions, have no alternative; they are locked into an environment of ever-increasing poverty and despair.

Meeting the Need for Housing

The need for vast quantities of quality housing at lower cost has long been recognized. Steps taken to meet this need, however, have been largely ineffectual.

For years, some of the major cities in Michigan have attempted to meet the need for housing through the creation and implementation of public housing programs. Nearly everyone familiar with this effort--from planners to municipal officials and from architects to social workers--agree that public housing has fallen short of the goals set for it--socially, aesthetically and financially. Even if, however, the public housing programs had been totally successful, a major demand would not have been met.

Public housing serves only a limited proportion of the families unable to afford conventional homes. Income limits are established which restrict the availability of this housing to the very poorest of families. When the family's income increases to an amount which exceeds the income limit, that family is forced to seek a new home on the conventional market.[6] This has been one of the major criticisms of the public housing program for years, and it is mentioned here in order that it may be demonstrated that a major portion of the population does exist with incomes falling somewhere in that moderate range--roughly between $6,000 and $14,000 per year--that is excluded from the public housing effort but cannot realistically afford to rent or purchase quality homes.

The federal government began to recognize this need for moderate income housing programs in the early 1960s. The solution arrived at is known as the "Interest Reduction Subsidy" which is a governmental payment to the mortgage lender designed to reduce one of the three major costs in housing--the cost of money. The first such program, called

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[6] U.S. Department of Housing and Urban Development, Requirements and Recommendations to be Reflected in Tenant Dwelling Leases for Low Rent Public Housing Projects (RHM Circular 7465.8), Appendix 1, "Model Lease Form," paragraph 5c (Washington, D.C.: Government Printing Office, 1971).

"Section 221(d)(3)," provided for a reduction on the mortgage loan interest to three percent; the current "Sections 235 and 236" programs reduce the mortgage loan interest to one percent. Since a single percent decrease in the interest to be paid on a mortgage loan amortized over 40 years can lower the debt service cost to the consumer by approximately 5.5 percent, the potential value of such interest reduction subsidies is obvious.[7]

These programs, based on the participation of builders and mortgage lending firms, continued to fail to develop housing where it was needed in the state and in the quantities necessary. The mid and late Sixties marked the beginning of a whole new era of government action to meet the housing problems. The state governments, previously uninvolved in housing, began to create agencies specifically designed to stimulate the construction of housing for low and moderate income families.[8]

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[7]Cf. Alexander, op. cit., p. 10. Alexander states that the benefit to the consumer can be as much as 14 percent for each percent of interest reduction subsidy. I dispute this statement as a generalization, though it might be true for an isolated case. The 5.5 percent figure is based on the actual numbers for one development being processed by the MSHDA during January, 1973.

[8]The New York State Housing Finance Agency is actually the oldest of the agencies, having been established in 1960. Its powers, however, vary considerably from those of Massachusetts, Michigan, New Jersey and Illinois which were created--in that order--in 1966 and 1967 and which, according to Alexander, "have served as models for those that followed." Ibid., p. 9.

Scope and Purpose of the Study

The purpose of this study will be to closely examine the development and current operation of one of the emerging state housing finance agencies, the Michigan State Housing Development Authority, the third such agency to be created in the country. It has existed since 1966 and has been in active operation since 1969.

Chapters of this study will examine closely the following questions:

What are the purposes of state housing finance agencies in general; what roles are they expected to play?

How has the Michigan State Housing Development Authority developed since it was first created?

What are the active programs and concerns of the MSHDA that have emerged since operations were begun?

What is the process by which the Michigan Authority develops a housing proposal from inception to completion and operations?

What has been the record of the Michigan State Housing Development Authority after three years of active operation; what tangible benefits have accrued to the State of Michigan?

What are the problems and criticisms being encountered by the Michigan Housing Authority, and how are these concerns being dealt with?

What is the outlook for an ever-increasing involvement in the future by the Michigan State Housing Development

Authority in attacking the housing problems faced by the state?

The focus of this paper is on a broad overview of the Michigan experience. Its ultimate purpose is to present a descriptive analysis of how a particular state housing finance agency has attempted to assist the development of low and moderate income housing. Because of this scope, many of the individual policies, programs and issues cannot be dealt with in detail.

The federal programs that are administered by the state housing finance agencies have come under increasing attack.[9] This thesis will briefly detail the programs that are relevant. The merits of the individual programs, however, and of the whole question of federal intervention in the housing crisis, are not necessarily relevant to this paper, being adequately argued by other authors.

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[9]On January 5, 1973, the Department of Housing and Urban Development announced an 18 month freeze on several of the programs it administers, including the interest reduction subsidy programs and the rent supplement program--both of which are applied by the MSHDA. HUD made it clear that previously-made commitments would be upheld. As of this writing, a full clarification of HUD's intent and the impact this action will have on the activities of the MSHDA is not available. A state, standing alone, does not have sufficient financial resources to make available housing for the lower income families, and the possible demise of all of the subsidized housing programs funded by the federal government might easily destroy the state housing finance agencies if some other funding mechanism is not made available. The MSHDA does have signed commitments from HUD to continue operations for at least a year at the current rate of production. In making many of the projections essential to this study, it must be assumed that some form of federal assistance for housing will be continued.

Time Frame and Research Methodology

Prior to 1970, the Michigan State Housing Development Authority operated primarily as a research agency, designed to investigate the need and demand for quality low and moderate income housing in the state. While this study will briefly outline the major events of these early years, significant action began only with the first mortgage financing. The major thrust of this research effort, therefore, has been on the more recent years when housing was actually produced, when the MSHDA staff tripled, when housing expertise was acquired and expanded, and when significant programs and concerns were actively dealt with.

Due to the availability of more accurate year-end statistics, December 31, 1972, has been used as a cut-off point for the research. Important publications, policy changes and program activities since that date, however, are included in the analysis as appropriate.

The author of this study was placed on the staff of the Michigan Housing Authority as a Student Assistant with the newly-formed "Community Services Division" in April of 1971. (The name of the Division has since been changed to "Management and Marketing.") As a staff member serving in a variety of positions for nearly two years, research has been greatly facilitated. Much of the source material for this paper originates from within the MSHDA; including publications, memoranda, research reports of staff and consultants, continuing discussion with staff members and personal experience.

CHAPTER II

THE ROLE OF STATE HOUSING FINANCE AGENCIES

Given the need for quality, low cost housing and the creation of state housing finance agencies to assist in meeting this need, it is helpful to look briefly at the several roles in which these agencies operate. Four basic roles are played by the Michigan State Housing Development Authority, and its sister agencies throughout the country which are--with few exceptions--granted similar powers and duties. These four roles include: (1) Mortgage Lending, (2) Program Administration for the Federal Government, (3) Land Acquisition and Development, and (4) Technical Consulting and Research. For background in understanding the following chapters of this study, an overview of each of these roles--as practiced by the Michigan State Housing Development Authority--is relevant.

The State as a Mortgage Lender

The primary purpose of any of the state housing agencies is to provide the financing necessary for encouraging private enterprise to develop and construct housing. Funds are raised by the sale of tax-exempt short-term notes and long-term bonds on the open market. The bond proceeds are then disbursed to owners and proposed owners of housing developments as loans in one or more forms. The short-term notes are sold in anticipation of a bond issue, and are generally repaid within a year. The bonds are amortized over a 30 to 40 year period, principle and interest payments being made from the rental income of the newly constructed or rehabilitated housing.

There are three types of loans that are made. The first is called a "Seed Money" loan which is issued to Nonprofit housing sponsors who require a certain amount of capital to proceed in the early phases of development. In Michigan, these loans are made from a $1 million revolving fund. Seed money is used for soil testing; preliminary site planning; the retaining of housing consultants, attorneys and architects; the purchase of land or the taking of options on desirable parcels of land, and other expenses properly incurred by a nonprofit developer. In the event the housing development proves to be feasible and is actually built, this loan is made a part of the final mortgage loan.

The second type of loan is the construction loan. At the point in the development process that the proposal is determined to be economically sound, the architectural work is completed and the cost of construction is carefully estimated. A loan is then issued to the sponsor of the housing for the actual construction of the project. This loan is secured by a bond or a letter of credit which guarantees the performance of the contractor, and the loan proceeds are only disbursed for that portion of the work that is documented as being complete and satisfactory and for which title insurance has been obtained. In addition to the costs of construction, this loan also covers the anticipated incidental costs to the housing owner during the construction period, such as property taxes, insurance, professional fees and other contingencies.

The last type of loan is the mortgage loan itself. After completion of the construction and the initial rent-up of the development, all of the costs incurred to date for the housing project are thoroughly and precisely documented. This "cost certification" establishes the amount of the mortgage loan, which is then issued, and the amortization payments made from the rental income commence. These payments continue, depending on the program the project has been financed under, for 30 to 40 years.

The State as Program Administrator

The second role of the MSHDA is as the administrator of the various federal housing subsidy programs. While the sale of tax-exempt bonds does, in and of itself, reduce the cost of the money necessary for building housing, it does not succeed in reducing the rental charges to levels attainable by families with lower incomes. Most of the state housing authorities, therefore,--including that of

Michigan--tie into the federal housing subsidy programs, including Sections 235 and 236, Rent Supplement, and Section 23 Leasing. These programs further reduce the cost of the housing to the consumer with various cash or credit subsidies. While these federal programs would still be available without the intervention of the state finance agencies, they would be allocated on a first-come, first-served basis. This is hardly equitable and is certainly not in response to carefully measured need and demand. The state, while perhaps in competition with the other states for the allocation of these funds, is more intelligently able to apply the funds and is more responsive to the expressed interests of the residents. Even with the recent dispersion of staff to Area and Insuring Offices, the Department of Housing and Urban Development has recognized the advantages of dealing with the state agencies and has written, in cooperation with these agencies, detailed guidelines which formalize the relationship.[10]

The State as a Land Developer

Land development is a state agency role which has not been used to any great extent. While the MSHDA does

[10] U.S. Department of Housing and Urban Development, Interest Reduction Assistance and Rent Supplement Payments for Projects Developed Under State and Local Programs (HMP-FHA 4400.46) (Washington, D.C.: Government Printing Office; February, 1972).

not have the power of emminent domain and has not been granted the option of overriding local zoning codes,[11] it does have the authority to acquire land for unspecified future housing development. According to Alexander, this land acquisition program is the only one in the country that has actually been funded by a state agency,[12] but it has been used only sparingly to date--in Detroit where parking facilities were badly needed adjacent to a rehabilitated apartment structure, and in Grand Rapids where the MSHDA is working in partnership with the city to acquire and clear a blighted area. As land costs continue to rise, and as excellently located sites for multi-family projects dwindle, it can be expected that the MSHDA will step up its land banking activities, selling the parcels it has acquired to qualified developers in the future.[13]

The State as a Technical Consultant and Advisor

The last major role played by all state housing finance agencies is that of the technical consultant. Such

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[11] The only state housing finance agency with such authority to date is New York's Urban Development Corporation. See: John Brown, "The New York State Urban Development Corporation," unpublished paper prepared for Urban Planning 830 ("Legal Bases for Planning"), Michigan State University, Winter Term, 1971. Cf. Alexander *op. cit.*, p. 13; and New York State Urban Development Corporation, *Annual Report: 1971* (New York: Urban Development Corporation, 1971).

[12] Alexander, *op. cit.*, p. 13.

[13] Michigan State Housing Development Authority, "Priorities, Evaluation Factors, and Criteria for Allocation of Development Fund Grants," unpublished staff circular, n.d.

activities are nearly too numerous to mention. They include advisory assistance to inexperienced nonprofit sponsors, training of managers and marketing agents, research into the preferences of the consumers, the coordination between local groups and the other government agencies which will provide both assistance and funding for social service programs, market analysis, computerized research, land appraisal, and the dissemination of technical and informational bulletins to developers, owners and their agents. In a very real sense, it is the role of the technical consultant that distinguishes the state housing finance agencies from the conventional mortgage lender.

The providing of technical assistance results from two factors which must be continually remembered when considering the operation of the MSHDA. First, a state housing agency must remain responsive to the needs of the people as reflected by the people themselves and their local and state-level elected representatives. The housing produced must always be a measurable step above the subsidized housing that has been produced previously. Second, the bonding mechanism, which requires that the bonds be repaid from rental revenue, implies that the level of satisfaction among the residents must remain high to insure the stability, both financial and social, of the housing projects. A failure to receive rent, for any reason whatever, leads ultimately to a failure to repay the bondholders and a loss of bonding capacity by the state housing agency.

Summary

The roles of the MSHDA and the other state housing finance agencies are varied and require considerable expertise in a large number of areas, from urban planning to architecture and from political science and sociology to engineering and construction. These roles, when taken together, far exceed the services that are consistently provided by the Department of Housing and Urban Development or by a conventional mortgage lender. It is essential, however, that the state housing finance agencies not be seen as competitors to these other institutions. In practice, the MSHDA is a complement to the existing housing institutions and is able to work in tandem to provide a more meaningful and complete effort in meeting the crisis in housing.

CHAPTER III

THE DEVELOPMENT OF ACTIVE STATE HOUSING PROGRAMS AND CONCERNS IN MICHIGAN

A Historical Background

The Michigan State Housing Development Authority was created in 1966 by the Michigan State Legislature with the stated purpose of meeting multiple and recognized problems with the housing supply and conditions in the state. The Act recognized the "seriously inadequate supply of and pressing need for safe and sanitary dwelling accommodations within the financial means of low income or moderate income families."[14] With this enabling legislation, the MSHDA officially came into existence.

The Michigan Authority that was created by this Act is comprised of seven members, including the Directors of the Michigan Departments of Social Services and Commerce, the State Treasurer, and four persons appointed by the Governor with the advice and consent of the State Senate. These individuals form the actual decision-making body, though they are empowered to delegate many of the Authority's powers and duties to their agents and employees. In

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[14]Michigan State Housing Development Authority Act (Act Number 346 of 1966), M.S.A. 16.114 (1-96). Subsequent references to this Act will be cited in the text according to the Michigan Statutes Annotated.

practice, the Authority meets on at least a monthly basis to consider and adopt resolutions concerning major policy and commitments to loan money, issue notes and bonds, and contract for outside services. An Executive Director is named by the Authority who, in turn, is responsible for staffing and for the operation of the agency. The Executive Director, his several division Directors, and a few senior staff specialists comprise the Executive Staff of the Authority.

The position established for the MSHDA within the framework of state government was unusual. It is considered a part of the Michigan Department of Social Services but functions independently of that department. The exception under the statute is that "all budgeting, procurement and related functions of the authority shall be performed under the direction and supervision of the head of the department of social services." [M.S.A. 16.114 (21)(4)] This means that the advantages afforded a department of state government are all available to the Authority--advantages including Civil Service pay scales and fringe benefits; mass procurement of office supplies and equipment; and access to state-owned transportation, printing facilities, and other services.

The Authority is unique, however, in that it does not depend on state revenue for its operation; it will be shown later in this paper that the Authority, by the end of 1972, was self-sustaining, and its own operations supported a $2 million annual operating budget. Since there is little control of the purse strings of this agency, its independence is virtually guaranteed. This statement must be qualified, since the enabling statute provided that the State Legislature authorize the bonding capacity ceiling of the Authority. [M.S.A. 16.114 (32)(4)]

The Authority, therefore, is responsible directly to the Governor and to the State Legislature, for the agency could not continue to exist without a periodic appraisal of its activities and an increase in the authorized bonding ceiling. Both of the Governors of Michigan that have been in office since the Authority was created have maintained a close relationship with the agency and have expressed personal interest in the development of housing programs that are effective. (Governor Romney was, of course, eventually named the Secretary of the Department of Housing and Urban Development.) Much of the major housing policy established for the State of Michigan, in fact, has come in the form of Special Messages or sections of State-of-the-State Messages of the Governor. Finally, the Governor has consistently proposed and has seen passed legislation designed either to increase the bonding capacity or to expand the programs and powers available to the agency.

The Authority's relationship with the State Legislature has also been close. A member of the Executive Staff has had, as a major task, the responsibility to maintain the liaison with legislators who often raise issues and questions important both to their own districts and to the state as a whole. Pending legislation, naturally enough, stimulates these contacts.

The purpose of the Act was to stimulate the construction of "housing for such low or moderate income families and persons who would otherwise be unable to obtain adequate dwellings which they could afford and to acquire land for present or future development including such housing." [M.S.A. 16.114 (1)] The key to any future evaluation of the Authority's subsequent actions is an understanding of the term "low or moderate income" which was left vague: [M.S.A. 16.114 (11)(g)]

> 'Low income or moderate income persons' means families and persons who cannot afford to pay the amounts at which private enterprise, without federally-aided mortgages or loans from the authority, is providing a substantial supply of decent, safe and sanitary housing and who fall within income limitations set by the authority in its rules.

In order to accomplish this purpose, the Authority was granted sufficient powers to function in the roles of a state housing agency as described in Chapter II of this thesis. Specifically included in the Act were powers to engage in research, technical assistance and advisory programs; to undertake studies to determine the extent of the housing need in Michigan communities; to comply with and administer federal housing subsidy programs; to research and participate in demonstration projects; and to contract with outside consultants for advice. (The land acquisition and development program was granted in the 1970 amendment to the Act.)

Most importantly, the Authority was authorized to issue, as the need arose, its own negotiable bonds and notes, which would not be an obligation of the State of Michigan, and to loan the proceeds of the bond and note sales to qualified developers of housing for low and moderate income families. This section of the Act [M.S.A. 16.114 (25)] provided the key that would enable the Authority to fulfill its purpose.

The concept of a state housing financing agency was a new one, and then-Governor Romney requested that the State Supreme Court issue an opinion concerning the legality of the Act and, more specifically, of the proposed method of note and bond financing vital to successful operation. A favorable opinion was handed down in the Summer of 1968.

Representatives of the Governor had been active in seeking out the initial staff for the MSHDA during this waiting period. An Executive Director and several staff members were hired in October, 1968, and operations began. Very little was accomplished during the first year. No one on the Authority staff was familiar with note and bond financing, and housing expertise itself was at a premium. The fund was created with which to issue seed money loans, and the first such loan was issued in July of 1969. Primarily, however, activity was limited to housing research and participation in the planning for the federal Operation Breakthrough program.

A later publication of the Authority looked back at this first year of operation and detailed only three major accomplishments:[15]

> (1) Revitalization of the State Housing Development Authority with the appointment of William G. Rosenberg as Executive Director (in October of that year) and the adoption, on November 17, 1969, of the following goal:
>
> > 'Develop 2500 units of housing costing $50,000,000 over the next 12 months for low and moderate income which are planned, constructed, financed and subsidized through the Michigan State Housing Development Authority.'
>
> (2) Development of a 1970 legislative program for housing with emphasis on providing additional tools and resources to the Authority. . .
>
> (3) Active participation in Operation Breakthrough through the establishment of a Michigan Operation Breakthrough Task Force, which worked with over 40 Michigan communities during the summer of 1969 to produce 22 prototype site proposals. A report of the Task Force, dated September 19, 1969, was submitted to HUD.

To reinforce this revitalization, Rosenberg directed the immediate completion of the report on Michigan's housing

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[15] Michigan Office of Planning Coordination, Bureau of Policies and Programs; <u>State Housing in Michigan: 1970</u>; (Lansing: Michigan State Housing Development Authority, January, 1971); p. 2.

conditions (see footnote 3), which was accomplished in January, 1970, and which statistically documented for the first time the scope of the housing crisis. Further, the Governor delivered his strong support in a Special Message on Housing to the State Legislature on February 10, 1970. The Message included the following statements:

> The crisis of housing in Michigan is massive, and we are only now becoming aware of its proportions.
>
> In my State-of-the-State Message, I set as a minimum goal for the State Housing Development Authority the financing of 50,000 units at a total cost of approximately 1 billion dollars. . . .
>
> . . . .
>
> We have begun to effectively meet this challenge in housing. The State Housing Development Authority is prepared to sell revenue bonds to finance homes for low and moderate income families. Applications for this financing already exceed the $50 million bond authorization and so I am recommending the authorization be increased to $300 million.
>
> . . . .
>
> I have requested the Authority to develop 2,500 housing units for low and moderate income families during this year at a total cost of $50 million.

The First Production

The Legislature did amend the enabling legislation to effect an authorized increase of bonding authority from $50 million to $300 million. In addition, permission was given to work with limited dividend (for-profit) sponsors for the first time, the housing programs were expanded to include service to moderate income families (housing financed without federal subsidy assistance), additional staffing was authorized and the land acquisition program was established and funded.

With this expansion of power came the responsibility to produce. It was essential now that the MSHDA be able to point to production figures which would show a tangible effort made to meet the housing needs of the state. A working arrangement was made with the Federal Housing Administration (FHA), and the Michigan Authority agreed to provide the mortgage financing for a number of housing proposals that had been screened and processed by the federal agency. All of these developments were to be insured under the federal mortgage insuring programs. In this way, the actual production of units was almost immediately accomplished.

In retrospect, this action, though necessitated by political expediency, presented an inherently dangerous situation. The MSHDA, functioning solely as a mortgage lender, was in the most exposed position of any of the members of the development team. There was no way the MSHDA could participate in decisions concerning where the housing was to be located, how many units there would be, who the owners and other members of the team were to be, what rents would be charged, and other equally significant matters. Further, in the event serious problems did arise during the operation of the housing developments, the MSHDA was seriously restricted in its ability to take corrective action--any major step requiring the approval of the HUD-FHA offices.

The mortgage insurance did protect the Housing Authority from serious financial loss. It was recognized from the outset, however, that foreclosure on any mortgage--insured or not--might well jeopardize the Authority's ability to issue bonds and notes at a favorable interest rate and would certainly shake the confidence of the State Legislature and Administration.

Later experience with these first developments--called the "FHA Pick-ups"--would establish that they were prone to failure and were quite possibly financially infeasible from the outset. Though some of the first proposals were not finally processed until the Authority had developed its own criteria, eight housing projects outside of Detroit and six inner city developments (five of which involved the rehabilitation of existing structures) were actually financed and constructed with little or no screening by Authority staff. Because of serious problems in the qualifications of the development team members, the original site selection, the unit mix and the market analyses; all of the original fourteen developments have experienced serious financial problems. Official notices of default have been filed on nine.[16]

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[16]A "default" occurs when a mortgagor/sponsor violates a contractual obligation; and such a violation may be financial, legal or administrative in nature. Though

The State as an Active Developer of Housing

The Department of Housing and Urban Development and the Federal Housing Administration were just beginning to recognize the growing problems in the housing subsidy programs. Defaulted and assigned mortgages were beginning to mushroom; somewhat later, in October, 1971, it was publicly announced that there were 189 Section 236 developments in default nationwide containing more than 20,000 units. The problem was known to those working in subsidized housing much earlier than that. The basic problems were the limited market available that could qualify for 236 projects in some areas and the production orientation of the mortgage packagers and lenders and HUD. Popular and governmental support was based on success, and success seemed to be a function of the number of units produced. How well the units fared once they were up and operating was given little thought.

Recognizing that these problems were becoming more and more critical, HUD's Secretary Romney instructed his Regional Administrators:[17]

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a notice of default is sent to the mortgage insurer (FHA) to protect the insurance, the default is often cured. A "foreclosure" occurs when the mortgagee (MSHDA) assumes title to a property that has fallen into default. An "assignment" occurs, for insured properties, when the mortgagee hands over a defaulted (and usually foreclosed) project to the insurer and collects the insurance proceeds.

[17]"HUD and Housing Management," Management Memos, I (October, 1971), p. 1.

> Projects that will not be financially viable should not be approved. There is no excuse for approving projects which cannot be managed successfully, and no excuse for HUD personnel not to discharge their responsibilities properly. Production is not to take priority over sound administration and adequate management.

The Michigan State Housing Development Authority had not waited for this type of action by HUD. A conscious decision had been made to assume the responsibility and the decision-making authority as well as the financial and political risk. This decision was to enter the housing development process as an actual participant, to establish guidelines and criteria and to work with proposed housing sponsors and HUD in an effort to develop what was hoped would be financially and socially stable housing investments. Further, the mortgages would no longer be insured with FHA; instead, reserve funds authorized under the enabling statute would be funded from bond proceeds. The financial risk became even more real, and the decisions that were made became that much more critical.

To implement this new role as an active participant in the housing process, the MSHDA accomplished several tasks:

1. _Townhouse Development Process_ was written.[18] Architectural consultants commissioned by the MSHDA produced

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[18] _Townhouse Development Process_ (Lansing: Michigan State Housing Development Authority, October, 1970). It should be noted that the consulting architectural firm of Beckett Jackson Raeder, Inc., who wrote _Townhouse Development Process_ for the MSHDA has received an award from the American

a guidebook detailing unit design, site planning and submission requirements to be followed by all housing sponsors and their architects.

2. With the assistance of other consultants, procedures and criteria were established for the review and approval of such elements of a housing proposal as; (a) architectural plans and specifications, (b) site engineering improvements, (c) management and marketing plans, (d) accounting systems, (e) market analysis, and (f) legal documentation.

3. A detailed study was undertaken and published concerning the operating and maintenance costs which could be expected in housing developments for low and moderate income families, thus making it possible to more accurately determine realistic rent levels for MSHDA-financed housing developments.

4. A computer program was developed which analyzes the economic feasibility of housing proposals by comparing the development costs and the operating budgets to the projected rental income, as governed by rent limits and other constraints of the federal subsidy programs and the quality criteria of the MSHDA.

Society of Landscape Architects for the work. "Michigan State Housing Development Authority Wins Landscape Architects Award," Journal of Housing, XXIX (October, 1972), p. 450.

In contrast to the time when all of the developments were packaged by housing consultants and HUD and when the MSHDA functioned solely as a bank, the present policy is that the Housing Authority will not deal with any developer who has, in anticipation of funding from another source, proceeded with architectural work or any of the other detailed aspects of a housing proposal.

The MSHDA remains primarily a mortgage lender, but its activities far exceed the traditional bounds of this business; the Authority can and does venture into new fields at will. Without this departure from the previous mortgage lending practice, the MSHDA might well have failed; it would have been forced to rely on the now-failing federal government apparatus and bureaucracy.

CHAPTER IV

PROGRAMS OF THE MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

The housing industry, though fragmented to a large degree, can be described as a closely-knit and interlocking confederation of professions and trades, tied together by calculated speculation and the promise of substantial cash and tax benefits. A new organization, especially in the form of a government bureaucracy, can only be superimposed successfully when it has significant financial backing. The bonding ability of the Michigan State Housing Development Authority and its sister housing finance agencies satisfies this need for financial clout.

To function effectively, however, in coordination with the more traditional mortgage lenders requires more than lending ability. New advantages, programs and effective and professional forms of advisory assistance must be continually developed; only in this manner will the most competent of the builders, developers, architects and other professionals become and remain interested in obtaining financing through a state agency, despite the inevitable red tape and financial restrictions.

Further, in order to effectively attempt to meet the needs of the people of the state, a single program--such as interest-subsidized, multifamily townhouse structures--would never be sufficient. Housing and housing related assistance is needed for persons with varying incomes, in varying localities and of all ages. To categorize all of the active programs and concerns of the Michigan Housing Authority is an improbable task, but there are three basic types of programs under which nearly every activity of the MSHDA could be considered. They include:

1. The Subsidy Programs, through which quality new housing can be offered to families of low and moderate income--housing which these families could not afford without the subsidies. The subsidy programs are further categorized as either multifamily or single family programs.

2. The Specialized Housing Programs include all of the production effort exclusive of the conventionally built, family homes. These programs can often be considered as experiments in new concepts and types of housing.

3. Technical Assistance, Research and Regulatory Programs--designed to insure the financial and social success of the housing that is created and that will be created.

Multiple Family Housing Subsidy Programs

The subsidy programs under which persons and families can qualify for housing in MSHDA-financed developments are quite varied, and, for multifamily developments, the tendency

has been to apply combinations of several programs to single developments, a move which helps to develop economic integration and which also facilitates the marketing of the units.

The following sections will describe in some detail what these programs are, and how they are applied:[19]

Section 221(d)(3)

The Section 221(d)(3), or "Below Market Interest Rate," program was the first attempt by the federal government to provide a mortgage interest reduction subsidy which would lower the cost of the housing to the consumer. The residents of a housing development pay, through their monthly rent, operating expenses and debt service sufficient to cover a mortgage loan with an interest rate of three percent. Income limits were established for this program to insure that the housing was made available to families of moderate income.

The Michigan State Housing Development Authority has financed the construction of only one development under this program ("Arbor Park," in Ann Arbor, Michigan), and

[19] The most comprehensive of the sources concerning the federal housing subsidy programs is: The National Housing and Development Law Project, Earl Warren Legal Institute, University of California at Berkely; Handbook on Housing Law; Vol. I: Guide to Federal Housing, Redevelopment and Planning Programs; (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1970). Cf. U.S. Office of Economic Opportunity, Catalog of Federal Domestic Assistance (Washington, D.C.: Government Printing Office, 1971).

that mortgage has since been purchased by the Federal National Mortgage Association (FNMA). The 221(d)(3) program is mentioned only in passing; it has been largely replaced by the Section 236 Program, though the income limits that were set continue to play a part in the more recent program.

Section 236[20]

Section 236 of the Housing and Urban Development Act of 1968 provided for a federal housing subsidy program quite similar to the 221(d)(3) program. It included provisions for; (1) mortgage insurance on the housing through the Federal Housing Administration (FHA), and (2) an interest reduction subsidy which would reduce the cost of the mortgage loan to the consumers to one percent.

Qualified sponsors (also referred to as mortgagors or housing owners) include nonprofit housing corporations and consumer housing cooperatives who may receive a 100 percent mortgage loan, and limited profit housing corporations (including builder-owners) who are limited to a 90 percent mortgage loan. The developments are designed for "families" (defined by HUD as two or more persons related by blood, marriage or operation of law), the elderly and the handicapped.

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[20]U.S. Department of Housing and Urban Development, Rental and Cooperative Housing for Lower Income Families: Section 236 of the National Housing Act: HUD Program Guide for Sponsors, Builders, & Lenders (HPMC-FHA G 4442.17), (Washington, D.C.: Government Printing Office, September, 1971).

Eligibility for occupancy in a 236 project is largely restricted to families with incomes that do not exceed 135 percent of the income limits established for public housing programs in the county or municipality. To eliminate any potential overcrowding problems, the program includes further limitations which govern the family-size-to-number-of-bedrooms ratio. Two exceptions to the income limitations are permitted: (1) families with incomes slightly over the 236 limits may be admitted under the "exception limits" program and still pay a rental charge based on a one percent mortgage,[21] and (2) families with incomes in excess even of the exception limits that are established may be admitted provided they pay a "market rent" based on a theoretical full-interest mortgage loan.

Upon the determination that a family is eligible for occupancy in a 236 project, the rental charge is calculated. The family will pay either the "basic rent" (a monthly figure based on the one percent mortgage loan) or 25 percent of income, whichever is greater. All rental charges in excess of the basic rental for the unit that are collected by the owner are returned to HUD. Recertification of incomes of the residents is required annually, with the appropriate adjustments being made in the rents for

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[21]"Exception" income limits are established as 90% of the income limits under the old 221(d)(3) program, and they generally exceed the 236 limits by $1000 to $1500--depending on family size.

families with altered incomes. In the event a family's income increases to a point where it exceed the area's established income limits, the family is permitted to remain in the development (unlike the public housing programs), but their rental charge increases to 25 percent of their adjusted current earnings. In no event will a family ever pay more than the established market rent for the unit occupied.

Because families with very low incomes were jeopardizing the financial stability of many 236 projects, HUD ruled that no new family applying for occupancy (with the exceptions of the elderly and the handicapped) would be accepted if their rental charge would exceed 35 percent of their income. While the financial soundness of such a regulation cannot be questioned, a serious social issue is raised; strict adherence to this policy effectively excludes any family relying totally on Aid for Dependent Children (ADC) or some other form of welfare allowance where personal income is regulated and the housing allowance often exceeds that income. The Michigan State Housing Development Authority has compromised with a policy which allows residency by welfare recipients if the local County Department of Social Services will budget a shelter allowance in the recipient's grant equal to the established basic rental charge for the housing unit.

The 236 program has been utilized extensively by the MSHDA in its production effort. With a total 1972 production goal of 11,100 units of housing, 45.5 percent were scheduled for financing under the Section 236 program. As of the end of 1972, however, more than 86 percent of the units committed, under construction or occupied were 236 units.

The Moderate Income Program

While it is true that the Michigan Housing Authority does not have the financial resources of the federal government and could never sustain a housing program for low income families without federal subsidies, it can make mortgage money available at a lower price than the conventional mortgage lenders. Interest paid on MSHDA bonds has been determined to be tax exempt, and wealthy investors are willing to purchase bonds paying a proportionately lower rate of interest because of this provision. Even after adding to the mortgage the processing and commitment fees that are charged, the MSHDA is able to directly loan money for housing construction at two or three percentage points below the conventional mortgage lending rate.

The federal programs, valuable as they may be, do not service many families of "moderate" income. Public Housing programs deal with the poorest families in our society; 236 assists the next highest group--families earning from $5000 to $9000, in rough figures and dependent upon the number of persons in the family. The income range of $9000 to $14000--still unable in many cases to afford their own new homes at today's prices--must also be considered.

To meet this need, the MSHDA has developed the "Moderate Income Program," also called the "Class II" program. Construction and mortgage loans are made to qualified sponsors of proposed housing developments at interest rates which depend solely on the bond market and the benefits afforded by the tax exempt status of the bonds.

The Moderate Income program is, like 236, a multiple family housing program. To qualify for occupancy, the family's income, after several significant adjustments must be under $12,000; this is the sole income limit. Most of the other HUD administrative regulations that have previously been indicated are followed in the administration of this program. Four major advantages have become evident as the Moderate program has developed:

1. By marketing to families in the higher income range, the financial stability of the development is greatly enhanced.

2. HUD involvement is completely eliminated, and the administrative regulations are more flexible. Reasonable requests for a waiving of administrative rules can be readily granted.

3. Moderate units can be combined with 236 units in the same housing development, thus providing a desirable form of economic integration.[22]

4. Local community and market acceptance of the Moderate program is more readily obtained than with the federal subsidy programs.

Since the inception of the program with the legislative authorization in 1970, the MSHDA has financed units in this manner at an increasing rate. The calendar 1972 production goals of the MSHDA indicated that 27.5 percent of the total production for the year was to be under the Moderate program. By the end of that year, only a little over ten percent of the total multifamily production was Moderate, though this rate was definitely increasing.

Rent Supplement[23]

Where the Moderate Income Program reaches those families with incomes in excess of the 236 income limits, another program, known as "Rent Supplement," is designed to make housing available for families in the public housing income range. The Rent Supplement program was established in Section 101 of the Housing and Urban Development Act of

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[22] Ellen Kaplow, "Economic, Racial Mix Achieved in Builder/State Team Effort," Apartment Construction News, VII (September, 1972), pp. 1 and 90-92.

[23] U.S. Department of Housing and Urban Development, Rent Supplement Handbook (4520.1) (Washington, D.C.: Government Printing Office, September, 1972).

1965. This program facilitates economic integration of housing developments by permitting units to be made available for families who would otherwise not have sufficient income to qualify for the 236 or Moderate housing units.

To qualify for Rent Supplement, an applicant must meet three criteria: (1) have an income below the rent supplement income limits (almost always equal to the public housing income limits), (2) have total assets that do not exceed $2000 in value ($5000 is permitted for elderly and handicapped persons), and (3) be included in one of the following categories:

a. Presently living in substandard housing;
b. Displaced by government action;
c. Elderly (62 years or older);
d. Permanently handicapped;
e. On active military duty; or
f. Displaced from housing by a natural disaster.

If the applicant and his family meet the qualifications for rent supplement assistance, they will pay 25 percent of income for housing and utilities costs combined. The rent supplement subsidy, which may not be greater than 70 percent nor less than 10 percent of the approved rent for a housing unit, will be the difference between the family's rent payment and the actual rent.

A major feature of the rent supplement program is that specific and written local approval is required from the municipalities before HUD will sign contracts for the funds. The MSHDA has encountered stiff opposition to this program in several communities brought on by the feeling that low income minority families will be brought into the community. Other cities, however, believe rent supplement to be an opportunity to provide housing for the elderly and other disadvantaged families and grant approval.

HUD has allocated a pool of rent supplement subsidy funds sufficient to provide such a subsidy for 20 percent of all of the 236 housing that is constructed by the MSHDA.[24]

Section 23 Leasing[25]

The Section 23 Leased Housing Program, like the Rent Supplement Program, was a portion of the Housing and Urban Development Act of 1965. The program was designed to supplement the public housing programs by providing federal contributions to local public housing authorities which would make privately owned dwellings available to families of low income at rents they could afford to pay. Both single family homes and multiple family developments

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[24]It should be noted that welfare recipients are not materially assisted by the rent supplement program. If an ADC recipient's rental charge is reduced substantially under any program, the Department of Social Services will reduce the budgeted shelter allowance by a like amount. Finding cheaper housing will not increase the disposable income of the welfare recipient at all, and actual income decreases.

[25]U.S. Department of Housing and Urban Development, Low Rent Housing: Leased Housing Handbook (RHA 7430.1) (Washington, D.C.: Government Printing Office, November, 1969).

can be used. While the program permits great versatility in that any type of housing can be utilized, public pressure and the management problems inherent in scattered site rental units have combined to stunt the full potential of the program.

The MSHDA first became interested in the Leased Housing program in the Fall of 1971. In a study by a staff attorney, it was concluded that the MSHDA could participate in this program in any one of three ways:[26]

1. The Authority is empowered under the present MSHDA statute to directly apply for and administer funds under the Leased Housing Program. It could directly enter into contracts with developers, thereby leasing a certain percentage of units in any Authority-assisted housing development.

2. In areas having a local housing authority, the Authority could request the local housing authority to lease a certain percentage of Authority-assisted housing developments.

3. Where a local housing authority has obtained an allotment of leased housing units from HUD, the Authority could provide construction or mortgage financing to the developers of new construction or rehabilitation units to be leased by a local housing authority.

Most striking of these conclusions was the further developed and documented legal opinion that the MSHDA, in fact, constituted a "local housing authority" with a state-wide jurisdiction under its enabling statute. This means that the state can work, not only in tandem with the local

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[26] "Ways in which the Authority may participate in the Federal Leased Housing Program (Section 10 and Section 23)," Memorandum to MSHDA Senior Staff from Raphael J. Rabalais, October 5, 1971.

housing agencies, but it can also function in those areas of the state without local housing commissions. As with the rent supplement program, however, local governing bodies still retain a veto power over the use of the leased housing finds, and specific written approval must be obtained.

The legality of a state housing finance agency participating in the Section 23 program was further reinforced by the discovery that the Massachusetts Housing Finance Agency is now actively providing housing under this program. In addition, the Section 23 funds were being "piggybacked" on the Section 236 Interest Reduction subsidies, thus reducing the housing costs to the residents to extremely low figures. Not only are the critical housing needs more adequately met under such a concept, a 236 development in financial trouble due to tax and utilities increases can be salvaged and made more stable financially.

In August of 1972, after considerable study, a formal request was made to the Department of Housing and Urban Development for Section 23 allocations for the 1972-1973 fiscal year. As of the date of this study, no definitive reply had been forthcoming--most probably due to the increasing unease concerning the future of the HUD programs. There was a total of 1320 unit allocations included in the request, representing more than a quarter of the total number of units projected to be operational by June 30, 1973.[27] The size of the figure is due to the anticipation that the Section 23 leasing program would replace entirely the more restrictive rent supplement program.

The Single Family Housing Programs

The multifamily housing programs are deficient in three major instances when considering the public agency's response to the perceived state-wide need for quality homes at a reasonable cost:

1. Studies consistently show that most American families with children prefer single family living to the point of insistence.

2. Multiple family housing construction is limited to the major population centers. Only then will projects of a feasible size have a market sufficient to establish the demand necessary to fill the units. Cities with populations of 10,000 or less simply cannot support 100 to 300 units of subsidized housing. Families with lower incomes, however, are not limited to the major urban areas, and the needs of rural housing poverty must also be met.

3. Many communities remain fearful of the impact of large projects on their neighborhood stability, and on their schools and utilities.

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[27] "Section 23 LEASEBACK (Requested Unit Allocation)," Memorandum to MSHDA's Division of Management and Marketing Staff from Albert S. Beke, August 21, 1972.

Recognizing these deficiencies, the Michigan State Housing Development Authority, in late 1971, directed that a major effort be made by the staff to develop a single family mortgage lending program. On July 1, 1971, the homeownership production of the Authority commenced. During the first year and a half of this effort, four separate single family mortgage lending programs have been implemented. They include:

Section 235[28]

This is the single family program that complements the Section 236 program. The interest rate on the mortgage loan can be reduced to one percent for families with incomes under the limits established for the area by HUD. The final mortgage amounts cannot exceed $21,000 for a three bedroom home, and $24,000 for a four bedroom. The downpayment on the housing is approximately one percent of the total mortgage (with a $200 minimum), which is established for a 30 year term.

As of December 31, 1972, the MSHDA has closed 481 Section 235 mortgages (which means that construction is complete and the homes are occupied), for a total cost of

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[28]U.S. Department of Housing and Urban Development, Homeownership for Lower Income Families (Section 235) (HPMC-FHA 4441.1A) (Washington, D.C.: Government Printing Office, September, 1971).

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$10,247,947.[29] These homes have been constructed in over 100 communities in the state.

Section 221(d)(2)

This program, another of the four now implemented, is the complement of the Section 221(d)(3) multifamily program, with some considerable alteration. Though the interest rate of the 30 year mortgage loan is established at 7 percent, the downpayment by the homeowner is limited to 3 percent of the mortgage. As with the 235 program, mortgage amounts are limited to $21,000 and $24,000. (Only three and four bedroom homes are financed by the MSHDA.) There is a single $12,000 adjusted income limit, as the 221(d)(2) housing is included under the MSHDA's Class II program.[30]

Seventeen of these loans have been closed as of December 31, 1972, for a total mortgage amount of $347,680.

Section 203(b)

This is the second of the moderate income programs, with mortgage amounts not to exceed $27,000 for a three

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[29] "Single Family Mortgage Report for the Month of December, 1972," Internal staff report of the MSHDA, January 3, 1973. This is also the source for the statistics on the other three single family programs.

[30] Under the General Rules adopted by the MSHDA, no family assisted by MSHDA programs can have a net income in excess of $12,000. There are several deductions from gross income which are allowed. A one-person household can have a $13,650 gross income; an eight person family may earn up to $21,200 and still qualify. In addition, unusual and temporary income is discounted completely.

bedroom home and $30,000 for a four bedroom house. Under this program, the downpayment is considerably higher, and closing costs are included in the initial acquisition cost to the homebuyer. The $12,000 income limit applies, and the 30 year mortgage is written at an interest rate of 6 3/4 percent. As of the end of 1972, 34 203(b) loans have closed, at a total cost of $798,431.

Veterans Administration (VA) Insured Loans

During the last six months of 1972, the Michigan State Housing Development Authority began to work in tandem with the Veterans Administration by providing mortgage financing under the VA insuring programs. The total mortgage amounts are again limited to the $27,000 to $30,000 range.[31] Downpayments depend entirely upon the qualifications of the purchaser, who must, of course, be a veteran, and these downpayments may be waived entirely. Closing costs, however; including title search, appraisal, insurance, taxes and other pre-paid items; are to be paid at the time of acquisition. The 30 year loans are written at an interest rate of 6 3/4 percent, thus making them slightly cheaper

[31] The MSHDA notes in an information bulletin to prospective home purchasers, that the mortgage ceilings imposed on the four programs do not necessarily limit the actual cost of the home itself. If a qualified purchaser wishes a home priced above the maximum mortgage limits, and if he has the ability to make up the difference between the mortgage ceiling and the actual cost of the home, he is free to do so.

than the 7 percent loans available on the conventional market. Again, due to MSHDA's General Rules, the $12,000 income limit applies.

There have been 32 VA loans made by the MSHDA, as of the end of 1972, for a total cost of $795,821.

Discount Points

While there are many advantages available to the home purchaser that are evident in the above descriptions of the four mortgage lending programs, the major advantage--and the major manner in which quality is insured at a lower cost--lies in an explanation of the concept of "discount points."

For each home that is built, a construction loan is made to a licensed builder who becomes the "seller" of the property upon completion. The fees for these construction loans are paid upon the consumation of the sale to the purchasing family by the builder to the mortgage lender. These fees are, naturally enough, passed on to the home buyer. The fee is calculated as a percentage of the mortgage, each percent being one "point."

Under the 235 program, the MSHDA charges 3 points, while the market rate will vary from 3 1/2 to 12 points, depending on the prevailing money market and the age and condition of the structure to be financed. Under 221(d)(2), the MSHDA also charges 3 points, while the market rate is 4 to 4 1/2. Under the 203 (b) and VA programs, the

Authority charges only 1 1/2 points, but the private money market will expect from 3 1/2 to 4 1/2. In practice, these savings are returned to the structure itself; the MSHDA insists upon either a full basement or a garage for each home--both being amenities seldom provided under these programs when financing is obtained from the private market.

Summary of the Single Family Programs

The internal reports of the MSHDA, previously quoted, indicate that 564 homes had been constructed and occupied by the end of 1972, for a total mortgage commitment in excess of $12 million. Only ten of these loans--less that two percent--are in foreclosure, a remarkable record considering that 74 percent of all of the loans have been made to families earning less than $9,000 annually. The relative success of the MSHDA program, when compared to the record of HUD, is due to; (1) stringent site selection criteria; (2) thorough checking of credit and other references of the prospective home purchasers; (3) insistence upon licensed builders who, whenever possible, have had previous and successful experience with the Authority; and (4) inspections held throughout the construction phase. It is important, also, to note that the MSHDA does not loan money for the rehabilitation of existing single family housing, a HUD program which has led to substantiated charges of fradulent appraisal practices in Detroit and other cities.

Specialized Housing and Development Programs

The preceeding sections of this paper have discussed the subsidy programs and the manner in which these subsidies are applied in housing that is conventionally built and is intended for family occupancy. These single and multifamily projects comprise the major effort of the Michigan State Housing Development Authority.

There are some highly specialized housing and development programs, however, that are being implemented by the state housing finance agencies--programs that distinguish these public agencies from the conventional mortgage lenders in that they are both innovative and experimental. Other such programs are aimed at specific sub-groups within the low and moderate income population.

This section will deal with each of the specialized programs either implemented or under study in preparation for implementation, including:

1. "Operation Breakthrough"
2. "Project Rehab"
3. Housing for the Elderly
4. Housing for the Mentally Retarded
5. The "Mini-Multi" Program
6. Urban Renewal and Land Acquisition
7. Consumer Housing Cooperatives

Operation Breakthrough

The most innovative program in housing developed under the Nixon Administration was quite probably the experiment in modular production known as "Operation

Breakthrough." The then-Secretary of the Department of Housing and Urban Development, George Romney,--claiming a nation-wide need for 26 million new and rehabilitated housing units by 1978--announced this program in May of 1969 in an effort to stimulate the testing of new housing materials and the production of modular units. Breakthrough was designed as a program that would actually go far beyond a demonstration of advanced housing technology. Other goals included:[32]

1. experiments in management and marketing,
2. effective and sensitive site planning,
3. elimination of diversified building codes,
4. modification of outdated and restrictive, local zoning laws, and
5. labor agreements and cooperation between the housing systems producers and the building trade unions.

During the Summer of 1969, HUD received and evaluated 236 proposals from private industries interested in participating as "modular systems producers." Twenty-two of these corporations were chosen, together with "11 site planners, eight site developers, and 11 related research organizations."[33] From a total submission of 218 sites, nine were selected in eight states, for a total projected production of 2,800 units.

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[32] "Operation Breakthrough," Management Memos, I (July, 1971), pp. 5-6.

[33] U.S. Department of Housing and Urban Development, Operation Breakthrough (Washington, D.C.: Government Printing Office, January, 1971), Published two page brochure.

A site proposed by the city of Kalamazoo, Michigan, was among the nine selected for this first phase of the Breakthrough program, and the Michigan State Housing Development Authority--having participated in the initial proposal--provided construction financing. In all, 245 units of housing were constructed on the site by seven systems producers, including: Levitt Building Systems, Inc.; Hercoform Marketing, Inc.; Scholz Homes; Material Systems Corporation; Republic Steel Corporation; National Homes Corporation; and FCE-Dillon, Inc. HUD reported the release for occupancy of the first Breakthrough units completed in the country, which were on the Kalamazoo site, on August 26, 1971, in a major press release.[34] The marketing of the units proceeded smoothly, and the development was soon fully occupied.

The Michigan State Housing Development Authority has continued to participate with the Department of Housing and Urban Development in subsequent phases of the Breakthrough program. Subsidy funds are earmarked for application to developments with Breakthrough construction. Several modular producers have located or are planning to locate plants in Michigan.

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[34]"First Breakthrough Units Unveiled at Kalamazoo," HUD News (HUD No. 71-505), August 26, 1971. Cf. Augusta Pearl, "First Operation Breakthrough Project Completed: Horizon Village, Kalamazoo, Michigan," Journal of Housing, XXIX (May, 1972), pp. 166-169.

A major problem remains unresolved: the producers of modular housing have not been able to construct units as inexpensively as was originally hoped, and, in some cases, the cost per square foot of floor space is more expensive than the cost of conventional "stick-built" housing. This is largely due to the producers' desire to recoup the capital costs of the production lines and the costs of transporting the units to the sites.

A second problem exists in that the units, once designed and placed into production, become inflexible in design. This means that the same unit must adapt to any site, regardless of topography and other natural features and with even less regard for the demands expressed by the individual housing markets. Architectural changes are much more costly in modular production than with conventional housing.

The Breakthrough experiment has been partially successful, however, in meeting the originally stated goals. The HUD brochure on the program notes:

> Twenty-five percent of the Breakthrough systems will utilize wood construction, while 75 percent utilize concrete, metal, and even plastic construction (almost exactly the reverse of the current usage of materials). But in whatever material selected, advanced methods of industrialized production will be used to achieve sustained levels of volume production.

Project Rehab

> Since the riots of 1967, and before that during the urban renewal process of the 1950's, political and community leaders in Detroit have made many promises to blacks for better housing, but have produced little. . . . Blacks today in Detroit are demanding new housing, redevelopment of their city, and a piece of that action.[35]

No publicly administered, state-wide housing effort in Michigan would be credible without directing a significant proportion of that effort to the city of Detroit. The Michigan State Housing Development Authority has made a solid effort to meet that responsibility and has, to a certain degree, been successful--both in terms of dollars invested and jobs created; and in the housing that has been produced. The Authority's work in Detroit has included the development of proposals and the financing of the construction of some new housing; the major part of the work in the past, however, has been in the rehabilitation of existing structures--the construction of multifamily units within the refurbished shells of old and deteriorating buildings.

The impetus for this program came in February, 1970, when HUD contacted housing officials in Michigan, political leaders, and housing developers in Detroit to discuss a "priority rehabilitation program" with a volume of production planned sufficient to rebuild 1000 housing units

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[35]"Project Rehab (Detroit): General Purposes," Unpublished Staff Report, September 24, 1970, p. 3.

in Detroit in the first year alone. Interest reduction subsidies under the Section 236 program were reserved in a special pool of allocated funds for this demonstration program--limited to eight cities, including Detroit.

The MSHDA responded by passing a resolution, on May 18, 1970, which reserved $15 million in bonding capacity for the rehabilitation effort. Within three months, and after receiving a request from HUD that the state housing finance agency serve as mortgagee for the program, the Authority raised $10 million in an offering of short term notes to finance the construction of the initial phase of Project Rehab.

The stated goals of the rehabilitation program were:[36]

1. A large number of deteriorated housing units will be rehabilitated;

2. Thousands of people now living in poor housing will be relocated in modern housing;

3. A substantial number of contracting and job opportunities in Detroit will be created and will benefit local people;

4. A new and effective rehabilitation industry in Detroit will be born; and

5. The deterioration of the existing housing stock will be arrested.

Construction on the units was begun in October, 1970. In retrospect, four major problems among the many that were

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[36] *Ibid.*, pp. 1-2.

encountered and overcome stand out. First, the construction practices and techniques utilized in rehab have only been experienced by a small number of builders in the country. Quite literally, no one really knows the best way to rebuild an existing structure. Second, and as a corollary to the first problem stated, the minority contractors and tradesmen employed on Project Rehab were not sufficiently experienced to deal with the constantly evolving construction problems. Their participation was necessary and vital to the concept of the program, and it definitely has contributed to the ultimate success. Though the inexperience may well have been due to the systematic exclusion of minority workers in the building trades unions, it was inexperience that had to be overcome nonetheless.

Third, many political issues and problems had to be resolved. Project Rehab can easily be perceived as urban renewal, and, as such, the stigma of the past federal intervention with little or no regard for the people involved carrys over to this new rebuilding effort. Relocation, the prime example of a political problem, had to be sensitively and effectively dealt with. Finally, the financial support for the rebuilding program had to be flexible to the degree necessary to continue with the financing when construction problems were encountered. The MSHDA responded to this need by building into the mortgages a 30 percent contingency reserve for all of the buildings in the early phase of Project Rehab.

By the end of 1972, the MSHDA had made significant progress in achieving the goals set forth. A total of 1,479 units of rehabilitated housing were either completed, under construction, or under commitment for mortgage financing. Nearly 800 of these units were occupied or ready for occupancy. The processing for additional rehab units continues. A stated goal of the Authority is to develop "1000 units of rehabilitated housing in the inner-city of Detroit in each six month period over the next two years."[37]

The commitment to the people of Detroit is not being challenged, and the MSHDA inner-city programming will continue at a stronger rate than ever before. The concept of the rehabilitation program, however, is being called into question due to the many difficulties experienced in the program. There are some indications that Project Rehab will be phased out in favor of a stronger new construction program.

To emphasize the continued commitment to Detroit, the Executive Director of the MSHDA stated in his 1972 year-end report to the staff of the agency:[38]

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[37] Project Rehab (Detroit): Phase II Operating Manual (Lansing: Michigan State Housing Development Authority, March 14, 1972), p. 4.

[38] "Report by Executive Director of Achievements in 1972 and Tasks for 1973," Internal report to the Staff of the Michigan State Housing Development Authority, December 18, 1972.

> [We must] restructure the Authority's City of Detroit effort to achieve large-scale and operational success for Authority investments in the city.

Housing for the Elderly

One program specialty, which in many ways is a spin-off of the conventional Section 236 assisted multifamily housing effort, is the development of housing specifically designed for senior citizens. The MSHDA is producing both entire projects and designated sections of projects to help meet the needs of the elderly in Michigan, and this program, while generally following the same development process and subsidy programs of the family housing, differs in some major respects:

1. The developments for the elderly include only one and two bedroom units, and, when they are of a town-house design (separate, outside entrances for each unit), they are restricted to one story structures. Approximately 70 percent of the elderly households are one person families, elderly being defined by HUD and the MSHDA as 62 years and older. Some of the elderly, however, having recently sold a home, desire extra room for their possessions, and allowance is made for this.

2. The provision of additional subsidies, whenever possible, is insisted upon. Rent Supplement allocations have been made for up to 40 percent of the units in elderly developments, reducing the rents to be charged to the lowest level possible. In addition, property tax relief

is generally requested from all of the communities in which elderly projects are being built. This action permits a reduction in the rents of ten to fifteen percent, and the responses to the requests have been quite favorable--even in areas where the concept of multiple family housing has met with strong criticism.[39] The increase in financial support from all quarters to elderly housing is essential. One study, based on the actual occupants of MSHDA-financed housing, indicated that 92 percent of the elderly needed 236 or rent supplement subsidies to live in the housing, while only 8 percent would qualify under the exception limits or market rent programs. In addition, the report states:[40]

> Gross incomes average around $4,500, ranging from an average low for a one-person family of around $2,600 gross to an average high in the 2-person, 2-bedroom unit of around $5,700 gross.

("Gross" is emphasized in this report to stress that these income figures have not been adjusted.)

3. The sites for the elderly developments are located much closer to shopping, public transportation, religious institutions, and other community facilities,

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[39] In Avon Township, near Rochester, Michigan, community resistence to a multifamily housing development was very strong and threatened the success of the project. An elderly project in the same township easily received community approval for 100 percent property tax relief.

[40] "Exception Limit Feasibility for Elderly Developments;" Internal staff report from Richard J. Hess, Mortgage Credit Analyst, to David L. Froh, Director, Division of Management and Marketing; December 11, 1972.

so that private transportation is not a necessity in most cases. This requirement often means that the cost of land for the site will be quite high, and many of the senior citizen developments are high-rise structures to lower the per unit costs. High-rise developments, while they have many limitations when used to house families with children, are meeting with acceptance by the senior citizens.

4. Many details of the design and features of the developments and the units are altered or expanded in recognition of the specific problems and desires of the elderly occupants. There are several excellent sources of information detailing the types of concerns that should be dealt with by an architect or a developer working on housing of this nature.[41] As examples; doors that are easy to open are necessities; security systems should be provided--especially around the mailboxes; recreational and social activities must be encouraged, with proper congregate space allocated in the design; and elevators must be provided with special design features such as benches on which to place packages, lowered floor selection panels, easy-to-read floor numbers, and safe ingress and egress for wheelchairs.

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[41] One of the best sources to date in this area is: Marie C. McGuire, Design of Housing for the Elderly: A Checklist (Washington, D.C.: National Association of Housing and Redevelopment Officials, October, 1972), Publication Number N560.

As of the end of 1972, the Michigan State Housing Development Authority had devoted a considerable effort to the elderly housing program. Two developments specifically designed for the elderly were completed, and four other occupied developments have sections specifically reserved for senior citizens, for a total of 339 units. Another 717 units were under construction on five sites, and 2076 units on 13 sites were being actively processed in preparation for mortgage financing. This total of 3132 units of housing for senior citizens, when complete, will represent a total mortgage commitment on the part of the Authority of over $57,000,000. Finally, as of the end of December, 1972, there were 14 additional proposals in the initial discussion stages, with a probable average of 200 units per proposal.[42]

Housing for the Mentally Retarded

In mid-Summer, 1970, Dr. Thomas W. Coleman, Jr., Chairman of the Department of Special Education and Vocational Rehabilitation at Wayne State University, was requested by the MSHDA to research and document the need for housing for the mentally handicapped in Michigan, to identify existing housing programs for retarded persons

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[42]"MSHDA Elderly Housing Status Report;" Report by William G. Rosenberg, Executive Director, MSHDA, to Richard K. Helmbrecht, Director, Michigan Department of Commerce, and Member, Michigan State Housing Development Authority; December 28, 1972.

in the country, and to indicate agencies in the state potentially able to sponsor this type of housing development. The "Coleman Report" was published on March 2, 1971.[43] The report estimated that there are 120,000 "marginally retarded" persons between the ages of 18 and 64 living in Michigan today.[44] Further research indicated that the need for housing this population was becoming increasingly critical. Overcrowded mental institutions are being required, due to budget cutbacks, to release many of the marginally retarded. The communities, however, have few facilities for the housing of persons unable to live completely independently. Further, the Michigan Association for Retarded Children has asserted that there are an uncounted number of retarded persons living at home with aging parents increasingly unable to provide homes and security.[45]

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[43] Thomas W. Coleman, Jr., A Preliminary Study/Survey for Demonstration Community Housing Programs for the Adult Mentally Retarded, Physically Handicapped, and Mentally Ill (Lansing: Michigan State Housing Development Authority, March 2, 1971).

[44] "Marginally retarded" has been defined in a memorandum from William G. Rosenberg, MSHDA Executive Director, to all of the nonprofit sponsors of housing for the retarded as ". . . retarded persons who cannot sustain a completely independent living situation in the community . . . [but are] capable of leaving the place of residence to participate in daytime community employment or programs." (July 11, 1972).

[45] Reported in: "1972 Program Description, Housing for the Adult Mentally Retarded," Unpublished staff report of the Michigan State Housing Development Authority, June 9, 1972, p. 4.

Following the publication of the Coleman Report, the Governor delivered a Special Message on Health Care to the State Legislature which included the following mandate:[46]

> I am directing the Michigan State Housing Development Authority to immediately initiate a $5 million housing for the handicapped program which will provide housing for retarded adults who are capable of living independently in their communities.

In the year following the Governor's Message, the MSHDA worked to implement the proposed program. Twenty-eight proposals were received, and fourteen nonprofit groups were identified as both capable and stable enough to sponsor such housing. A major change in HUD policy was effected which made available for the first time Section 236 subsidies for this type of program.[47] A Guidelines Committee was formed, on which all of the interested and involved agencies and organizations were represented, which set forth the ground rules for the proposed housing developments.

To further insure the stability of the housing, the MSHDA commissioned a consultant research firm to identify and determine exactly the financial, social and human needs for this type of program. The results of the research have

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[46] Ibid., The Governor's Special Message on Health Care, dated May 18, 1971, is quoted and reproduced in part as Exhibit i of the staff report.

[47] The HUD definition of "handicapped" was expanded to include mental retardation. Letter from David O. Maxwell, General Counsel of the Department of Housing and Urban Development to William G. Rosenberg, August 12, 1971.

been used as a guide for the determination of operating budgets, needed supportive services, and policies.[48]

On June 12, 1972, interagency agreement was reached in a "summit meeting" between a representative of the Governor and the Directors of the Michigan Departments of Social Services and Mental Health and the MSHDA.

1. The Michigan State Housing Development Authority agreed to provide mortgage financing and servicing, Section 236 program administration, and technical assistance for the proposed housing owners.

2. The Michigan Department of Social Services agreed to provide, under the Aid to the Disabled program, a "no-strings-attached" $10 per person per day subsistance allowance for those individuals residing in MSHDA-financed housing for the retarded.

3. The Michigan Department of Mental Health agreed to request its community-based "Act 54" boards and agencies to assign priority status to residents of MSHDA-financed housing for the mentally retarded.

The MSHDA has projected that a ten-project prototype, representing an investment of $2.5 million, will be complete and operating by December, 1973.[49] These developments are

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[48] Organization for Applied Science in Society and the Institute for Social Research, University of Michigan; The MSHDA-N.P. Residential Program for the Adult Mentally Retarded Report (Lansing, Michigan: Michigan State Housing Development Authority), June 30, 1972.

[49] "Community Based Housing for the Adult Mentally Retarded: 1972 Program," Management Memos, II (June, 1972), p. 3.

envisioned as small, single structure facilities serving an average of 16 retarded persons per project. With two persons per bedroom and congregate dining and recreational facilities, the housing for the mentally retarded is somewhat analogous to fraternity houses in concept, and will be a significant improvement over the presently available institutional care. The architectural work and the planning that has been undertaken has all been designed to produce a program that is residential in character. The objective is to provide a "normalized" rather than an "institutionalized" way of life for the residents.

The "Mini-Multi" Program

"Mini-Multi" is a catch phrase used to denote a new program of the Michigan State Housing Development Authority of financing the development of small scale multifamily housing projects. As of January 1, 1973, the program was in the formulation stages with every indication that production would commence during the first six months of 1973 with one or more pilot projects.

The MSHDA has consistently recognized that existing federal programs were overlooking portions of the lower income population. As has been indicated, the large scale multiple family projects have been confined, for marketing reasons, to the major urban areas in the state. The single family housing programs are limited to the production of three and four bedroom homes. This means that the elderly and the young marrieds with no children living in small communities are not being served. The obvious answer is Mini-Multi, but two problems have had to be overcome. First, the operating and management costs for small size developments can be prohibitively high due to diseconomies of scale. Second, local participation in the program has had to be built into the process to reduce the financial risk to the MSHDA and to increase the probability of small community acceptance. Further, attempts are being made to obtain participation on the part of local bankers in the mortgage financing for the program, and to have the banks also provide the mortgage servicing. In one discussion paper for the program, the following points were made:[50]

1. The developments will be limited to 24 units or less, and they will never be built in communities where the MSHDA has financed large-scale multifamily projects.

2. The MSHDA will have available for developers of mini-multi housing several alternative sets of architectural plans and specifications at a reduced cost.

3. The per unit cost of construction will be kept to the $12,000 to $15,000 price range, thus lowering the debt service in comparison to the multiple housing being produced.

4. While the owner of the housing will be allowed a 12 percent annual return on his equity (double the allowance for the larger projects), he will be required to provide for the management of the project from his return.

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[50]"Michigan State Housing Development Authority: Outline for Program for Small Scale Multi-Family Developments," Discussion outline prepared for the MSHDA Mini-Multi Committee, September 11, 1972.

5. All of the developments will have Section 236 subsidies available.

It is hoped that the mini-multi program can be begun on a pilot/demonstration basis during 1973, and that an unprecedented degree of state/local cooperation will prove to be the most valuable contribution of the program.

Urban Renewal and Land Acquisition

The participation of the Michigan State Housing Development Authority in an urban renewal program in Grand Rapids, Michigan--together with both the city and local investors--is an excellent example of the wide range of financial powers and abilities available to state housing finance agencies. It is also a further example of the much-needed cooperation between state and city government.

The "Model Village" program was implemented by the acceptance of a recommendation to the Authority:[51]

> It is recommended that the Michigan State Housing Development Authority provide a Housing Development Fund Grant to the City of Grand Rapids for the purpose of participating with the City of Grand Rapids, which has contributed $150,000, and private donors, who have contributed $150,000, in the acquisition of land and buildings, and the demolition of said buildings, as is necessary for the utilization of Authority programs in a development to be known as Model Village.

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[51] "Housing Development Fund Grant: Model Village, MSHDA #174;" Staff Recommendation and Report to the Michigan State Housing Development Authority prepared by Donald H. Faloon, Housing Development Officer; April 19, 1972.

The interests of the Authority are being protected by an agreed-upon "right of first refusal" in the plans for the development of the site and in a recorded security interest in the land acquired. In return for the grant, the city of Grand Rapids is responsible for proper zoning for multifamily residential development on the site and for the necessary working capital to acquire and demolish the existing structures.

The site is located just southeast of the central business district of Grand Rapids in the most deteriorated and dilapidated section of the city. A significant proportion of the structures within the project boundary--over one-third--are vacant.

The city has requested that a large nonprofit housing corporation in Grand Rapids develop over 100 units of subsidized multifamily housing on the site after the acquisition and clearance is complete. This developer is experienced in the procedures and policies of the MSHDA, and the Authority has indicated its willingness to provide construction and mortgage financing for the program.

Housing Cooperatives

Cooperative ownership of multifamily housing developments is the last of the major specialized housing programs in which the Michigan State Housing Development Authority and most of the sister housing finance agencies in the country participate.

Briefly, a Consumer Housing Cooperative is a housing project that is owned and often operated by the residents themselves. An equity payment is required in lieu of a security deposit--usually an amount equal to two percent of the per unit cost of the development--and the residents elect officers, operate in committees, and legally sign contracts and other documents as any housing owner would.

Each of the resident households purchases one "share" of the development, the number of total shares being the total number of housing units. Unlike condominium housing, separate mortgages are not written for each of the units, and the housing cooperative members must absorb equally any operating loss due to vacancies, high taxes or other unusually high development expenses.

Cooperatives are much more stable than rental projects. There are two disadvantages to cooperatives, however, which have hurt this type of program:

1. As the development ages and the debt service payments are made, the amount of equity held by the individual resident increases. It becomes more and more difficult to find low and moderate income families willing and able to make an equity downpayment necessary to assume membership in the cooperative when an established resident moves out. Either the old resident or the cooperative as a whole will usually have to accept a loss on the accumulated equity during such a transfer.

2. Resident cooperatives are not experienced housing owners, and they may make unrealistic demands on the management agent. Monthly carrying charge increases, necessary to meet inflationary pressures, are often not approved; and the resultant relative decrease in development income leads to an inevitable decrease in services. If left untended, the spiraling financial crisis of the project will lead to a default on the debt service payments and a necessary foreclosure.

The popularity of the ownership of housing by resident cooperatives appears to have declined recently. During the first years of production, however, seven developments of this nature were scheduled (including the Operation Breakthrough project in Kalamazoo). Two of the projects have been unable to convert from the original nonprofit developer/owner to cooperative ownership, largely due to protracted and inadequate marketing efforts. These two housing projects will, in all probability, continue as rental developments owned by the respective nonprofit housing corporations.

Four of the five remaining cooperatives appear, as of the end of 1972 to be financially stable, though computerized indicators project financial crises during 1973 for two of the projects that may well result in situations indicated in the second criticism noted above. The final such development has already experienced financial difficulty;

attempts are being made to reverse the trend toward default through education of the cooperative members by the MSHDA staff and the management agent.

Technical Assistance, Research and Regulatory Programs

As public agencies, any of the state housing finance authorities have a basic and underlying responsibility which must be maintained. The public at large, and their elected representatives, correctly require constant assurances that the housing programs are being properly directed to provide assistance to the people they are designed for and that all of the appropriate and applicable regulations, both statutory and administrative, are being observed.

No one is served by an improperly planned or poorly designed and constructed housing project, by inexperienced or inept housing management, or by a housing development that has failed. Unlike a majority of the conventional mortgage lenders, the Michigan Housing Authority and the sister agencies have felt it necessary to adopt a "no foreclosure" policy and to develop the types of assistance, advice and financial support necessary to guarantee success, both immediate and long-term.

This type of programming cuts across the lines separating the subsidy sources, the specialty programs and the populations being served. It is grounded in a constant evaluation of past errors and weaknesses. Every staff member of the MSHDA participates, within his specialty, in the research, advisory and regulatory programs. While it would not be possible to detail all of these efforts, some of the major and most far reaching of the programs should be highlighted.

The Division of Management and Marketing

In the language of the MSHDA, the staff of the Division of Management and Marketing will have to "live with" the housing financed by the Authority for the 40 year mortgage term. Four senior staff specialty positions were created within this Division in order to develop a team which could move to assist financially and socially troubled housing developments. These areas of specialization included the four basic areas of good housing management:[52]

1. Financial Analysis, including budgeting accounting and auditing;
2. Human Resources and Community Development;
3. Property Management and Maintenance systems, both preventive and response oriented; and
4. Marketing.

With the four specialties as a core, the Division of Management and Marketing has implemented other programs, including those both regulatory and assistance oriented.

[52] "MSHDA's Community Services Division," *Management Memos*, I (June, 1971), pp. 4-5.

Management Memos is a newsletter mailed monthly to all housing owners, marketing agents, property managers and resident leaders in Authority-financed developments.[53] This establishes a communication link which is felt to be essential, and it is possible to disseminate standardized information on policy, programs and assistance that can be made available by the Authority staff.

Application processing has been instituted, and HUD has withdrawn from this responsibility. All applications for residency in MSHDA-financed developments are reviewed and approved by MSHDA staff in order to monitor adherence to the programs. An obvious benefit of this application processing is that accurate and constantly updated statistical information can be readily obtained concerning the people being served by MSHDA programs.

A Housing Management Training Program has been made available for resident managers and nonprofit owners.[54] This 100 hour course has been attended by 76 persons, and it focused on the topics of: (1) Community Development and Interpersonal Skills, (2) Financial Management, and (3) Property Maintenance. This particular training was discontinued in mid-1972 at a time when increasing emphasis

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[53] Management Memos commenced publication in May, 1971, and continues, with a circulation of approximately 400.

[54] Community Systems Foundation, Housing Management Training in Michigan (Lansing: Michigan State Housing Development Authority, December, 1970).

was being placed on limited dividend owners and professional management firms. Training is still provided, however, in those areas which can cause problems for even the most experienced managers, including accounting, application processing and community resource development.

Seminars and Demonstration Projects are also coordinated by the staff. One effort, lasting over a year, produced a 228 page manual on the development of day care services in housing developments.[55] In conjunction with the publication of the manual, a seminar, attended by over 130 persons, was held at the site of a demonstration day care center in Battle Creek, Michigan. Additional Seminars, sponsored by this Division, have been held on such topics as "Application Processing for the Subsidy Programs," "Management of Housing for the Elderly," and "Security Systems in Multifamily Housing."

The staff specialization continues, but the Division has evolved a more generalized approach to monitoring systems. Housing Management Officers are assigned to each development early in the housing development process. Each is given the responsibility of insuring that the management and marketing policies of the Authority are followed through--including management planning, affirmative

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[55]Carol Maryland Harris, If Your Community Wants to Provide Day Care Services: How You Begin From Scratch: A Thoughts and Facts Guide for Resident Organizations (Lansing: Michigan State Housing Development Authority, May, 1972).

marketing to minority groups, the obtaining of comprehensive management contracts and leases, and maintenance systems. Further, once occupancy has been realized in an assigned development, the Management Officer makes on-site inspections on a monthly basis in order that problems can be identified and treated as soon as they develop. Corrective action is coordinated by the management officer, even though it may require the expertise of several of the staff specialists and other persons associated with the project. As one example, when a pipe freezing problem developed at one project, the management officer coordinated the activities of the Property Maintenance Specialist, the Design Officer, the Housing Development Officer and the Attorney on the MSHDA staff; the Owner; the Management Agent; the Drawing Architect; the Inspecting Architect; the Builder; and the affected and interested Residents.

The Finance Section of the Division of Management and Marketing has also been active in the development of programs to insure the stability of operational housing projects.[56] The requirement that monthly financial reports be submitted by each development is being enforced--possible for the first time in the history of the programs. The development must also provide a certified and independent annual audit and an annual budget review and revision. The

[56]"Finance Section: Areas of Responsibility," Internal staff report to the Division of Management and Marketing, February, 1973.

staff auditor inspects the books of the developments on a periodic basis to check for compliance to the often confusing program regulations. In a research effort during 1972, the Finance Section administered a consultant contract which has produced results considered to be a major breakthrough in the financial management of subsidized housing. Several products have been forthcoming:[57]

1. A close study was made of the actual experience of virtually every subsidized housing development in a six state area in the Midwest. The end result was a statistically documented and easily understood series of profiles for success and failure against which any proposal for housing can be measured and a gross estimate of the probability of success can be made.

2. Following this first study, and using only those records considered statistically accurate by a management specialist of the MSHDA, a computer program known as the Financial Viability System (FVS) was developed. The memory bank of the computer contains the operating budgets of nearly 100 successfully operating subsidized housing developments, and is able to establish a range within which the line items of a proposed operating budget for a new housing development should fall. By entering information which classifies any housing proposal by size, location, management and ownership type and other parameters; and by further entering the

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[57]Management Analysis Center, Inc., has produced five documents, all published by the Michigan State Housing Development Authority. The final document--the final report on the study and a detailed manual for the operation of the computer programs--has not been published as of the date of this thesis. The five published documents include: Proposal for a Financial Analysis and Monitoring of Operations and Maintenance Costs of Section 236 Multi-Family Townhouse and Apartment Developments, October 22, 1971; Preliminary Analysis of Pre-Approval Factors, March 7, 1972; Preliminary Analysis of Cost Factors, March 7, 1972; Results of 35 Interviews With Representatives of Midwest FHA Developments, May 30, 1972; and Development Gatekeeper System (DGS) and Financial Viability System (FVS), n.d.

proposed budget for the project, the Housing Management Officer is able to immediately compare the proposal to the actual figures experienced. In this way it can be determined whether the projected income of a proposal still in the planning stages will be sufficient to defray the expenses.

3. Following the acceptance of an operating budget by the FVS system, the 'Early Warning System,' or 'EWS,' is brought into play. This computer program accepts as input the monthly operating statements of any housing development for which an operating budget exists in the memory bank and flags immediately any expenditures which would lead to financial crises if allowed to go on unchecked. After receiving a computer printout with comments from the Finance Section, the Housing Management Officer investigates those expenditures considered inappropriate.

The staff of the Division of Management and Marketing are called upon as the need arises to develop additional specialties to meet the new program needs. One person, for instance, is responsible for the Housing for the Elderly program; another is specializing in the proper application of rent supplement funds. A third is designing the management function for the Housing for the Mentally Retarded program.

Other Division Programs

The research, regulatory and assistance programs are not limited to the activities of the Division of Management and Marketing. The Housing Development Division has a full Section devoted to research, with some of the publications and products being:

1. A statistical analysis of the economic impact of the operation of the MSHDA in terms of taxes generated, jobs created, and money invested in the State of Michigan.

2. A computerized system of market analysis which will, when complete, accurately indicate those areas and communities in Michigan where the need for subsidized housing is most critical and what the local market demands in housing.

3. A detailed study of the expressed desires of the residents for amenities in housing, the market acceptance of the types of housing financed by the MSHDA, and the characteristics and profiles of the residents.

4. The development of an effective strategy for dealing with the critical problems of inner-city Detroit and maximizing the use of and protection for Authority resources.

5. The development of the Management Information System (MIS), a computerized method of maintaining accurate records on the progress of each of the developments being processed by the Authority and the status of the federal subsidy reservations.

6. Continuing improvement of the computer programming systems and equipment.

The Equal Opportunity Officer, who is responsible directly to the Executive Director of the MSHDA, maintains two major programs recognized to be among the most progressive in the country. "Equal Employment Opportunity" is a program based on the HUD requirements and is designed to insure that minority groups are proportionately represented at all levels of responsibility in all of the firms and groups doing business with the Authority. "Affirmative Marketing;" based on a draft of the HUD Circular establishing the program, but implemented several months before HUD's was made effective; requires a positive effort on the part of the owner and the marketing agent to make known to minority groups in the target market area the availability of the housing. In some areas, whites are considered to be the minority group. Weekly reports submitted to the Authority throughout the initial rent-up phase are reviewed to determine the effectiveness of the affirmative marketing actions and efforts.

The Finance Division has also made significant contributions. The specifications for insurance were researched and made policy of the Authority, and buildings are not accepted for occupancy unless the appropriate insurance coverage is documented. Second, the Director of Finance sees to it that the builder of any development retains a financial interest in his work for at least one year and will therefore be willing to correct latent defects in the construction during that period as they develop and are made known. (In the case of modular construction, the warranty period can be for five years and more.)

Finally, and perhaps of greatest importance, the Director of Finance has been responsible for the creation of the "Development Assurance Program."[58] Under this program, every development has available to it a substantial amount of cash--from 8 to 12 percent of the total mortgage amount--which can be drawn upon if the development needs emergency financing at any time throughout the life of the mortgage. This cash is acquired by requiring the escrow of some of the proceeds received from the sale of the lucrative tax shelters available to the owners of subsidized housing and by increasing the mortgage amount, the interest income on the bank account being more than enough to pay the increased debt service. The limited profit owner guarantees that there will be no rental charge increases for the first three years of a development's operation, unless necessitated by tax or utilities increases.

The Construction Division, created in late 1972, provides two major functions which protect the developments and the financial interest of the Authority. First, inspections made on-site during the construction phase of a project insure that the plans and the specifications are met and that the workmanship is of the highest quality. Second, this Division performs, together with the inspecting architect and the management officer, the investigation

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[58]"Development Assurance Program," Internal report to the staff of the MSHDA, February, 1973.

for latent defects after the first nine months of the operation of the development, and works with the contractor to correct the problems noted.

Finally, the Operations Division, which is the legal arm of the Authority, is instrumental in protecting the projects. Attorneys are assigned to each development and advise the other MSHDA staff on actions which may carry legal ramifications. Case law, involving HUD policies, the operation of other state housing finance agencies, and landlord-tenant relations is researched and the professional staff is advised of significant developments. Michigan legislation is also followed closely. At the end of 1972, one of the staff attorneys was working to develop model leases for use in the several programs and model management and marketing contracts, so that these critical and often misunderstood documents could be standardized state-wide.

It should be noted that the staff attorneys do not represent the Michigan Housing Authority in litigation. This is the responsibility of the Attorney General of Michigan and his staff.

Summary

As can be observed in viewing the types of research, regulatory and assistance programs that have evolved during the first years of the MSHDA operation, the efforts to insure stability are substantial and undoubtedly head off many of the problems that would normally have plagued the projects. In a certain few instances, however, the difficulties that have arisen have defied the early efforts to detect and correct them. The Michigan Housing Authority has demonstrated its willingness to assist the developments financially in these cases, through interest-free loans and even grants. To date, though there have been developments in financial default, no mortgage has been foreclosed, and the ultimate need for such action remains an open question.

CHAPTER V

THE MICHIGAN HOUSING PROCESS

Given all of the programs available to the Michigan State Housing Development Authority, the staff and the financial resources necessary to stimulate the construction of housing, it became necessary to develop a fairly strict set of guidelines and principles by which a housing proposal could be processed from inception to completion. The Michigan Housing Process was the result of a year-long study by the McKensie Company, a nationally known consultant in management systems and operations, whose representatives studied the existing operation of the MSHDA from within the offices of the agency under the direct supervision of the MSHDA's Director of Housing Development.[59]

The cover letter to the Staff Manual of the Michigan Housing Process, written by the Director of Housing Development, states that the resultant processing system is "composed of the procedures used by the Authority to review, evaluate and act on a development from initial concept through construction and occupancy."

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[59]Michigan State Housing Development Authority, *Michigan Housing Process: Staff Manual* (Lansing: Michigan State Housing Development Authority, April, 1972).

No two housing proposals are alike, and all of the proposals will have individual problems to be overcome that have never been faced in the past. The Process, therefore, is designed to be flexible enough to apply to any multifamily housing proposal. As Appendix 1 indicates, the development of housing is separated in fourteen separate "Phases," each of which contains specific tasks, specific roles, and produces a specific product which enables the proposal to continue on to the next Phase. The following pages outline these Phases and briefly describe the process as it is implemented.

Phase 0100: Intake

During this initial Phase, the sponsor of a proposed development first brings the concept to the attention of the MSHDA through the Intake Officer, a member of the Housing Development Division staff. The Intake Officer meets with the sponsor, makes a preliminary determination on the suitability of the proposal, and advises the sponsor on the requirements and regulations of MSHDA financing. The sponsor, if he elects to continue, puts together a development team composed of an attorney, a consultant, an architect, a builder and a management and marketing agent. A final determination is made on the site to be built upon. He obtains land control and submits a formal application for processing. The end result of Phase 0100 is a formalized and standardized application for financing which is suitable for processing under the remainder of the system.

Phase 0200: Screening

The objective of the second phase of the system is to permit the "screening" of the development proposal by several of the staff specialists representing the various Divisions within the MSHDA and to determine with greater accuracy than is possible by the Intake Officer alone the probability that the proposal will succeed. A Housing Development Officer is assigned to the proposal whose task it will be to coordinate the development of the proposal throughout the processing system. Staff reports are requested from a market analyst, a community affairs specialist, a site reviewer, and a staff attorney. While these functions are being performed, the Development Officer begins to study the proposal with the help of the MSHDA computer programs. The housing as envisioned by the sponsor is inputed along with estimates of the costs involved in building this housing, and the resultant output is a list of the rents that will have to be charged to make this program economically feasible. Any adjustment that has to be made--in fees, land costs, size of units, bedroom mix, etc.--necessitates a renegotiation with the affected party. The final reports are drawn together, and a screening committee composed of the Division Heads and several staff specialists evaluates the probability of ultimate success. Any alterations insisted upon by the committee are then negotiated and the altered proposal is considered to have a high probability of success.

Phase 0300: Staff Acceptance

The Staff Acceptance Phase is a continuation of the screening process in greater detail and with a greater insistence on the resolution of the problems encountered. The end result of this Phase is the acceptance of the proposal by the Executive Staff of the MSHDA as "Feasible," i.e., it is a proposal with roughly a 95 percent probability of success. The studies that are coordinated by the Housing Development Officer include:

a. a verification of off-site and unusual on-site building costs;

b. a detailed market analysis;

c. appraisals of the land to be purchased by both MSHDA staff and independent appraisers;

d. a check on the credit of the selected builder;

e. an impact study of the effect of the proposed housing on the local community and a plan for obtaining community cooperation;

f. a determination of the prevailing wages paid the construction trades in the community in which the development is to be built;

g. an ongoing review of the financial feasibility of the proposal based on the alterations to the proposal that are determined to be necessary; and

h. a final determination by a staff attorney that there will be no legal barrier to the completion of the proposal.

Phase 0400: Feasibility

Following the acceptance by the Authority Executive Staff of the housing proposal, it is necessary to obtain approval of the proposal from the Authority itself. Based on the decision of the acceptance meeting, a formal report is made to the Authority, and a resolution establishing the proposal as "feasible" is adopted. As soon as the sponsor agrees to the terms of the resolution, which may well include specific requirements to be negotiated before processing continues, it is the responsibility of the Housing Development Officer and the staff attorneys to obtain from the Department of Housing and Urban Development a reserved allocation of whatever subsidies are called for in the proposal.

Phase 0500: Design

The Design Phase is probably the longest in duration of the preliminary phases of the processing system. Two specific end results are necessary, including; (1) any and all local community approvals needed of site plans, and (2) a full set of construction plans and specifications. Following a pre-design conference where the phase is outlined, the major steps in the design phase include:

a. soil tests and surveys;

b. analysis and concept drawings and site planning;

c. schematic drawings;

d. design development drawings and material selections; and

e. construction documents.

Phase 0600: Construction Costing

An integral part of the Design Phase is the Construction Costing Phase. As soon as the design development drawings are completed and the material selections are made, the sponsor's architect, working together with Authority staff, estimates the cost of the construction. At the same time, the architect assists the builder in preparing a construction proposal. With the Housing Development Officer acting as chief intermediary, negotiations continue until a final construction agreement is reached and signed.

Phase 0700: Seed Money Closing

This Phase immediately follows the determination of feasibility in the case of nonprofit sponsors. The object here is to determine how much money the sponsor needs to continue with the processing of the proposal and to establish an account that makes this money available as a loan to the sponsor. The types of costs that are considered include:

a. Fees owed to members of the development team;

b. Costs of site engineering report, soil borings and land surveys;

c. Money necessary to maintain control of the land;

d. Real estate taxes and title fees; and

e. A repayment of any funds advanced on an emergency basis to the sponsor by the MSHDA.

Phase 0800: Mortgage Commitment

A mortgage commitment is a formalization by the seven-man Authority of the intent to finance the construction of the housing, and the end result of this Phase is an authorization by the Authority to issue a loan for construction. The Executive Director and the Division Directors review the final documentation of the proposal, which is based on the results of the Design and Construction Costing Phases. Also occurring during this Phase is the development, review and approval of the Management and Marketing Plan, the Affirmative Marketing Plan, the Management/Marketing Contract and the Leases to be used for the development. Following the mortgage commitment made by the Authority, the Housing Development Officer revises the reservation of subsidy funds, in the event the proposal has been altered.

Phase 0900: Initial Closing

This phase is the formal and legal issuance of the construction loan. The builder is required to obtain the necessary building and other permits, and the attorneys representing all parties prepare the large volume of legal documents necessary to transfer the ownership of a multi-million dollar allocation of funds. The word "Closing" refers to the actual meeting in which the documents are signed and the construction loan is made.[60]

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[60]The HUD phrase for this action is "endorsement."

Phase 1000: Construction

This Phase of the Michigan Housing Process, which often lasts more than a year, is the period of time in which the builder constructs the units; the architects representing the sponsor and the MSHDA review and periodically inspect the amount completed, the workmanship and the materials used; and the builder requests and is paid for the work that is completed. During this Phase, the units are released to the owner for occupancy, local community approvals and occupancy permits are obtained, and the manager assumes control of the property and begins to move resident families into the units. The end result, of course, of this Phase is a fully constructed and occupied development ready to commence amortization of the mortgage loan.

Phase 1100: Management and Marketing Program Implementation

This Phase of the Housing Process is closely interwoven with the Construction Phase. Long before the first units are released for occupancy, the Management and Marketing Division staff of the MSHDA begin to train the property management team selected by the Sponsor. The next step is the implementation of the marketing program so that prospective residents with approved applications can be ready to move into the units as soon as they are released. As sections of the development are completed and occupied, the final step of this Phase is to initiate the flow of all applicable subsidy funds to the MSHDA and/or the management agent.

Phase 1200: Final Closing

Following the completion and the acceptance of all of the construction, the builder and an independent certified public accountant are called upon to "cost-certify," i.e., to determine exactly how much the housing development cost to build. Once these figures are agreed upon, the attorneys representing all of the concerned parties prepare and execute at a "Final Closing" all of the documents necessary to establish a permanent mortgage on the property. Escrow accounts are established for any construction not completed (landscaping, for instance, which may have to wait until warm weather).

Phase 1300: Evaluation

To complete a loop in the Housing Process, all of the MSHDA staff participants in the development of any given housing project are called upon to evaluate the process following final closing for the development. Experiences that have been unusual or that may have necessitated deviations from the *Michigan Housing Process* are reported to the Executive Staff together with any recommendations for change in the process that may be appropriate. The Division Directors and the Executive

Director then evaluate and approve or disapprove the recommendations with a view toward improving the processing system in any way possible.

Phase 1400: Management and Operations

The ultimate goal of any effort of the MSHDA is the successful operation over the life of the mortgage for each and every housing project financed. The Division of Management and Marketing assumes the responsibility of meeting this goal. Only a few of the actions that are necessary are systematized, including:

a. Submission, review and action on monthly operating statements;

b. Initiation and maintenance of resident and community programs;

c. Inspection for latent defects in construction and warranty inspections;

d. Systematic remarketing of vacated units; and

e. Annual submission, review and approval of operating budgets; together with the implementation of any necessary rental increases.

The Michigan Housing Process has proven to be an excellent tool. In his 1972 year-end report to Authority staff, the Executive Director included as an achievement:[61]

> The publication and implementation of the Michigan Housing Process, a decision-making structure which balances physical, economic, and social factors in

[61] "Report by Executive Director of Achievements in 1972 and Tasks for 1973," Internal report to the Staff of the Michigan State Housing Development Authority, December 18, 1972.

the creation of quality housing developments that will be economically and operationally viable, and provide sound real estate investment opportunities. The Authority process has been nationally acclaimed as an important contribution to the sound management of government housing programs. The Michigan Housing Process is designed to insure the gathering of all facts necessary to the making of sound judgments as to multi-million dollar housing development mortgage loan investments.

CHAPTER VI

THE RECORD OF THE MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

The potential to achieve tangible results in the effort to meet the perceived housing crisis is available to the state housing finance agencies. The Michigan Authority has a potential bonding capacity of $600 million and a record of success which is able to keep down the interest rates to be paid on the bond proceeds. It has had a pipeline to the federal government interest reduction subsidy programs and rent supplement funding. The Michigan Housing Process, representing an investment of over $100,000, has established the detailed and definitive process through which the housing proposals are channeled. Finally, a staff of over 120 specialists have developed the kinds of supportive services and programs that will, in theory, insure the long-range quality and success for the housing that is built.

Given this potential, the only true measure of success of the Michigan Housing Authority is the actual product--the housing that is produced and the other benefits to the people of Michigan that can be objectively measured.

As was pointed out in the Chapter on the Michigan Housing Process, every housing proposal flows along a predetermined course to the hopefully ultimate completion and occupancy. Since there are hundreds of housing proposals situated throughout the fourteen phases of the process, an assumption is made for the purposes of this chapter that any proposal for which the Authority has issued a Mortgage Commitment (Phase 0800) will be considered as a part of the production record of the Authority.

The following is a list of the multiple family housing projects "Occupied, Under Construction, or For Which a Mortgage Loan Commitment Existed at December 31, 1972."[62]

Location	Development Name	Mortgage Amount	Units
Adrian	Riverview Terrace	$2,639,047	163
Albion	Oak Meadows	2,200,978	100
Ann Arbor	Arbor Park	4,047,600	192
Bay County	Bangor Downs	3,200,000	180
Battle Creek	Carl Terrace	2,800,000	134
	Glenwood Trace	1,894,356	124
Benton Twp.	Hull's Terra	1,772,740	110
Buchanan	Metea Court	1,258,008	76
Detroit	Project Rehab, Centrex Arms	1,528,600	110

[62]"Report By Executive Director of Achievements in 1972 and Tasks for 1973," Internal report to the Staff of the Michigan State Housing Development Authority, December 18, 1972.

Location	Development Name	Mortgage Amount	Units
Detroit (continued)	Project Rehab, Collingwood Apts.	$ 577,000	35
	Elmwood II (Martin Luther King)	3,569,200	169
	Project Rehab, LeeCrest Apts.	1,675,100	101
	Project Rehab, I	3,072,600	215
	Project Rehab, III	2,702,400	190
	Project Rehab, IX	2,548,900	181
	Project Rehab, #66	1,567,800	105
	Lafayette Park	2,226,984	114
	Project Rehab, Chatham Apts.	1,249,500	74
	Project Rehab, #39	640,400	39
	Project Rehab, #47B	681,900	43
	Project Rehab, #46	2,869,800	188
	Project Rehab, #54	646,290	44
	Project Rehab, #59	593,190	40
	Project Rehab, #65	1,798,000	114
	Phoenix Homes	1,094,669	48
	Joy West Manor	1,379,801	78
	Habilit #1	785,741	42
	Whitney Young Plaza	1,979,285	138
Flint	Ridgecrest	3,250,000	163
	Mayfair	3,126,501	200
Grand Rapids	Hillcrest Homes	1,448,300	80
	Northlake Village	1,877,492	96

Location	Development Name	Mortgage Amount	Units
Grand Rapids (continued)	Pine Oak Manor	2,085,742	127
Holland	Meadow Lanes	2,232,537	118
Ingham County	Edgewood Village	2,986,372	135
Jackson	Jackson Home Sites	1,460,000	81
Kalamazoo	Operation Breakthrough New Horizon Village	5,600,000	246
Lansing	Coronado Gardens	1,154,700	64
	Canterbury Commons	6,240,832	350
	Cedarplace	3,849,959	222
	Pebble Creek	3,465,743	186
Midland	Forest Glen	2,805,365	159
Monroe	Greenwycke Common	2,001,421	116
Mt. Pleasant	Oxford Row	1,953,779	130
Muskegon Hts.	Eastside Court	950,900	50
	Oak Terrace	1,873,162	104
Muskegon Twp.	Pine Grove Manor	3,084,442	172
Niles	Northview Estates	1,065,794	66
	Northview Estates II	934,462	54
Oakland County	Avon Hills	8,784,800	424
	Cliffview	2,115,341	126
	Countryside	3,788,647	202
Oceana County	Grand River Bands Homes	490,000	25
Pontiac	Newman Court	3,214,400	171
Portage	Milham Meadows	5,004,356	300
Port Huron	Bluewater Townhouses	1,799,599	116

Location	Development Name	Mortgage Amount	Units
Saginaw County	Waterside	2,861,849	168
Washtenaw County	Maplewood	3,553,915	178
Wayne County Brownstown Twp.	Concord	7,908,400	391
	TOTALS:	$145,968,699	8,167

There are 59 housing projects included in the above list.[63] Though not specifically indicated in the listing, further research has indicated the production totals by financing program:

Section 236: 7,029 units (86.1 percent)

MSHDA Moderate: 946 units (11.6 percent)

Section 221(d)(3): 192 units (2.3 percent)

The Detroit production effort has totaled 2,068 units of housing by the end of 1972, much of which--as indicated above--was under the Operation Rehab program. The subtotal for committed mortgage investment in Detroit is $33,187,160. This represents 22.7 percent of the total funding invested, and 25.3 percent of the total units committed.

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[63]Several notes should be made. The source for this listing of units was incorrect in that some developments were twice listed and some mortgage commitments were overstated. Also, in many cases, the end mortgage amounts will increase due to construction cost increases and the funding of Development Cost Escrow deposits. The errors were discovered when cross checking the source with the Management Information System, the computerized memory bank concerning the status of all housing proposals; and with the internal reports of the MSHDA Division of Management and Marketing. Though the construction was financed by the Authority, the final mortgages of two developments, Arbor Park and Operation

The record of the single family housing production is indicated by the number of homes that are completed, closed and occupied.[64] By program, this record included:

Section 235:	481 units	($10,247,947)
Section 221(d)(2):	17 units	($ 347,680)
Section 203(b):	34 units	($ 798,432)
VA loans:	32 units	($ 795,821)
TOTALS:	564 units	($12,289,879)

Another measure of the success of the Michigan State Housing Development Authority is its financial self-sufficiency. Mortgage Commitment fees are the only major source of income, which means that the General Operating Fund of the Authority--budgeted at approximately $2 million annually--depends nearly entirely on substantial and successful housing production. No appropriations were requested from the State of Michigan for the 1972-1973 fiscal year, and $191,000 was returned to the State Treasurer for the prior year.

The ability to act as a mortgage lender on such a large scale does have, of course, many other direct benefits

Breakthrough, are not held by the state agency. Finally, though the source was dated December 18, 1972, it is accurate through the end of that month, since no official action was taken by the Authority in 1972 after the date of the report.

[64]"Single Family Mortgage Report for the Month of December, 1972," Internal Report of the Michigan State Housing Development Authority, January 3, 1973.

in addition to the construction of housing, on the economic health of the state. In a study of the primary impact of MSHDA financing on the state and local economies, an attempt was made to statistically measure these other benefits. Using the production goals for 1972 (goals that were not met), the effects of MSHDA activities on tax receipts, jobs and investments were looked at.[65]

> MSHDA production goals for 1972 allocate $120 million for financing townhouse developments, $50 million for financing single family detached housing developments, and $30 million for high-rise apartment developments. If these goals are realized, the $200 million in MSHDA mortgage financing will generate, because of increased activity in the housing sector of the Michigan economy, approximately:
>
> <u>$7 million</u> in Michigan State tax revenues.
>
> <u>$4 million</u> in Michigan local property tax revenues
>
> <u>15,900</u> jobs in all industry sectors. (Including 6800 construction jobs in Michigan.)
>
> <u>$183 million</u> in receipts to Michigan general building contractors.
>
> <u>$165 million</u> in receipts to Michigan special trade contractors.
>
> <u>$85 million</u> in sales for Michigan wholesalers and other distributers of building materials.
>
> <u>$10 million</u> in sales for Michigan land investors.
>
> <u>$8 million</u> in receipts for Michigan professional service firms.
>
> <u>12,100</u> low and moderate income housing units.

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[65]Michigan State Housing Development Authority, The Primary Economic Impact at the State and Local Levels of MSHDA-Financed Housing (Lansing: Michigan Department of Social Services, July, 1972), pp. 1-2.

To be able to make these estimates, the research team made 21 basic assumptions, though these need not be listed here.[66] Three of these assumptions, however, have been violated in actual practice. First, it was assumed that all of the mortgage loans would be for 90 percent of the total development cost--the rate for limited dividend sponsors--so that $1 of MSHDA financing would generate in reality $1.11 of housing investment. While it is true that few loans have been granted to Nonprofit Housing Corporations during 1972, many 100 percent loans were made in prior years. Also, few limited dividend sponsors, due to some loopholes in the mortgage lending process, actually invest 10 percent of the total development cost.

Two other assumptions were that the jobs created, the taxes, the benefits and the receipts would exclusively benefit the people and the State of Michigan. Some of the professional firms, the sponsors, the builders and the land owners, however, are not Michigan-based. The benefits still exist; they are not necessarily benefiting Michigan.

As mentioned, the production goals for 1972 were not met. Perhaps in anticipation of this, the impact study that was performed was based on each $1 million of MSHDA financing, with the stated assumption that the total impact would be the "linear multiple of the impact of $1 million of MSHDA

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[66] Ibid., pp. 8-10.

financing."[67] Five separate types of housing construction were identified and studied:

1. Townhouse developments,
2. Mixed Townhouse and Apartment Developments,
3. Garden Apartment Developments,
4. High-Rise Apartment Developments, and
5. Single Family Detached Housing Developments.

Charts were then drawn up which indicated that:[68]

The number of units of housing created would range, for each \$1 million of MSHDA financing, from 51 single family detached units to 83 high-rise apartment units.

The total number of jobs produced, for each \$1 million of MSHDA financing, would range from 31.8 for high-rise apartment developments to 44.1 for garden apartment projects. These totals include professional service jobs, contract construction, and jobs in wholesaling and distribution.

The total local property tax receipts, for each \$1 million in MSHDA financing, will range from \$17,500 for single family detached housing to \$28,600 for high-rise developments.[69]

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[67] Ibid., p. 10, Assumption 19.

[68] Ibid., pp. 17-21.

[69] From personal experience, I tend to believe that the local property tax figures are understated. For housing developments with which I am familiar, the property tax bills are annually in excess of the figures indicated in the study being cited, per \$1 million of mortgage investment; the study fails to indicate exactly what is considered as generated from the initial investment, though it does indicate (Assumption 8, Page 9) that property taxes are not considered "one-time occurrences."

The total tax revenue for the State of Michigan will range from $35,300 for townhouse developments to $37,600 for garden apartment developments, for each $1 million of MSHDA financing. Taken into account here were (1) State Corporate Income Tax collections, (2) State Personal Income Tax collections, and (3) State Sales Tax collections.

A conclusion can be drawn, with some confidence, that the activities of the Michigan State Housing Development Authority have definitely and directly benefited the economy of Michigan. There is a total committed mortgage investment in excess of $158 million, and a bonding capacity of $600 million. Assuming the existence of some form of federal subsidies and the continued confidence placed by housing investors in the unblemished record of the Michigan Housing Authority, there is every reason to believe that the $600 million can be invested and that the bonding capacity will be ultimately raised even higher.

CHAPTER VII

PROBLEMS AND CRITICISMS ENCOUNTERED BY THE MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

Subsidized housing remains a risky business venture for mortgage lenders and mortgage insurers alike, in which failure is grimly accepted and success is measured by breakeven budgets and the absence of immediate crises. When both the lending and insuring functions are performed by the same agency, as is the case with the MSHDA, the risk increases more than proportionately. Many of the programs designed to assist the economically disadvantaged have come under attack, and the state housing finance agencies have been subjected to a considerable amount of criticism--criticism which has been magnified by the micro-arena of the state politics and by the amount of money available. The critics form strange alliances and fight among themselves as much as they attack the state housing authorities; other critics are the insiders who grow increasingly disillusioned by the failure to meet promised goals and by an apparent ineffectual manner in which the potential of the agency is being realized.

Some of the more prominent of the problems and criticisms which have been faced by the Michigan State Housing Development Authority will be dealt with in this chapter, including charges that:

1. The MSHDA is not adequately meeting the needs of the "low income" population of Michigan.

2. With the implementation of the Moderate program, the Authority has begun to unfairly complete with the private housing industry.

3. State housing finance agencies are an unnecessary and additional government bureaucracy; the federal subsidy programs could be administered by the dispersed HUD offices, without the assistance of the state agencies.

4. The MSHDA's effort in the city of Detroit has not been as substantial as promised. The Authority's resources will have to be used more effectively and in much larger quantities to dent the inner city problems.

5. The production orientation of the MSHDA may prove to be a repetition of the mistakes made by HUD. Though production goals are admirable, more thought has to be given to the future of the housing that is built.

6. Due to the many administrative and statutory restrictions, the Section 236 program simply will not work. Before the state housing finance agencies will be able to operate effectively, some form of subsidy program will have to be discovered that really works.

7. The Michigan State Housing Development Authority has been unable to develop effective and cooperative working relations with the municipalities, local officials and community leaders.

8. The MSHDA appears to have adopted a firm "no foreclosure" policy, fearing that foreclosure would affect the bonding capacity at favorable interest rates. Further, the unblemished record is a source of political strength. By thus removing the ultimate--and possibly the only meaningful--sanction available to the staff of the Authority, credibility is lost when attempting to enforce regulations or administrative decisions.

All of these problems and criticisms are recognized by the Authority, and they are all being dealt with to some degree and within the scope of power available to the agency. An inescapable conclusion which can be drawn in advance of reviewing these major points is that, given the insoluble lack of consensus concerning the housing programs and the role of the MSHDA, no effort--however well intentioned and well administered--would ever silence the critics.

Assisting the Low Income Population

The most consistently heard criticism of the Michigan Housing Authority is that the poorest of the families in Michigan are not receiving a large enough proportion of the housing benefits provided by the state agency

A portion of the problem is the popular identification of any form of assisted housing with the public housing programs. The MSHDA has never participated in the construction or operation of public housing, though a certain proportion of the MSHDA-financed units are available, under the rent supplement program, to families who would qualify for public housing.

The Authority has always publicly considered "low income" housing as that provided under the Section 236 program, and "moderate" income housing as that constructed under the state program of the same name. Many disagree with this. Most critics, probably correctly, continue to consider low income housing as public housing and moderate income housing as that provided by the interest reduction subsidies. It would be useful if standard definitions could be arrived at.

If an assumption can be granted that the rent supplement program is the only low income housing program presently available to and administered by the MSHDA and that these funds are limited by the federal government, then the only pertinent question to be explored concerns the effective utilization of these funds by the state agency. As of December 31, 1972, the following statistics could be developed from internal Authority documents:[70]

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[70]"Development Monthly Status Report," Internal report of the Division of Management and Marketing, December, 1972.

29 developments in occupancy stage for a total of 3,805 units of housing.

8 of these developments do not have rent supplement funding available, largely due to the refusal of the local governing body to approve rent supplement use. These 8 developments contain a total of 1,401 units of housing.

21 developments do have rent supplement funds available. There are 2,404 units of housing in these developments.

560 units of rent supplement funding are authorized for the above-indicated 21 developments.

Considering only the 21 developments in which rent supplement has been permitted by the local government, the MSHDA has made available such assistance for 23.3 percent of the total production.

Considering all of the production of the MSHDA which is available for occupancy, rent supplement is available for 14.7 percent of the housing.

2,309 of the 3,805 units available were actually occupied as of December 31, 1972.

1,331 units in projects with rent supplement available were occupied as of that date.

252 of the resident families are receiving rent supplement assistance.

In the 21 developments with rent supplement available, 18.9 percent of the occupied units were housing rent supplement assisted families.

Considering all of the units occupied in MSHDA-financed developments, 10.9 percent of the families are receiving rent supplement assistance.

It should be pointed out that these statistics do not take into account the number of ADC and other publicly assisted families not receiving rent supplement but qualifying, without a doubt, as low income residents.

Such figures are not available. Nor do these figures include the single family housing production where no rent supplement is available.

It was argued by Mr. Robert P. Lambrecht, President of the Mortgage Bankers Association of Michigan and a prominent critic of MSHDA programs and activities, that only "3.4 percent" of the MSHDA housing units were "provided" for the low income population.[71] (Lambrecht indicated that he was considering only the multifamily housing.) This statement obviously cannot be accepted. While there is some room for improvement, the statistics indicate an excellent record of 18.9 percent low income rent supplement occupancy in developments where local government has permitted the use of the program. In addition, the continued full utilization of all of the available funds has been made a specific responsibility of a single staff member within the Division of Management and Marketing.

It can still be argued that this record does not demonstrate sufficient assistance to the poorer families of Michigan. To be taken into consideration, however, are the facts that: (1) some local governing bodies continue to refuse to permit the use of the low income subsidies, and (2) the present limitation on the use of rent supplement

[71]Robert P. Lambrecht, "The Michigan State Housing Development Authority," Unpublished position paper of the Mortgage Bankers Association of Michigan, 1972.

by the federal government is 20 percent of the total units in any given project.[72] The Michigan State Legislature recognized that some assurances should still be provided, however, that the MSHDA would make every effort to fully utilize whatever low income subsidies are made available in the marketing of units. A bill increasing the bonding capacity of the MSHDA to $600 million, which was passed in December, 1972, included the following provision:[73]

> (8) The authority shall require that not less than 15 percent of the multifamily dwelling units financed by mortgage loans from the authority in any calendar year under federal government subsidy programs, subject to applicable federal regulations, be offered on a priority basis to low income families and persons receiving their primary incomes from social security programs or state and federal public assistance programs.

The Moderate Program is Unfairly Competing with Private Lenders

The second most often received criticism of the MSHDA activities and programs is that the Moderate program is unfairly competitive with the private housing industry. Mr. Lambrecht, in his position paper to the State Legislature

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[72] Prior to mid-Summer, 1972, it was possible, in isolated cases and after documenting need, to reserve rent supplement funds for up to 40 percent of the units in a 236 project. This explains the total availability indicated in the statistics of 23.3 percent.

[73] State of Michigan, 76th Legislature, Regular Session of 1972; "Enrolled House Bill No. 5917;" Amendment to Section 32, paragraph 8, Act No. 346 of the Public Acts of 1966.

stated the following effects of the program as he perceived them to be:[74]

1. It creates 'unfair competition' to private institutional lenders who cannot use tax-exempt paper as a means to raise mortgage capital.

2. It creates 'unfair competition' to homeowners selling their homes who cannot offer potential buyers a $20 to $50 a month subsidy on a mortgage.

3. It creates 'unfair competition' to sponsors and developers who do not have Authority mortgage financing and use conventional sources.

4. It creates 'unfair competition' to real estate brokers who cannot offer their clients the same lower interest rates.

A second portion of this argument is that the families served by the Moderate program can, in fact, afford housing on the conventional market. The rents in the Moderate program do range from $185 to $260, as asserted by Lambrecht, and monthly payments in this range will purchase homes ranging from $22,000 to $30,000 in price.

Lambrecht projects that 55 percent of the MSHDA's activities would be in the moderate program. The actual production does not bear out such a figure. Using the production statistics presented in Chapter VI of this paper, only 946 of the 8167 multifamily units produced have been moderate income units, for 11.6 percent of the total effort.

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[74] Lambrecht, _op_. _cit_., pp. 9-10.

Under the single family housing programs, the moderate income production has been even lower. Not including the 32 VA loans, a total of 532 single family mortgages have been closed. Only 51 of these homes, or 9.6 percent, have come under the 221(d)(2) or 203(b) moderate income programs.

While it is obvious that the Authority's work in providing housing under the moderate income programs will increase, the statistics of the critics are not borne out by the actual production figures. The Authority further answers this criticism by restating that the families falling within their Moderate program income range often cannot afford conventional housing with the level of amenities provided in the Authority-financed housing. Finally, the Authority insists that its activities complement the private industry. "Competition" is not an issue when the need for quality housing is so great.

The State Housing Finance Agencies are Unnecessary

Proponents of this argument believe that the very existence of the state housing agencies should be subject to question. The builders and developers should be able to deal directly with the regional, area and insuring offices of HUD as they did in the past. Further, the interest reduction subsidies and the other housing programs are available with or without a state agency.

To justify the existence of the Michigan State Housing Development Authority, any one of three distinct arguments can be used:

1. The state housing authorities are able to coordinate state-wide efforts in which the housing that is built with the limited subsidies available more nearly reflects the geographical need for the units. Without this kind of coordination, certain more desirable areas could easily be overbuilt and other areas ignored. Further, the states are much more willing to venture into those areas where private money is hesitant to move.

2. The state housing finance agencies are able to work in tandem with HUD, and the administrative machinery which is being created by the states will increase the total number of units produced under the subsidy programs. It should be pointed out that, since only a few states have such an agency, those states are receiving a proportionately larger share of the federal subsidy investment.

3. The private mortgage lenders are seldom concerned with the long term success of the housing that is built. The state agencies are at least attempting to provide the assistance and administration necessary to insure the ultimate success of the housing through the activities of management, marketing, construction and research personnel.

There have been some charges levied, of course, that the state housing agencies are a further step toward "socialized housing."[75] Such a charge cannot be answered adequately, as it reflects basic philosophical differences concerning the role of government.

The Sufficiency of MSHDA's Detroit Efforts

Detroit is easily and obviously the most critical problem facing the Michigan State Housing Authority. No effort would be sufficient when considering the housing need for the inner city. A total of 2,068 units of housing had been issued mortgage commitments, were being constructed or were occupied as of December 31, 1972, in the Detroit area. This represents over 25 percent of the total activity of the Authority, and $33,187,160 has been invested in the city of Detroit and the inner circle of deteriorating suburbs.

The Authority has established an office in Detroit which is responsible for this entire portfolio of development. The major portion of the responsibility for these housing projects is in the hands of minority sponsors, builders, management agents and other members of the development team.

All of these efforts, however, will scarcely dent the need for a major rebuilding effort. The Authority's Executive Director indicated, in his statement of goals for 1973, that he wished to "restructure" the Detroit

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[75]Lambrecht, op. cit., p. 11.

effort so that large scale production could be achieved. During the first months of 1973, the Research Section of the Housing Development Division was working to develop a strategy for the more effective utilization of Authority resources in Detroit during 1973-1974.

Emphasis on the Volume of Production Can Damage Efforts

For the MSHDA, the volume of housing production is directly proportional to the agency's political strength and financial stability. The most important source of income for the Housing Authority is the commitment fees paid to the agency upon the closing of the mortgage loans.

The production orientation of the HUD housing effort ultimately defeated the program, since many projects were hurriedly approved and constructed in poor locations or with such poor planning as to virtually guarantee eventual default. As pointed out by one former top HUD official, the production of both "volume and quality" is a difficult task to assign to any bureaucrat, who on one hand is trying to painstakingly insure that the programs are being properly developed and administered and on the other is being pressured to produce housing to meet a critical need.[76]

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[76] M. Carter McFarland, "Unlearned Lessions in the History of Federal Housing Aid," City (Winter, 1972), pp. 31-32.

Production goals are not bad in and of themselves. The financial need to produce has certainly stimulated the tangible results that have been documented. Too often, however, predictable problems that will strain the future viability of the project are not given the attention they deserve in the attempt to develop housing with a minimum of delay and red tape.

Is Section 236 a Viable Program?

Reducing the interest on mortgage loans is but one manner in which housing can be made available for lower income families. Selective wage and price controls which would hinder the inflationary spiral for building materials and labor costs would be another possible manner. Improved housing technology, together with a full 12 month building year, such as that attempted with Operation Breakthrough, might also work--given time and funding. Outright grants for the purchase of housing, eliminating the interest cost entirely, has yet to be attempted--and perhaps it will be with the proposed revenue sharing programs. Finally, housing assistance allowance programs are enjoying increasing speculative popularity.

There is a convincing argument that poor administration and shoddy management practices have failed to give the Section 236 program a fair test. The Department of Housing and Urban Development, in creating a National

Center for Housing Management, recognizes this. The interest reduction programs, however, have been subjected to increasing criticism, and charges have been made that Section 236 is an inherently unworkable program. While it is not the purpose of this paper to fully develop these criticisms, the state housing finance agencies have found themselves increasingly concerned with the vehicle they have been given by the Federal government to deliver housing for low and moderate income families. The following points were made in one study by a Division Director of the Michigan Housing Authority:[77]

1. Amend the Act to make possible authorization and appropriations for operating subsidies to assist the existing Section 236 housing inventory.

2. Disassociate Section 236 Income Limits from Public Housing Income Limits.

3. Amend the Section 236 Program so that a percentage of units in a development could be rented to residents whose incomes exceed the admission income limits but not require them to pay full market rent.

4. Amend the Act to allow the Mortgagor to deposit in an escrow account the income received in excess of basic rent [normally returned monthly to HUD] on a fixed percentage of the development.

5. Establish realistic Section 236 rent to income ratios and enforce them.

6. Eliminate the present requirement for approval by the community to obtain rent supplements.

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[77]"Recommended Changes Both Statutory and Administrative to The Section 236 Program to Remove Restrictions That Are Presently Limiting the Success of the Program," Memorandum from David Froh to MSHDA Senior Staff, February 7, 1972.

7. Remove the [eligibility] restrictions on the rent supplement program.

8. Increase the allowable management compensation.

Of course, the major criticism of Section 236 and any low income housing program is that economically disadvantaged families should never be impacted at a single housing development, and that economic integration is a nearly absolute necessity if the housing is to succeed. Until the MSHDA had the opportunity to combine 236 housing units with units financed under the Moderate Program, such integration was not possible.

The Need for Closer Community Relations

The Michigan Housing Authority has seldom been able to develop positive and meaningful relations with local communities and governing bodies. Instead, there has often been created an adversary stance, pitting the staff and money of the MSHDA against the zoning commissions, planners and city managers. Some conflicts have even resulted in court fights, and, as the MSHDA has won these battles, the housing plans proceed unabated and with little regard for the animosity that will be left for the future residents of the housing to deal with.

Community leaders have several fears when presented with a plan for subsidized housing--fears which must be recognized, understood and dealt with to further improve the chances for ultimate success. These fears include feelings that:

1. The communities will lose the local control over the development process, and outsiders will gain the financial benefits of the housing while the communities will inherit the problems.

Unfortunately, this tends to be partly true. The local governing bodies do retain zoning and other checks against the proposals, but have little input concerning the development process itself. Most unfortunate is the tendency to permit developers, builders, architects and management teams from other cities to participate in the housing proposal and proceeds and to eliminate the local firms who, though smaller, have through experience gained the respect and confidence of the local officials. One development, in Holland, Michigan, is owned by an East Lansing builder (and is managed from East Lansing), was constructed by a general contractor from Flint, and was designed by an architect in Kalamazoo.

2. Any kind of multiple housing will be a detriment to the community; it will attract transients and will overburden the school system--and it will not be paying a proportionate share of taxes.

The fear of multiple housing in general is understandable in a society which has prized the concept of homeownership for so long, yet there is an increasing acceptance of apartment living, especially among young marrieds and the elderly. These families often are or will be long term residents of the community who, for various reasons, do not wish to own homes. The impact of the proposals on the local school systems is studied by the MSHDA and is a real concern. Where problems do exist, the proportion of multi-bedroom units is usually reduced.

3. State and federal subsidy programs are another step toward big government intervention in local affairs. The housing might serve as a wedge for other programs such as urban renewal.

The only useful programs are those that serve the needs of a community. Viable lines of communication have to be opened up to determine--from those within the communities--exactly what the needs are. It is often pointed out to the local leaders that the subsidy programs do exist and that their tax dollars pay for them; the development of quality housing is an opportunity to retrieve a portion of that tax investment, which will go elsewhere if they refuse to accept the proposal.

4. The housing will bring into the communities an influx of poor minority families dependent upon welfare, and there will be a marked increase in crime, community fear and deterioration.

This is a fear expressed largely by governing bodies of white suburban cities located near major urban centers with large minority concentrations. The argument is racist and is unfounded. Actual experience indicates that there is very little in-migration to a community with a new housing development.

5. Federally subsidized housing is unattractively designed and inadequately maintained. Not only will it become a blight on the community, it often is a blight as soon as it is completed.

The poorly funded and administered public housing programs in many communities have very effectively prepared most community leaders to expect the worst in any form of housing for low and moderate income families. It is again unfortunate that the types of slide presentations and public relations work considered essential to maintain state legislative and HUD relations cannot be extended to a program of education for community leaders and interested resident groups.

The Michigan Housing Process took into account the acute need for a Community Affairs Specialty, and it further established a Community Affairs Committee which was to meet for every housing proposal to consider the problems encountered with local government and to decide how to deal with these problems. In practice, however, this framework has never been effectively implemented, the Housing Development and Management Officers often preparing and signing the Community Affairs reports in their offices in Lansing.

"No Foreclosure"--A Threat to Staff Credibility?

To the private businessman, working with the MSHDA to provide housing, the administrative rules and regulations often seem contradictory, harassing, confusing and bureaucratic. The effectiveness of the MSHDA staff in enforcing these regulations depends almost entirely upon the degree of leverage available to convince the private interests to comply. Once a housing development is built and is operating, the only effective sanction available is the ultimate move to foreclose the property. The MSHDA, however, for several reasons, has been unwilling to take this step, even on properties in financial default, and it has gone so far as to loan and grant monies to the very owners who have been primarily responsible for the default situation. Without belaboring the point, the credibility of staff efforts to insure compliance with the programs is threatened, and some housing owners choose to ignore the program regulations when they do not suit the owners' purposes.

Summary

In Chapter III of this paper, it was shown that the overriding legislative intent in 1966 was to create an agency with the ability to stimulate the construction of housing to serve low and moderate income families--families defined in the Act as those unable to afford the quality housing provided by private enterprise and who fall within income limits established by the Authority. It has also been shown that the limit on income ultimately accepted and included in the General Rules was $12,000, after adjustments; the Authority felt that families would have to earn a gross income of roughly $14,000 annually to afford quality housing.

All of the problems encountered by the Authority and all of the valid criticisms that have been made of MSHDA priorities or programs certainly have affected the ability of this agency to fulfill its legislative obligation. The preceeding sections of this chapter have demonstrated that the Authority has consistently recognized problems and criticisms and has proven responsive to them.

The most basic of the criticisms, however, remains sound. Authority programs do not meet the need for quality housing on a massive scale for the poorest of Michigan's families. With the exception of the rent supplement program and the belated attempt to obtain Section 23 leasing funds, no effort has been made to serve the public housing income level families, this effort being left to the municipalities with housing commissions. Until such an effort is made on the state level, it can never be asserted that the purpose behind the state housing finance agency is being adequately met.

This statement, of course, should be qualified considerably. As has been pointed out, the Authority is constricted by both the federal program limitations and local government refusal to accept the low income programs. In the final analysis, though, the validity of the criticism is not affected.

Related to the problems encountered in providing low income housing is the second--and equally valid--criticism of the Authority's programs. The Moderate Income Program, with rents starting at an average of $185 per month for a one bedroom unit, fulfill the original legislative intent on only a peripheral basis. By building up the economic stability of projects and by economically integrating the housing in mixed 236-Moderate programming, the housing that is provided for the lower income families appears to be of greater social value. It cannot be denied, however, that "decent, safe and sanitary housing" is available, for comparable monthly costs, to the families who have qualified for and are now living in MSHDA-financed Moderate income dwelling units.

CHAPTER VIII

THE EMERGING HOUSING ROLE FOR STATE GOVERNMENT

To discuss the future of the state housing finance agencies is to speculate. As was indicated in the introduction to this paper (footnote 9), a controlling assumption has had to be a belief in the continued existence of some form of federal housing subsidy support. Only in this manner, can the state housing authorities continue to deliver quality housing to lower income families. The existing housing subsidies have been frozen, however, and there has been no real indication of policy movement in Washington.

MSHDA and the sister agencies operate as businesses. Money is borrowed, and, through the rental income of the housing that is created, the bonds are redeemed. There is no direct taxing ability, nor are there assured financial resources available at the state level to permit the Michigan Housing Authority to write down the cost of housing. Speculation on the future of the MSHDA, and on the entire concept of state housing finance agencies therefore, must be guarded and is presented here as a series of possible alternatives. The emerging federal policy is the greatest threat to the continued existence of the MSHDA ever faced; it provides also the greatest opportunity.[78]

Alternative 1: The Waiting Game

Few members of the Authority staff really believe that the federal government is willing and able to extricate itself from the housing programs. Some see the housing subsidy freeze as a ploy designed to gain a trade-off advantage in the Nixon Administration's negotiations with Congress for support for foreign policy and programs. Most observers, recognizing the faults and failures of the interest reduction subsidy programs and the public housing programs, prefer to believe that the freeze on funding is an honest attempt to force the development of fresh housing programs with a more realistic chance for success.

The MSHDA, as has been noted, can maintain its current level of production for at least a year with the signed commitments received from HUD prior to January 5, 1973, the

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[78]Two points concerning the future of the MSHDA do not fall neatly into the alternatives which are to be presented. First is the continuing problem of the "FHA-Pickups." (See "The First Production," pp. 24-26 supra.) The MSHDA is saddled with these poor investments in its otherwise relatively risk-free portfolio. Foreclosure and assignment to HUD of several of these developments remains an eventual necessity, for the drain on Authority financial and staff resources has already become critical. The second point is that the agency has now begun to submit plans for housing projects for A-95 review of the environmental impact, a recognition of the environmental concerns which will assume more and more importance in the coming years.

effective date of the freeze on subsidies. In addition, production could be continued for possibly as long as another year with the Moderate program, with the specialty programs for which HUD has made a general commitment, and with projects passed through the HUD offices during the first few days of 1973 when the freeze was imminent. Much depends on the final and unknown future determination of the exact extent of the "commitment" HUD will recognize.

During this interim waiting period, the state housing agencies, including the MSHDA, would be working with the other states, with HUD and with the federal administration to develop fresh housing programs within which the state agencies could comfortably operate. The record of the state agencies is such that the programs, once developed, would almost certainly be handed to the state for administration, according to the proponents of this alternative.

There is a danger that housing programs will be developed and implemented but will be of such a nature that the state housing agencies could not work with them. Two possibilities have been prominently discussed, and both contain such dangers:

1. Housing Assistance Allowances:[79] Without going into the advantages and disadvantages of a housing allowance

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[79] Robert Beckham, "The Experimental Housing Allowance Program: An Old Idea Will Get a New Kind Of Test in 1973," Journal of Housing, XXX (January, 1973), pp. 12-17 is the best source of information to date concerning this program.

program, it is sufficient to state that the subsidy payments are made to individuals and are never tied to particular housing units. Those projects financed by the Michigan State Housing Development Authority, therefore, would be in direct competition with all other housing, both new and existing. It would be difficult, and in violation of the intent of the allowance proposal, to attempt to serve a specific population defined by income.

2. Block Grants to the States:[80] The revenue sharing/block grant proposals have been strongly supported by the Nixon Administration. The concept here is that the states know best how to properly tailor the application of funding and could better meet local needs. A danger of this proposal is that other programs for which the federal government has also frozen funds, including water/sewer and open space grants, might also have to be funded through a "no-strings-attached" block grant. The state housing agencies would be forced to compete with these programs--often considered to be more attractive than low income housing--and lobby at the state level for funding support. Another problem with block grants is that there is no real assurance of funding continuity over the mortgage life of the housing that would be created. In other words, the types of subsidies that would be needed for 40 years would

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[80]"Get U.S. Out Of Housing, Romney Urges," Detroit Free Press, October 24, 1972, pp. 1-2A.

only be available on a sporadic basis at best, and it is possible that funding would be a one-time occurrence only.

Alternative 2: Decline Into Obscurity

More pessimistic observers believe that faith in a new federal housing subsidy program is unfounded. The "Great Society" may be drawing to a close.

> It was a noble experiment, government housing. For almost four decades, Washington has been transfixed with the notion that government should play a direct role in providing low-income families with low-rent new housing, and that it could do so efficiently on more or less equal terms with the free housing market. The idea is now, literally in ruins.
> . . . .
> It took the private sponsors only a few years [of experience with interest reduction subsidies] to discover what the public housing people learned over decades, that concentrating problem families in mammoth housing complexes is disastrous for both the cities and the individuals involved.
> . . . .
> Let the housing industry build new housing for the unpoor, and let the poor move into the older housing thereby vacated.[81]

Without programs to deliver housing to low income families, the state housing agencies must look to the state governments and the local communities for housing assistance. If this proves to be infeasible, the production activity of the MSHDA may slowly grind to a halt as HUD commitments are exhausted. The portfolio of housing already built would, of course, remain, and the Michigan State Housing Development Authority could easily become

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[81]"Review and Outlook: Freezing Housing Subsidies," Wall Street Journal, January 29, 1973, p. 7.

an obscure and minor office in state government, collecting mortgage payments and making monthly on-site inspections.

Alternative 3: Housing Without Federal Subsidies

As a moderate position, located on the continuum between the above-presented extreme positions, is the concept that housing for lower income families can still be delivered by a state agency without federal subsidy assistance. As of the date of this paper, the state housing finance agencies are collectively exploring new concepts and ideas to meet a continuing federal freeze on housing funding.

The Moderate income program would be one vehicle for the continuing financing of housing. Such developments are in direct competition with the housing financed by private lenders, however, and it is doubted that a full scale effort of this type would be tolerated politically. Some of the specialty programs could continue, such as Housing for the Mentally Retarded and housing investment in the city of Detroit, since these are programs not in direct competition with private mortgage lenders.

Another proposal which has been discussed by the staff of the Michigan Authority is the Development of rental mobile home parks.[82] The MSHDA would purchase

[82] "Financing of Rental Mobile Home Parks," Memorandum from Raphael J. Rabalais, Jr. to all Professional Staff, February 28, 1973.

and develop suitable parcels of land and would further purchase the mobile homes, which would be rented to lower income families. No land rent would be included in the monthly carrying charges, as the Authority would retain ownership of the parcels for the possible future development of multifamily or single family projects. The cost of the mobile homes would be reduced by purchasing directly from the manufacturer in large quantities. This program is still in the early discussion stages, and obvious problems have not been dealt with. There is a potential here, however, to assist low income families, especially in rural areas and communities.

Alternative 4: The Community Development Corporation

The potential of the Michigan State Housing Development Authority was emphasized in the report presented to the Governor of Michigan by his Special Commission on Land Use:[83]

> 11. It is recommended that the Michigan State Housing Development Authority be expanded by legislation. This should include the authority to develop commercial, industrial and office facilities and the supporting infrastructure for these facilities where they are elements of a housing program or new town development.

Situated in the middle of the governmental structure of this country, the state-level Michigan Housing Authority has

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[83] Michigan State Land Use Commission, Governor's Special Commission on Land Use Report, Walker Cisler, Chairman (Lansing: State of Michigan, January, 1970), p. 5.

concentrated, as has been stressed in this paper, the bulk of its coordination and communication effort on the task of federal-state relations. The equally important job of establishing meaningful state-local coordination has not been dealt with to any great degree.

The Michigan Chapter of the American Institute of Planners has completed a preliminary draft of a new "Omnibus Land Use and Development Act."[84] Following the prominent role played by the MSHDA in the Land Use Commission Report, it should be viewed as highly significant that the draft of the proposed act at no point mentions the Michigan Housing Authority. A "State Advisory Committee" is proposed in Section 2.8, and, even here, the MSHDA is not represented though the "Directors of the Department of State Highways, Department of Public Health, Department of Natural Resources, Department of Agriculture, Department of Commerce, and the Executive Secretary of the Water Resources Commission" are all included.

The Land Use Commission specifically recommended that, in order to function as a Community Development Corporation, the Michigan State Housing Development Authority be granted powers to:[85]

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[84]Legislative Committee, Michigan Chapter, American Institute of Planners; Preliminary Draft of an Omnibus Land Use and Development Act (Published by the author, January, 1973). Section 2.8. is on page 9 of the draft.

[85]Governor's Special Commission on Land Use Report, p. 28.

1. Finance community infrastructure in other than the immediate area surrounding a housing development;

2. Finance the construction of schools and industrial and commercial facilities;

3. Condemn property; and

4. Be exempt from local zoning, building and other land use controls on all land controlled by the MSHDA.

Given these types of powers, the renamed "Michigan Community Development Corporation" could become one of the operational arms of the "Michigan Department of Land Use Management." It would have the ability to invest large sums of much-needed money in the state, either in cooperation with private lenders or in areas where private money is not available. Programming could be designed to respond to the expressed needs of all of the communities in the state--ranging from sewage treatment plants to recreational facilities and from housing to industrial park development. Most importantly, the inner cores of the larger cities in Michigan would have available for the first time the type of financing necessary to make a realistic effort at reconstruction.

Conclusion

Housing is an important and critical area in which human needs and desires must be recognized and met. The Michigan State Housing Development Authority has done much to realize the goals set for it in 1966; the problems it has encountered have been minimal when considering the strength and independence of the agency and the money it controls. Much work still remains, of course--a statement which will probably remain valid for the foreseeable future.

It would be tragic if Michigan ultimately fails to meet its full potential for growth, development and redevelopment. State-wide land use management and planning, based on the proposed legislation, could be a major step toward the realization of this potential, but the proposed policy-making agency will not succeed without the tangible ability to actually implement plans and projects requiring development expertise and financing capability. One such tool available to the state is the Michigan State Housing Development Authority. It would seem that coordination and cooperation could be arrived at. With an expansion of powers to create a Community Development Corporation, the State of Michigan would be pioneering new and more effective solutions for old and nagging problems.

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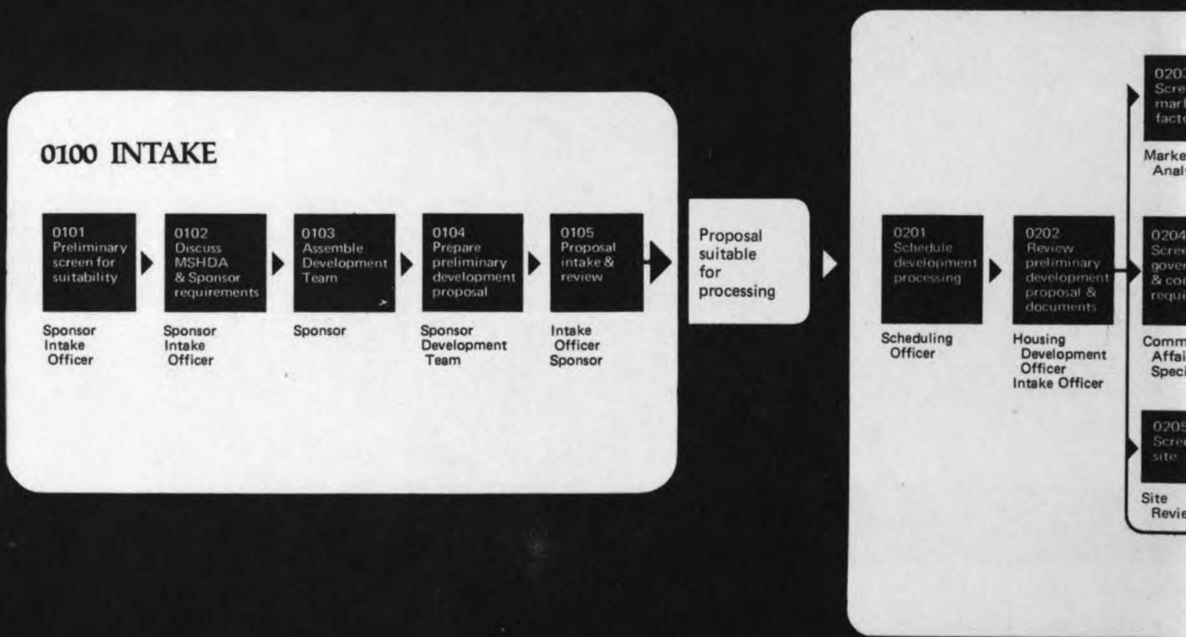
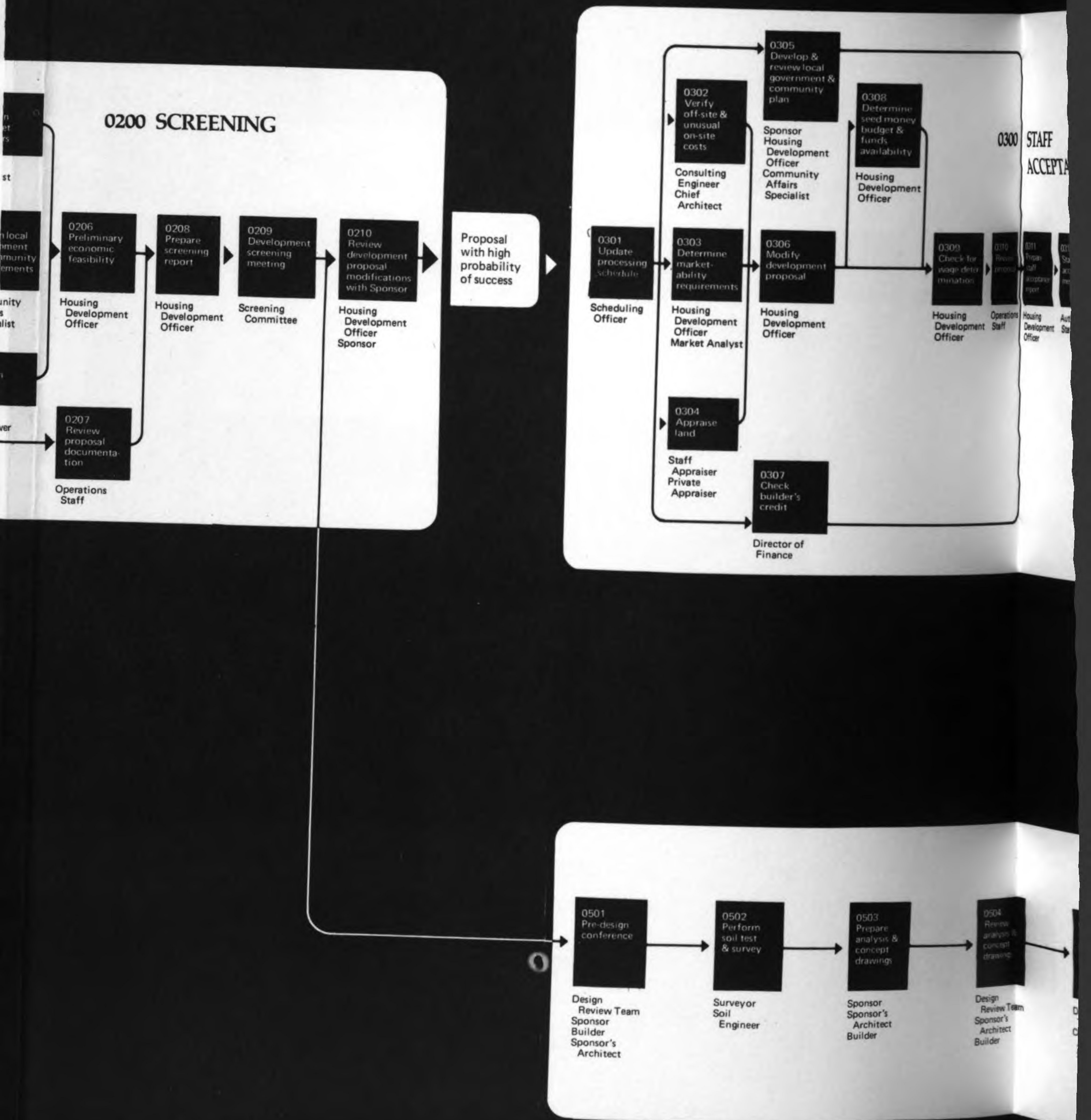
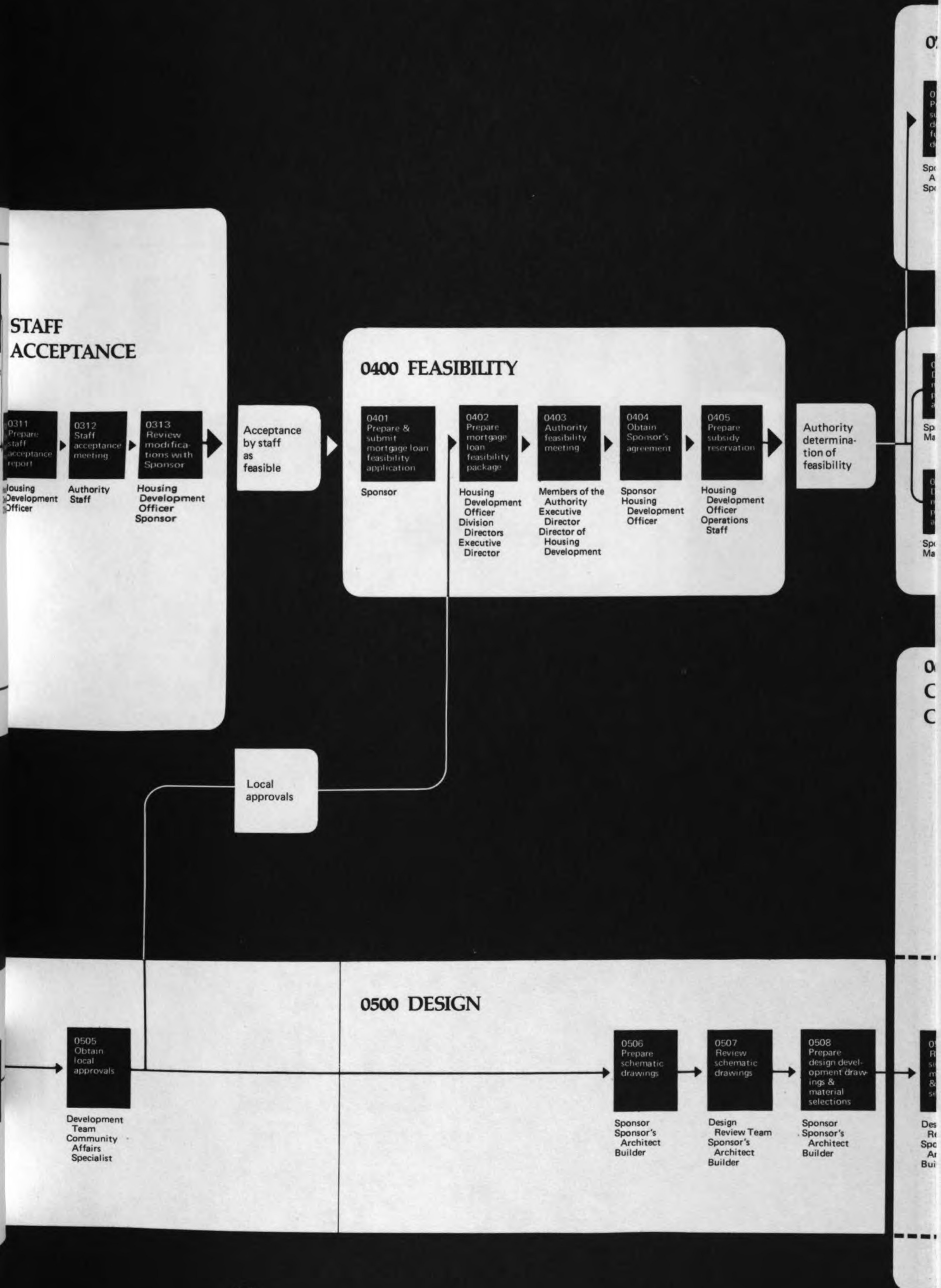
APPENDIX 1

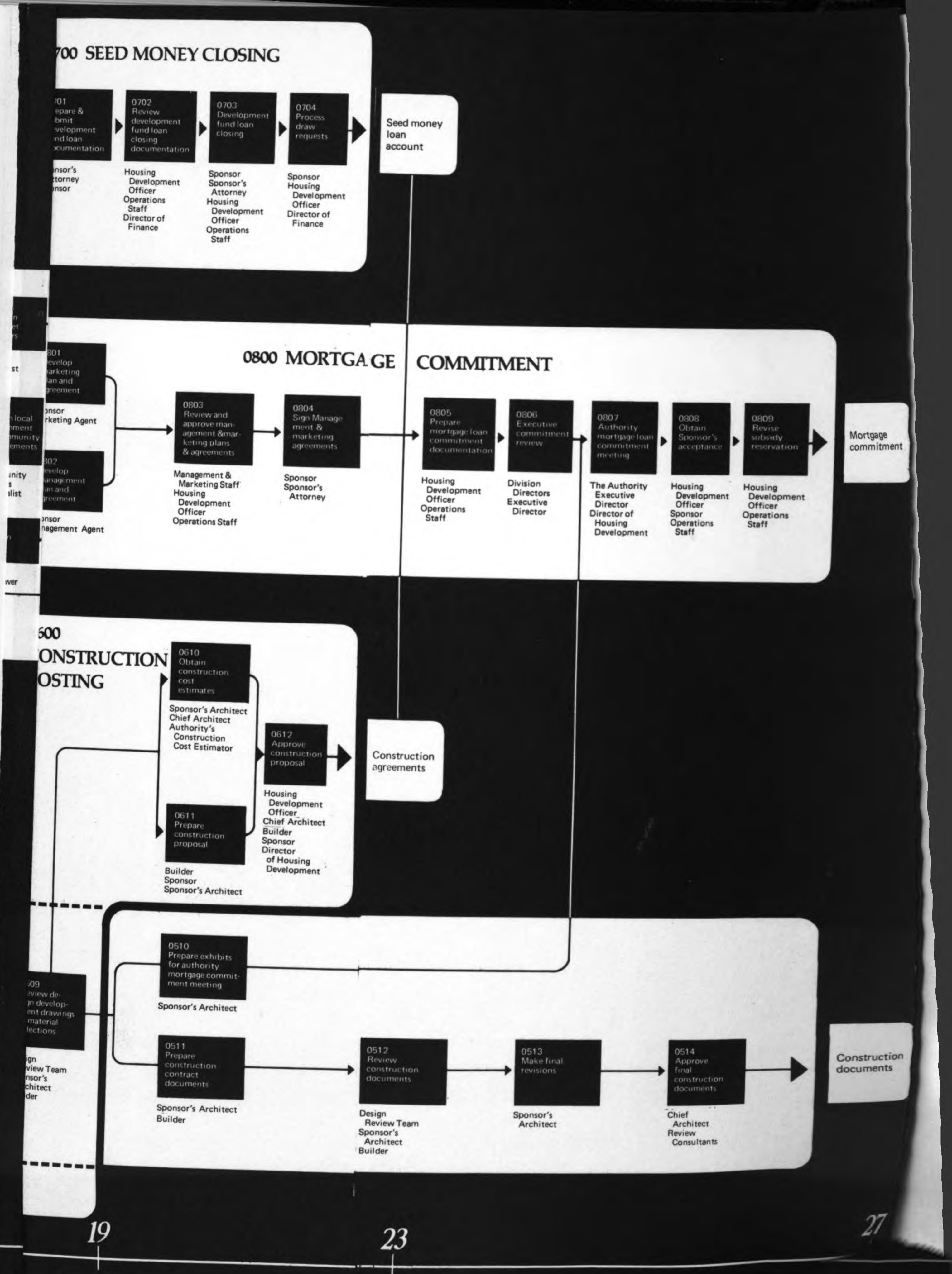
THE MICHIGAN HOUSING PROCESS



LAPSE TIME
Number of weeks


0200 SCREENING
0206 Preliminary economic feasibility
Housing Development Officer
0207 Review proposal documentation
Operations Staff
0208 Prepare screening report
Housing Development Officer
0209 Development screening meeting
Screening Committee
0210 Review development proposal modifications with Sponsor
Housing Development Officer Sponsor
Proposal with high probability of success
0300 STAFF ACCEPTA
0301 Update processing schedule
Scheduling Officer
0302 Verify off-site & unusual on-site costs
Consulting Engineer Chief Architect
0303 Determine marketability requirements
Housing Development Officer Market Analyst
0304 Appraise land
Staff Appraiser Private Appraiser
0305 Develop & review local government & community plan
Sponsor Housing Development Officer Community Affairs Specialist
0306 Modify development proposal
Housing Development Officer
0307 Check builder's credit
Director of Finance
0308 Determine seed money budget & funds availability
Housing Development Officer
0309 Check for wage determination
Housing Development Officer
Operations Staff
Housing Development Officer
0501 Pre-design conference
Design Review Team Sponsor Builder Sponsor's Architect
0502 Perform soil test & survey
Surveyor Soil Engineer
0503 Prepare analysis & concept drawings
Sponsor Sponsor's Architect Builder
0504
Design Review Team Sponsor's Architect Builder


STAFF ACCEPTANCE
0311 Prepare staff acceptance report
Housing Development Officer
0312 Staff acceptance meeting
Authority Staff
0313 Review modifications with Sponsor
Housing Development Officer Sponsor
Acceptance by staff as feasible
0400 FEASIBILITY
0401 Prepare & submit mortgage loan feasibility application
Sponsor
0402 Prepare mortgage loan feasibility package
Housing Development Officer Division Directors Executive Director
0403 Authority feasibility meeting
Members of the Authority Executive Director Director of Housing Development
0404 Obtain Sponsor's agreement
Sponsor Housing Development Officer
0405 Prepare subsidy reservation
Housing Development Officer Operations Staff
Authority determination of feasibility
Local approvals
0500 DESIGN
0505 Obtain local approvals
Development Team Community Affairs Specialist
0506 Prepare schematic drawings
Sponsor Sponsor's Architect Builder
0507 Review schematic drawings
Design Review Team Sponsor's Architect Builder
0508 Prepare design development drawings & material selections
Sponsor Sponsor's Architect Builder


SEED MONEY CLOSING
0702 Review development fund loan closing documentation
Housing Development Officer Operations Staff Director of Finance
0703 Development fund loan closing
Sponsor Sponsor's Attorney Housing Development Officer Operations Staff
0704 Process draw requests
Sponsor Housing Development Officer Director of Finance
Seed money loan account
0800 MORTGAGE COMMITMENT
Sponsor Marketing Agent
0803 Review and approve management & marketing plans & agreements
Management & Marketing Staff Housing Development Officer Operations Staff
0804 Sign Management & marketing agreements
Sponsor Sponsor's Attorney
0805 Prepare mortgage loan commitment documentation
Housing Development Officer Operations Staff
0806 Executive commitment review
Division Directors Executive Director
0807 Authority mortgage loan commitment meeting
The Authority Executive Director Director of Housing Development
0808 Obtain Sponsor's acceptance
Housing Development Officer Sponsor Operations Staff
0809 Revise subsidy reservation
Housing Development Officer Operations Staff
Mortgage commitment
0610 Obtain construction cost estimates
Sponsor's Architect Chief Architect Authority's Construction Cost Estimator
0611 Prepare construction proposal
Builder Sponsor Sponsor's Architect
0612 Approve construction proposal
Housing Development Officer Chief Architect Builder Sponsor Director of Housing Development
Construction agreements
0510 Prepare exhibits for authority mortgage commitment meeting
Sponsor's Architect
0511 Prepare construction contract documents
Sponsor's Architect Builder
0512 Review construction documents
Design Review Team Sponsor's Architect Builder
0513 Make final revisions
Sponsor's Architect
0514 Approve final construction documents
Chief Architect Review Consultants
Construction documents
19
23
27