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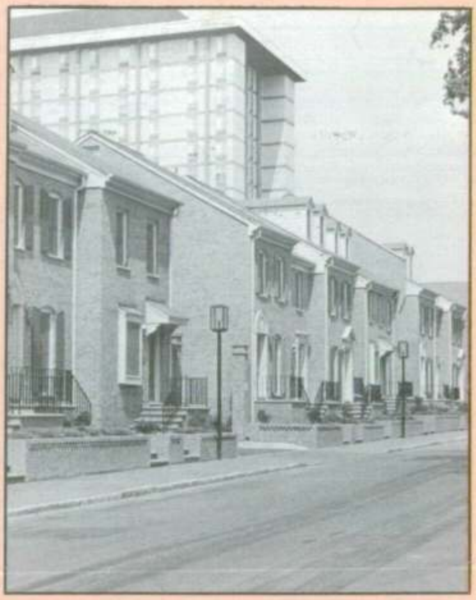
# NC INSIGHT



# Mortgage Overdue

## The State Enters the Housing Market

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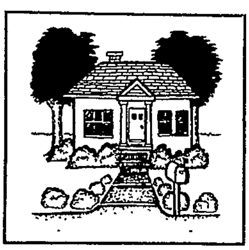

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Photo courtesy of the N.C. Housing Finance Agency

*From Wall Street to Four Oaks, N.C.*

# The North Carolina Housing Finance Agency

*by Bill Finger*

A battery of bankers and financiers are crowded into a conference room in the skyscraper of Raleigh's state government complex, the Archdale Building. New York bond underwriters adjust their pinstripes. Investment specialists up from Charlotte unsnap briefcases. Builders and realtors in from the coastal counties settle into their directors seats. A chatter of excitement fills the second floor room, as if Merrill Lynch and E.F. Hutton are about to finalize a merger.

John Crosland, a second-generation Charlotte builder and a director of the National Association of Home Builders since 1968, slips into the empty chair at the front of the table. Just as he has throughout his four-year tenure as chairman of the board of the N.C. Housing Finance Agency, Crosland takes charge. "I'm sorry we're so crowded today," he apologizes to the onlookers standing against the wall. "We're not used to being so popular."

Some of the veteran observers in the room may have caught the irony. Since its beginning in 1974, the N.C. Housing Finance Agency (HFA) has more often than not been criticized for lacking aggressiveness. In a state where 1 of every 12 people still lives in substandard housing, a lot is expected of the HFA – the state's major vehicle for providing housing funds at below-market interest rates for low- and moderate-income people. The legislature has authorized it to issue up to $750 million in tax-exempt bonds. To date, the N.C. HFA has issued only $224 million. Still, that amounts to a

**A typical multifamily project financed by the N.C. Housing Finance Agency.**

considerable improvement over its predecessor, the N.C. Housing Corporation, which issued no bonds in its lackluster five-year history.

In 1981, a new director, Gary Paul Kane, came to the N.C. HFA. Formerly the counsel to the Mortgage Roundtable in Washington, D.C. – a group of 16 chief executive officers of major financial institutions – and counsel to the California HFA, Kane brought a new breadth of experience to the state. Meanwhile, the N.C. HFA, after intensive legislative maneuvering, gained quasi-independent status in 1981 and moved out of the Department of Natural Resources and Community Development (NRCD). With a new director and a structure more independent of the state bureaucracy, the N.C. HFA floated $90 million (of the total $224 million) in bonds in 18 months.

Few of the HFA board of directors meetings have been jam-packed affairs, like this gathering on May 13, 1982. And few have contained the kind of gushy, euphoric spirit that's sparkling across the well-lined bankers' faces, a spirit infectious perhaps even among the skeptics in the crowd.

The central agenda item, a $52 million bond

*Bill Finger is editor of* N.C. Insight. *Priscilla Cobb, the assistant editor for this issue of* N.C. Insight, *assisted with research for this article.*

issue to finance multifamily housing, has been in the works for months. Most of the people at the meeting have had a role in getting the bond deal over the financial shoals stretching from the highly volatile credit markets on Wall Street to little Four Oaks, N.C., site of one of the 29 projects to be financed by the bond sale. The Salomon Brothers, Inc. underwriting firm and Brown, Wood, Ivey, Mitchell, and Petty bond counsel law firm have been playing the New York scene along with their North Carolina teammates, First Union National Bank, the N.C. HFA's trustee, and Wachovia Bank and Trust, a credit backer participating in this bond issue.

In North Carolina, U.S. Department of Housing and Urban Development (HUD) officials in Greensboro have been in close contact with the N.C. HFA staff, the State Treasurer's office, and the Local Government Commission, which must approve all HFA bond issues. Meanwhile, developers – desperate for business after a 42-month building recession – have completed the preliminary and final HUD approval procedure, a two and one-half year process in the case of the Four Oaks project. Mortgage bankers, in dire need of new sources of funding, have been wishing the issue along. And waiting in the wings are the ultimate beneficiaries of this complex process, people who need a decent apartment and qualify as "low-income" through the HUD Section 8 rental assistance program. (The box on page 4 summarizes all the HFA programs, including the multifamily rental assistance efforts.)

Board chairman Crosland turns the floor over to George Graham, the boyish-looking underwriter from Salomon Brothers, to explain how the newest bond issue of the N.C. Housing Finance Agency works. "In January of this year, the municipal bond market looked bad, so we started working with a different structure," Graham begins. "This issue gives bondholders the ability to put the bond back to the agency (N.C. HFA) after five years and get paid at par." Graham seems to catch himself moving into stockbroker's slang. "We needed a bank to stand behind the issue," he adds simply, "basically a line of credit worth over $50 million, so the agency could buy the bonds and resell them in five years if necessary." This arrangement, giving bondholders a "put option,"[1] made the bonds more attractive and helped bring down the effective interest rate.

Salomon Brothers priced the bond with a 9 3/4 percent coupon. The interest rate would have been about 12 1/2 percent without the put option feature, to which Wachovia Bank agreed in exchange for an annual fee of 1.08 percent of the amount of bonds outstanding. (Wachovia also received $125,000 for their costs in originating the issue, including the expenses of legal counsel.) The N.Y.

Photo by Paul Cooper

**HFA Board of Directors Chairman John Crosland (left) and HFA Executive Director Gary Paul Kane at the May 13, 1982, HFA board meeting.**

HFA, Graham points out, floated a comparable bond issue with no put option; its rate was over 13 percent. The lower interest rate the N.C. HFA has to pay on its bonds, the lower the borrowing rate for the developers, and the lower the rents in the 29 projects.

Kane takes up where Graham leaves off, preparing the board of directors for the formal vote. "The underwriters are offering to the agency today a bond issue lower than any housing agency has been able to offer in several months," Kane says.

Two directors who say they might benefit monetarily from the issue declare a potential conflict of interest and remove themselves from the vote. A high number of such abstentions, necessary because of the makeup of the board (see box on page 13), has been a source of criticism leveled at the agency in the past. But abstentions seem a minor issue today. The board passes the bond issue on a quick voice vote. At the front table, Kane turns to Crosland, pushing what looks like an old-fashioned dinner bell in his direction.

"In New York, after all the papers are signed," Kane explains, "someone always rings a bell to mark the completion of the deal." Crosland breaks into a grin, looking more like his 1951 Davidson College graduation photo than the head of the state's largest home building business. As Crosland rings the bell, the N.C. HFA formally sets into motion a program that will put $52 million into the state's economy and benefit some 1,400 renters when the projects are completed in about a year.

But who really hears the ringing of the bell? What is the relationship of a roomful of financiers

## Programs of the N.C. Housing Finance Agency

The N.C. Housing Finance Agency operates three state housing programs, is about to begin a fourth, performs various technical-assistance and data-gathering functions, and administers two federal housing programs. Below is a summary of the seven major HFA programs.

### State Programs

1. **Single-Family Mortgage Purchase Program.** The HFA issues tax-exempt bonds and uses the proceeds to purchase mortgages from private lenders at below-market interest rates. The HFA has made four such bond issues, which have financed some 4,185 single-family homes, as shown below:

| Year | Bonds Issued | Homes Financed |
|---|---|---|
| 1976 | $ 16 million | 703 |
| 1979 | 37 million | 1,161 |
| 1980 | 58 million | 1,621 |
| 1981 | 30 million | 700 (all not yet made) |
| Total | $141 million | 4,185 |

2. **Multifamily Mortgage Purchase Program.** The HFA has made two tax-exempt bond issues which have supplied permanent financing for over 2,200 apartment units, both new and rehabilitated.

| Year | Bonds Issued | Apartments Financed |
|---|---|---|
| 1980 | $24 million | 775 |
| 1982 | 52 million | 1,443 (under construction) |
| Total | $76 million | 2,218 |

3. **Multifamily Construction Loan Program.** The HFA has made one $7 million bond issue which supplied the construction financing for six projects (236 units). A federal financing system, the Government National Mortgage Association's "tandem program," will supply the permanent financing.

4. **Home Improvement Loan Program.** Pending favorable market conditions, the HFA will soon make a $3 million bond issue, which 11 local communities will use to leverage $730,000 in federal Community Development Block Grant funds. Through this process, home improvement loans of up to $15,000, with interest rates ranging from 1 to 12 percent, will go to 340 homeowners.

5. **Miscellaneous.** The HFA has four housing development officers that supply technical assistance through N.C. Department of Natural Resources and Community Development field offices in Winston-Salem, Raleigh, and Wilmington. It is also sponsoring a major analysis of the 1980 U.S. Census housing data.

### Federal Programs

6. **Section 8 Housing Assistance Payments.** The HFA administers this federal rental assistance program on all the multifamily units it has financed (see item number 2 above) and on some 872 apartments which it has not financed.

7. **Appalachian Regional Commission (ARC) Housing Program.** The HFA has distributed ARC funds, both grants and loans, to eligible sponsors for planning, construction, or rehabilitation of 3,200 housing units in the state's 29 western counties.

with the public purpose of the legislation creating the N.C. HFA, to provide housing for low-income people? How much public money is invested in "the deal," as Kane and the others referred to the bond issue throughout the May 13 meeting? Has the N.C. HFA finally assumed the innovative posture long needed to alleviate a serious housing problem in North Carolina? And how will the agency cope with the future?

## "False Start" to $135 Million – North Carolina Lurches into the Market

State-level agencies are relative newcomers to the business of providing housing assistance to needy people. From the New Deal to the 1960s, the federal government generated most housing assistance programs, channeling its aid to local housing authorities and into urban renewal efforts. As the anti-poverty programs expanded during the 1960s, Massachusetts, New York, and other states began taking a more direct involvement in housing. The housing finance agency (HFA) model emerged as a means of financing housing at below-market interest rates, primarily through the sale of state-sanctioned, tax-exempt bonds.

Three factors helped the HFA model expand from 12 states in 1970 to more than 40 states by the late 1970s. First, in the Housing and Urban Development Act of 1968, Congress gave HFAs preference in the allocation of federal housing funds, particularly the Section 236 rental assistance program. While the Nixon administration's housing moratorium of 1973 halted the 236 program, Congress gave the HFAs a second significant boost in 1974 by passing Section 8 of the Housing and Community Development Act. This act "set-aside" (i.e., reserved) many of the Section 8 funds, a rental assistance payments program, for state HFAs. The major economic recession of the mid-1970s provided a third major stimulant to the expansion of HFAs. With limited capital available for housing, financial and building interests came to view the ability of HFAs to float sizeable, tax-exempt bond issues as a way to tinker with a tight money market and bring some funds into the building industry.

North Carolina formally entered the housing world in 1969 with the creation of the N.C. Housing Corporation. The General Assembly appropriated $500,000 to the Corporation, authorized it to issue $200 million in bonds, and charged it to help develop 10,000 new subsidized housing units a year through the purchase of federally insured mortgages, through federally insured construction or mortgage loans, and through technical assistance to builders, developers, and consumers. The Housing Corporation proved a "false start," as one official remembers the dismal failure of the group. From 1969 until 1973, it issued no bonds and approved loans of only $100,000.

The legislature closed down the Housing Corporation in 1973 and established a study commission to examine options for how the state should proceed. The study commission recommended a revamped housing effort, and in 1974, the legislature established the N.C. Housing Finance Agency. The General Assembly appropriated $4 million to the HFA to be used as a reserve fund for issuing bonds, with one-half of the interest from this principal available to the HFA for operating expenses and one-half of the interest to be returned to the state General Fund. It granted the agency authority to issue $40 million in bonds (a ceiling which was raised to $750 million in 1979), and allowed the HFA to purchase privately insured and uninsured mortgages (the Housing Corporation could only purchase federally insured mortgages).

The new legislation emphasized the purchase or rehabilitation of single-family homes as an agency priority. But the new legislation did not pledge the full faith and credit or the "moral obligation" of the state to the HFA bonds. The HFA alone was financially liable for any failures, not the state. A pledge of full faith and credit might have produced somewhat lower interest rates, but by making the HFA itself liable, the legislature sought to protect the state's bond rating, historically one of the nation's highest, from being damaged by a poorly chosen housing bond issue. Even so, the state's good name in the bond market helps the HFA. "North Carolina has impeccable credit," says Peter Schmitt, director of fixed-income research for Prescott, Ball, and Turben, a brokerage house that follows the performance of HFAs. "The bonds are bought and put away, rarely seen in a secondary market. Whether it is appropriate or not, the general credit of a state influences how investors view the activities of that state's agencies."

The lawmakers placed the HFA within the Department of State Treasurer, which dealt regularly with the private financial sector and regulated all bond issues by state and local governments. In addition, the legislation established an HFA board of directors composed of four legislators and nine members of various housing and financial interest groups. Even at the outset, this arrangement caused some concern. "It provides for no representatives of the people for whom the housing effort is intended," wrote Chief Capital Correspondent Ferrel Guillory of *The News and Observer* of Raleigh in the paper's December 2, 1973, issue. "In a crunch, will the proposed agency's board seek merely to protect the special interest of bankers, home builders, realtors, and savings and loan companies or should it not have people on the inside who will keep it focused on the real-life problems of people with housing without proper plumbing, without comfort, without enough space for a family?"

From the beginning, then, tensions existed in the very structure of the agency, tensions which reflected the dual nature of the HFA. Established to provide assistance to low-income people, the HFA has to operate proficiently in a highly complex financial world and assume responsibility for managing tens (and eventually) hundreds of millions of dollars. It has two very different objectives: low-income housing delivery and fiscal credibility.

The structural tensions increased in 1977 when the HFA was moved into the reorganized Department of Natural Resources and Community Development. (Approval of its bonds stayed in the Department of State Treasurer). "The transfer of the agency to the DNRCD was a political and bureaucratic move that required extensive fence mending when completed," concluded Kent Hiteshew, a housing analyst at the University of North Carolina, in a study of the N.C. HFA in 1978. "HFA activities were brought to a near standstill for almost one year." [2]

Before the reorganization in 1977, the HFA had sold $16 million in a single-family bond issue (1976) and had thus begun to bring some capital from the New York bond market into the North Carolina housing industry. Because of the reorganization and a lack of aggressiveness of the HFA in its early years, there was a long hiatus in activity from 1976-1979. Between 1979 and 1980, however, the HFA sold three more bond issues: two single-family issues ($37 million in 1979 and $58 million in 1980), and its first multifamily issue ($24 million in 1980). From 1973 through 1980 then, the agency sold some $135 million in bonds, established procedures for distributing the bond proceeds to lending agencies, set qualification guidelines for who could benefit from the bond sales, and administered other smaller programs such as the federally funded Appalachian Regional Commission's housing program for the western 29 counties.

Despite the increased activity in 1979 and 1980, the agency kept a low public profile. Meanwhile tensions between NRCD and HFA leadership increased. An NRCD internal evaluation of the HFA was conducted in 1980, and the findings were summarized in a June 13, 1980, memo to NRCD Secretary Howard Lee. The NRCD review found the HFA had "performed commendably in successfully initiating the program, gaining lendor [sic] acceptance and participation in the program, and operating the program on a sound fiscal basis." But the report went on to make 11 specific recommendations, including the need for quantitative affirmative action goals and for the HFA to target where its loans are placed. "The allocation

## Where Do N.C. Housing Finance Agency Funds Go? *

### Housing Financed by N.C. Housing Finance Agency, 1974-July 1, 1982
### Top Ten Counties, with Number of Substandard Units in Each County, 1980

| County | Units Financed | | | Substandard Units[3] | |
|---|---|---|---|---|---|
| | single-family | multifamily[1] | total[2] | number | % of total units in county |
| Mecklenburg | 591 | 100 | 691 | 6,702 | 4.3 |
| Durham | 74 | 459 | 533 | 2,875 | 4.9 |
| Cumberland | 435 | 0 | 435 | 4,996 | 6.1 |
| Forsyth | 387 | 28 | 415 | 3,784 | 4.0 |
| Guilford | 238 | 48 | 286 | 5,766 | 4.8 |
| Wake | 185 | 50 | 235 | 5,547 | 4.9 |
| New Hanover | 204 | 0 | 204 | 1,558 | 3.8 |
| Edgecombe | 60 | 98 | 158 | 3,357 | 16.6 |
| Richmond | 16 | 139 | 155 | 1,862 | 10.9 |
| Craven | 57 | 82 | 139 | 2,226 | 8.7 |

Source: N.C. Housing Finance Agency (1982 data) and 1980 U.S. Census.

**FOOTNOTES**

[1] This total includes units that are under construction.

[2] This total does not include the units which HFA has assisted through its management of Section 8 projects, its administration of the Appalachian Regional Commission's housing program or its Home Improvement Program.

[3] Substandard includes units with more than one person per room and/or units which lack complete plumbing for the exclusive use of its occupants. The map on page 43 shows the percentage of substandard units for all counties.

system to lenders has relied heavily on the lenders themselves to determine effective loan demand," Stephen Gheen wrote in his memo to Secretary Lee.

But no mechanism existed for these recommendations – or for other evaluations – to reach the public. (Gaining access to the Gheen memo even in 1982 proved extremely difficult.) No legislative panel had review authority over the HFA, except for the Fiscal Research Division of Legislative Services which reviews the budgets of all state departments.

## Power Politics, Federal Restrictions, and a White Knight – The HFA Flexes its Muscles

The first half of 1981 proved a critical period for the N.C. HFA for three distinct, yet interrelated reasons. First, a new director arrived, hailed by observers of the housing industry as a kind of white knight for North Carolina. "Gary Paul Kane has impressed us with his concern for running a top-flight HFA," says Thad Woodard, president of the N.C. Savings and Loan League. "We were lucky to get him." Second, a major new federal law regulating HFA bond issues took effect. And third, the organizational tensions surrounding HFA reached a head.

In February, Kane moved down from Washington, D.C. with nearly a decade of experience with HFAs. One of his first tasks was to read and digest a handsomely bound, half-inch thick volume, "Impact of the Mortgage Subsidy Bond Tax Act of 1980," which the Salomon Brothers underwriting firm dispatched to the N.C. HFA on February 24, 1981. The report analyzed what has become known as the Ullman legislation, a far-reaching federal law that placed substantial restrictions on the nature of bonds that HFAs could sell and the scope of persons who could benefit from the bond proceeds.[3]

Former U.S. Rep. Al Ullman (D-Ore.), as chairman of the House Ways and Means Committee, had pushed through the federal legislation in response to a flurry of tax-exempt housing bonds which were engineered by New York underwriters primarily for middle- and even upper-income people. "E.F. Hutton, for example, earned $2.3 million for packaging Chicago's initial $100-million tax-exempt, single-family offering," reported Michael Stegman of the University of North Carolina at Chapel Hill in the October 1981 issue of the *Journal of Housing*. "Of the 53 local mortgage bond issues marketed in the first four months of 1979, 42 had maximum mortgage limits of at least $60,000 while 18 had no limits at all. In Evanston, Illinois, . . . households with incomes as high as $50,000 a year were eligible to receive subsidized mortgage loans." Subsidizing higher-income groups was widely criticized in Congress, resulting in numerous restrictive provisions being included in the Ullman bill.

While the excesses that prompted the Ullman legislation occurred outside North Carolina, the new federal restrictions affected all 50 states. The Ullman Act limited the volume of single-family

## Where Don't N.C. Housing Finance Agency Funds Go?*

### Counties with No Units Financed by the N.C. HFA as of July 1, 1982, with Percent of Substandard Units in Each County, 1980

| County | Substandard Units as a % of Total Units in County | County | Substandard Units as a % of Total Units in County |
|---|---|---|---|
| Avery | 10.1 | Macon | 7.0 |
| Bertie | 25.7 | Martin | 16.9 |
| Cherokee | 10.8 | Mitchell | 10.4 |
| Chowan | 13.8 | Person | 16.0 |
| Clay | 9.4 | Rutherford | 8.4 |
| Gates | 26.1 | Swain | 11.9 |
| Hyde | 23.1 | Tyrrell | 19.4 |
| Jackson | 9.2 | Washington | 15.0 |
| McDowell | 10.6 | | |

*The 1981 single-family bond issue, which will assist about 700 families, is not included in these tabulations since only 240 mortgages have been made so far, and the HFA has not broken these down by county.

bonds that an HFA could issue, banned any single-family issues after December 31, 1983, imposed low-income occupancy requirements on multi-family bond programs, and imposed a number of complex restrictions.

When federal regulations implementing the law went into effect in July of 1981, a new single-family issue had to clear formidable hurdles. For example, Congress limited the spread between the interest rate the HFA pays out on its bonds and the interest rate it receives on its investment of bond proceeds. HFAs invest their bond proceeds in two basic ways. First, HFAs invest in non-mortgage investments (i.e., certificates of deposit, etc.) before the bond proceeds are actually distributed to the lenders for mortgages. In North Carolina, according to Kane, this distribution process takes about six months. Second, HFAs invest in the mortgages themselves. The Ullman legislation regulated the interest spread – referred to as arbitrage – on both types of investments.

Prior to the Ullman law, arbitrage was an important source of operating income for HFAs, allowing an HFA to make money on a bond issue. After Ullman, however, the HFA had to subsidize a bond issue. Ullman limited the interest spread to one percent (i.e., 100 basis points) between what an HFA can charge for its mortgages and what it pays on its bonds. "But it costs us about 120 basis points to put the money out in a single-family bond issue," says Kane, ticking off the various costs: legal counsel, underwriters who structure and sell the bonds, the "origination fee" to the lenders who make the loans (one percent of the mortgage), a "servicing fee" to the lender for the life of the loan (3/8 of a percent), and others. "So we lose money on a bond issue," says Kane.

In addition to coping with new, complex regulations, Kane also moved into a bubbling kettle of political intrigue. For two years, the HFA had been placed within a new NRCD Division of Community Housing, with one person heading both the Division and the HFA and reporting to two bosses – NRCD Sec. Howard Lee and HFA Board Chairman John Crosland. Kane remembers the position like this: "I was working for a board of directors and a cabinet-level secretary, and a person just can't have two masters."

The crux of the conflict between the HFA and NRCD lay in philosophical orientation and in power politics. The central HFA actors, Crosland and Kane, wanted to function more in the private sector while the central NRCD actor, Lee, wanted to mesh the HFA into his department's housing program. But Lee, despite having demonstrated a commitment to housing as mayor of Chapel Hill, was having difficulty developing a clear housing program within NRCD.

"The NRCD bureaucracy kept us from operating in a more businesslike fashion," says Crosland. "In responding to the bond market, in hiring personnel with particular expertise, and in introducing some legislation, we needed more independence. They (NRCD) are not there to run like a business; they're supposed to run like government, which isn't very efficient."

The HFA Board took the issue directly to the legislature, where Sen. Sam Noble (D-Robeson), also a HFA board member, introduced a bill to move the agency out of NRCD. To help the bill along, the HFA called on its general counsel, Travis Porter, a prominent Durham attorney who sits on the University of North Carolina at Chapel Hill Board of Trustees. Porter and a colleague in the Powe, Porter, and Alphin firm, James "Harvey" Stuart, were registered with the N.C. Secretary of State as HFA lobbyists during the 1981 session and according to reports in the Secretary of State's office, received $14,000 from the HFA in compensation as lobbyists. This was an unusual, if not unprecedented action: an agency (HFA) within a state department (NRCD) hiring its own lobbyists to work against the mother department. Moreover, Porter and Stuart were at the same time lobbying for the N.C. Home Builders Association and the Association of State Chartered Thrift Institutions, Inc., a trade group for savings and loans and credit unions.

Porter was no newcomer to the legislature or the HFA. He served on the 1973 legislative study

Photo courtesy of the N.C. Housing Finance Agency

**This home in Roanoke Rapids was financed through the $58 million single-family bond issue sold by the N.C. HFA in 1980.**

commission, which recommended the formation of the HFA, and has been the HFA's general counsel since its beginning. Since 1973, the N.C. HFA has paid the Powe, Porter, and Alphin firm more than $100,000 in fees and expenses, $47,000 in 1981 alone.

*The News and Observer* in its June 2, 1981, "Under the Dome" column, framed the fight like this: "The state's home-building industry is seeking to move the N.C. Housing Finance Agency from the state agencies that oversee it. . . . Crosland and the industry, which dominates the agency's board, have fought attempts by Howard N. Lee, secretary of NRCD, to use the agency as part of his efforts to promote housing for the poor. Industry officials want to operate the agency as a financial institution that would not only provide housing for the poor but also boost the building industry."

Mr. Porter defended the bill as giving the agency room to function in a more efficient manner, "to be operated like a business . . . pay for itself," as he told *The News and Observer*.

While HFA had the benefit of Porter's lobbying, there were few advocates of retaining HFA in NRCD. Lee was on his way out of the Hunt administration at the time. Consequently, the Noble bill was enacted, establishing the HFA as a quasi-independent organization, independent in most respects from "the direction, supervision, or control of the Office of State Budget and Management."[4]

But to get the bill through, the HFA reluctantly had to absorb six NRCD housing development officers onto the HFA staff. Kane had terminated the six in a letter dated June 11 because of "legislative action." But on July 2, Kane rescinded the action, writing to the six that the HFA "has accepted your transfer."A final part of the legislative compromise was the approval of a bill establishing a Housing Study Commission to undertake a major review of all housing programs in the state (see page 44).

Throughout the HFA-NRCD dogfight, Kane had to contend with other legislative maneuvering. A provision of the Ullman legislation limited a state to issuing $200 million in housing bonds per year, and state legislatures had to decide who had control of the $200 million. Several groups active in the local bond market (as "bonds" were defined by Ullman) wanted to reserve some of the $200 million for local efforts. The North Carolina National Bank Community Development Corporation, a wholly-owned, non-profit subsidiary of NCNB, had used a local bond issue in the highly-publicized restoration of the Fourth Ward area of Charlotte. The President of NCNB Community Development Corporation, Dennis Rash, discovered that a bill before the legislature would have reserved the entire $200 million for the state HFA. "I have confidence in the HFA," says Rash, "but we needed some remedial legislation. The entire $200 million would have been a fiefdom." The sides in this squabble matched up fairly evenly. "With the help of the N.C. League of Municipalities, seven banks in Charlotte, the mayor of Greensboro, and the state Treasurer," remembers Rash, the legislature reserved $30 million of the $200 for local bond issues.

## The Kane Administration – On the Move

By the time the regular 1981 legislative session came to a close in July, Kane seemed to have gotten the agency on the move. During his 18-month tenure, Kane has had four notable accomplishments: a new single-family bond issue, a multifamily issue, a home improvement loan program, and a construction loan bond issue.

**Single-Family Program.** In a "Review of 1981" for his board members, Kane summarized his first major accomplishment this way: "In South Carolina, they said it couldn't be done. But two weeks later we did it. N.C. HFA was the first state Housing Finance Agency in the country to issue a traditional 30-year, fixed-rate bond since passage of the Ullman Act." And the agency sold the bonds at a rock-bottom 12.8 percent on the day when Wall Street plummeted to a six-month low. This feat allows some 700 first-time home buyers to get a mortgage at 13 percent instead of 14 percent, 15 percent, or even higher.

Kane, while certainly putting his best foot forward to his board members, does not seem to have been exaggerating his case. On October 27, 1981, *The Charlotte Observer* quoted Steve Mayfield, executive director of the S.C. Housing Authority, as saying: "The Mortgage Subsidy Bond Tax Act of 1980 killed us deader than a doornail."

Kane had one advantage over his South Carolina colleague. In 1980, the legislature had appropriated $2 million to the N.C. HFA as a reserve fund to support a single family issue.Before the HFA (under its old leadership) had made a bond issue utilizing this reserve, the Ullman Act passed, which virtually froze all nationwide housing bond activity from late 1980 through the fall of 1981. Meanwhile, the $2 million appropriation accrued interest, which could be used to subsidize a new bond issue. And as explained earlier, the Ullman limitation on arbitrage to one percent made the cost of a new bond issue prohibitive without some kind of backup funds. "State funds are the reason the single-family issue was possible in North Carolina," says Kane. (See box on page 9 for the steps involved in this bond issue.)

While the 1981 single-family issue certainly indicated a new level of sophistication at the HFA, it did not demonstrate how well the agency was meeting its public purpose: "to make additional residential housing available to persons and families of lower income by promoting the construction thereof."[5] In order to issue and sell tax-exempt bonds, an agency must, under the state Constitution, meet a public purpose.[6] The legislated purpose of the HFA had been challenged under the old Housing Corporation and had survived the test in 1970.[7] In 1979, the legislature amended the statute to include housing for moderate-income people as a public purpose as well.[8]

At the same time that the Ullman legislation is trying to target the use of tax exempt bonds for housing to low-income persons, the HFA, through the state courts, is trying to raise the income limit on the people its programs may serve to include moderate- as well as low-income persons. In designing the 1981 single-family issue, the HFA at first attempted to include moderate-income persons under the eligibility guidelines. This would have raised the maximum income levels by $4,000, thus benefiting fewer persons at the lower end of the income range. The Local Government Commission refused to approve having moderate-income levels included in the bond issue, fearing possible litigation since the 1979 legislation had not been tested in court for the validity of its public purpose. Consequently, the bond issue was restructured to include only low-income persons, as defined by the HFA. The HFA then filed a "friendly" suit against the Local Government Commission in order to get a test-case ruling on the moderate-income question. The HFA alleged that the issuance of tax-exempt bonds to supply housing for moderate-income persons was not in conflict with the state Constitution. The HFA won the case in Wake County Superior Court and is now awaiting a ruling from the N.C. Supreme Court.[9]

If moderate-income limits are included in future single-family issues, low-income people will have an increasingly difficult time participating in the program. The average income of the home buyers in the first issue in 1976 was $10,384. By the third issue in 1980, the average had climbed to $15,415. And by the 1981 issue, the guidelines for "low income" went as high as $23,500 for a family of up to four members in an urban area, hardly a poverty stricken income. (The income limits increase $500 per family member after the fourth.) Because of the cost of

## How the HFA Issues Bonds

*by Judy Bynum*

Chronicling the steps involved in one recent N.C. Housing Finance Agency bond-issue sale helps explain how the process works. In this case, preliminary planning began in March 1981 and by the end of that year the HFA had sold a $30 million single-family bond issue, which will eventually provide 13 percent mortgage financing for about 700 homes.

Here are the major stages of that sale:

- HFA set guidelines to determine who could qualify for mortgages financed by the bond proceeds; these qualifications, mandated by federal legislation (the Ullman Act), set ceilings on earnings levels (for example, $23,500 for an urban family of up to four) and on the cost of the homes (depending on the geographical area, from $40,320 to $97,680 for a new house, and from $38,880 to $53,680 for an existing home).
- HFA then determined sufficient demand for about 700 mortgage loans by surveying the state's financial institutions.
- The agency entered into commitments with 28 lenders willing to originate and service mortgage loans meeting the guidelines. The bond issue was structured to cover the total amount of these commitments.
- HFA staffers worked with underwriters on a financial analysis of the bond issue's feasibility, to ensure that the mortgage payments will cover the agency's debt service to the bond holders.
- HFA bond counsel prepared necessary legal documents.
- The agency's board of directors adopted a resolution authorizing the bond sale.
- The Local Government Commission approved the sale.
- Closing occurred about one month later on Wall Street; the underwriter bought the bonds and marketed them to investors.

Since February 1982, HFA has been dispersing the bond proceeds to the lenders, as mortgages and persons meeting the guidelines are approved. Funds not yet distributed have been invested in a fixed-rate certificate of deposit, necessary to avoid a major loss in a volatile market.

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housing and the interest rates on mortgages – even the lower rates that can be obtained by financing through tax-exempt bonds – the single-family program of the HFA is rapidly becoming a middle-income program.

But if federal restrictions are not lifted soon, the days of the single-family bond issue may be numbered anyway. The N.C. HFA has begun to plan for a new single-family issue but has not yet set a date for when the bond would be sold.

**Multifamily Program.** While the single-family program drifts toward middle-income assistance – in reality if not by name – the multifamily program continues to reach persons with very low incomes. The $52 million multifamily issue described at the beginning of this article indicates an aggressiveness on the part of the HFA towards programs serving low-income persons. This was only the second multifamily bond issue produced by HFA, and it was twice as large as the first. In 1980, a $24 million issue was sold and financed 775 apartment units. The $52 million issue in 1982 is financing 1,400 units.

M. Durwood Stephenson, Jr., past president of the N.C. Home Builders Association and a member of the current Housing Study Commission, is building the Four Oaks project, a 41-unit facility and the first of its kind in the tiny Johnston County community. "We make a preliminary submission to the HFA to show there is a need for low-income housing," says Stephenson. "Then it goes to HUD for final approval. We have to show the rents will repay the mortgage." Stephenson got 11 3/4 percent financing through the Cameron Brown Company, a mortgage banker participating in the multifamily project. "We're the only HFA in the county that has a rate below 12 percent," says Stephenson. The low rate was possible because the HFA was able to sell the bonds at 9 3/4 percent. The HFA package benefits builders like Stephenson ("I'm a small rural builder in a cash-intensive business," he says), lenders like Cameron Brown, and the low-income persons filling apartment units from Four Oaks (41) and Fuquay-Varina (50) to Granite Falls (30) and Gibson (30). And the ripple effects in the economy are also important. "Four Oaks was having a budget battle just as we were approved," says Stephenson. "They haven't been adding to their tax base. I notified them of our project and they decided to keep a policeman instead of letting him go [for lack of funds]."

All the units in the 29 projects are subsidized by the HUD Section 8 new construction/moderate rehabilitation rental assistance program, where the federal government makes a commitment, before the units are built or rehabilitated, to subsidize the future tenants. HUD agrees to pay the difference

**Table 1. Housing Finance Agencies in the South, July 1982**

| State | Year Established | Year of First Bond Issue | State-imposed Debt Limit (millions of Dollars) | Bonds Outstanding[1] (millions of dollars) | Single-family Mortgages, Cumulative (millions of dollars) | Multifamily Mortgages, Cumulative (millions of dollars) | Whether had Bond Issue Since Passage of Ullman Act[2] |
|---|---|---|---|---|---|---|---|
| Alabama | 1980 | 1980 | none | 250 | 155 | 0 | yes |
| District of Columbia | 1980 | – | none | 0 | 0 | 0 | no |
| Florida | 1980 | 1981 | none | 253 | 138 | 70 | yes |
| Georgia | 1974 | 1976 | 400 | 210 | 191 | 0 | no |
| Kentucky | 1972 | 1973 | 1,125 | 647 | 393 | 66 | yes |
| Louisiana | 1980 | 1981 | none | 170 | 134 | 11 | yes |
| Maryland | 1970 | 1972 | none | 638 | 208 | 355 | yes |
| Mississippi | 1980 | 1980 | 350 | 150 | 123 | 0 | no |
| North Carolina | 1974 | 1976 | 750 | 224 | 148 | 76 | yes |
| South Carolina | 1971 | 1979 | none | 278 | 226 | 26 | yes |
| Tennessee | 1973 | 1974 | 932 | 534 | 457 | 77 | yes |
| Texas | 1979 | 1980 | none | 150 | 131 | 0 | no |
| Virginia | 1972 | 1973 | none | 1,582 | 679 | 660 | yes |
| West Virginia | 1968 | 1971 | 900 | 569 | 238 | 223 | yes |

**FOOTNOTES**

[1]Total includes all bonds issued to finance single-family, multifamily, and all special programs and, in some cases, to cover operating costs. Some of these totals include recently issued bonds for which the agencies have not yet channeled the proceeds into mortgages.

[2]Since the Mortgage Subsidy Bond Tax Act of 1980 (P.L. 96-499) took effect in July of 1981.

[3]"No" indicates HFAs which are not located in a department of state government. But in all cases, state HFAs have been created by state legislative action.

[4]This does not include participation in federal programs such as the Appalachian Regional Commission and the U.S. Department of Housing and Urban Development's Section 8 rental assistance programs. It only includes state programs not covered in the single-family and multifamily categories.

[5]The Chairman of the Board of Directors and other board members are the only staff (part-time).

[6]Loan from the D.C. Department of Housing and Community Development to cover operating expenses.

[7]Six million of this amount is a loan of which the agency may only spend the interest.

[8]Seed money appropriation, repaid in 1978.

[9]The $6 million, appropriated in 1974 ($4 million) and 1980 ($2 million), serves as a reserve fund. The principal of this sum is not available for operating expenses. The 1974 appropriation of $4 million has increased to a $5.3 million reserve; the HFA may use 50 percent of the interest from this fund for operating expenses and must return 50 percent of the interest to the state's General Fund.

between the market rent for a unit and 25 percent of the tenant's income. In return, the owner of the project agrees to select the tenants in accord with HUD's income eligibility standards. Incomes must be no more than 80 percent of the median income in the area where the project is to be built. Both the below-market interest rate on the financing *and* the Section 8 rental assistance payments are needed to make the "numbers work," as Stephenson puts it.

After celebrating the $52 million multifamily issue at their May 13 meeting, the board members sounded pessimistic about future multifamily projects. The Section 8 "set-aside" will be eliminated after the current fiscal year, a severe blow to future projects. "I don't think new construction is realistic," said board member George Carr, Jr. of the Greater Greensboro Housing Foundation, Inc. "The majority will have to be rehab, maybe an old hospital."

Without the Section 8 "set-aside," the HFA is left with only the shallow subsidy of tax-exempt bond financing. The low-interest HFA loans by themselves can only reduce the rents of the apartments HFA finances to an average of some $400 per month; some other type of subsidy is needed to lower the rents to the levels which tenants are currently paying in Section 8 HFA apartments. The HFA is currently exploring ways to make a multifamily project "work" without a federal subsidy. Board members speculate that this may require raising the income limits as high as $19,200 (rural) and $21,000 (urban), and adjusting these limits upward annually. How many persons at those income levels think of themselves as low-income? The increases in income limits could, however, only apply to 80 percent of a project's tenants. The Ullman Act provides that 20 percent of the units in HFA-financed multifamily projects must be available to low-income persons (defined as persons with incomes no higher than 80 percent of the median income), whether or not Section 8 rental subsidies are available.

If the HFA wins its court test on the moderate-income question, it could raise the income limits on the 80 percent of the units even higher. The agency would be able to "serve more people" as one board member put it, but would in the process be serving the poor less and less. The end of the Section 8 assistance for new construction, combined with the high cost of building, means "the low income will suffer," explains Stephenson. "There will be no sheltered construction for them."

The HFA administers Section 8 housing assistance payments not only on the units it has financed, but also on 872 apartment units which it has not financed. In return for a fee from HUD, the HFA advertises the availability of funds, reviews the project proposals, and makes recommendations to HUD about which projects should receive commitments of funds. Once the commitments have been made and the buildings are constructed, the HFA transfers the rental assistance payments from HUD to the owners. HFA also inspects the projects during construction and at least once a year thereafter for compliance with HUD construction and maintenance standards.

**Home Improvement Program.** In a new step for the HFA, Kane initiated a partnership program with 11 cities to rehabilitate some 340 homes.[10] During the summer of 1982, the HFA plans to sell a bond issue of about $3.3 million and distribute these funds to the 11 participating cities. The towns would use both the HFA funds and HUD-administered Community Development Block Grant (CDBG) funds for the home improvement projects. The program illustrates one way the state can assist local areas in leveraging limited federal funds. Combining $730,000 of their CDBG funds with the HFA bond proceeds enables the cities to make loans at less than the tax-exempt lending rate the HFA must charge. The improvement loans will range from 1 to 12 percent, depending upon the borrower's ability to pay and local program criteria. The maximum loan amount will be $15,000 for a term of up to 15 years.

**Construction Loan Note Issue.** In April of

| te Appropri- ons Received Since Start (millions of dollars) | State Agency[3] | Full-Time Staff | Special Programs in Operation[4] |
|---|---|---|---|
| 18.60 | no | 0[5] | none |
| .48[6] | no | 7 | none |
| 6.38[7] | yes | 3 | none |
| .24[8] | no | 50 | none |
| 0.00 | no | 34 | none |
| 6.00 | yes | 5 | none |
| 23.50 | yes | 100 | migratory worker, rehabilitation (residential and commercial), energy conservation |
| 0.00 | no | 2 | none |
| 6.00[9] | yes | 30 | home improvement |
| .40[10] | yes | 35 | none |
| .45[11] | no | 71 | disabled |
| 1.10[12] | yes | 9 | none |
| .19[13] | no | 110 | urban preservation, energy conservation |
| 2.00[14] | no | 92 | small development program |

[10] This is an annual appropriation which has been returned to the state each year.

[11] Seed money appropriation, repaid.

[12] $270,000 has been spent to cover agency start-up costs, the rest has been returned to the state.

[13] Seed money appropriation, repaid.

[14] Appropriated for a revolving loan fund.

Source: *1981 Survey of Housing Finance Agencies*, Council of State Housing Agencies, as updated in a telephone survey conducted by Priscilla Cobb at the N.C. Center for Public Policy Research, July 1982.

1982, the HFA issued a $7.4 million construction loan note on the Wall Street market. The note proceeds provided the construction financing for six apartment projects in Clayton, Dunn, East Arcadia, Fairmont, Sylva, and Whiteville. Multifamily projects like these six require two stages of financing: construction financing, which carries the project until it is ready for occupancy, and permanent financing, which carries the project for 30-40 years. The multifamily bond issues discussed above apply only to the permanent financing stage of the project. This program applies to the construction financing cost of developers; the lower rate of the financing will result in lower rents. In this project, 100 percent of the units receive Section 8 rental assistance and the federal Government National Mortgage Association (GNMA, or "Ginnie Mae") helps with the permanent financing.

**Other Programs.** The HFA continues to administer the Appalachian Regional Commission's (ARC) housing assistance program for 29 western counties. Since 1974, the HFA has been the state agency appointed by the governor to administer the ARC funds, federal monies primarily from the Farmers Home Administration and HUD. The HFA reviews applications and awards seed-money grants or low-interest loans, according to policies it has established. In a cooperative arrangement with six Councils of Governments in the western area, the HFA also supplies technical assistance through ARC housing specialists.[11] Through the ARC program, the HFA has aided in the construction or rehabilitation of over 3,200 housing units. The future of the ARC program beyond the next two years, however, is uncertain. Finally, the HFA has four housing development officers (HDOs) working out of NRCD field offices, who supply technical assistance to individual communities.[12] These are the positions that were transferred from NRCD during the 1981 legislative session (only four of the six positions remain).

## Accomplishments of the HFA

After nearly a decade of experience, the N.C. HFA has an established track record and pattern of doing business. It has recorded at least eight significant accomplishments.

1. **The N.C. HFA has issued $224 million in bonds.** The HFA's predecessor, the N.C. Housing Corporation (1969-73) proved ineffective, and the HFA lacked aggressiveness from 1974-79. But since 1979, the HFA has come to life. Its cumulative record, $224 million in bonds issued out of a $750 million authorization, compares favorably to other HFAs in the South (See Table 1). These bond issues have financed over 4,100 single-family homes and supplied permanent financing for over 2,200 apartment units (see box on page 4).

2. **The N.C. HFA issued the nation's first traditional 30-year, fixed-rate bond after passage of the Ullman Act.** The HFA made the $30 million bond issue in November 1981.

3. **The N.C. HFA made a $52 million multifamily bond issue at an interest rate below what other states could do.** Using an innovative technique called a "put option," in May of 1982 the N.C. HFA made this bond issue at a 9 3/4 percent interest level. The New York HFA made a similar bond issue at over 13 percent.

4. **The N.C. HFA has established procedures for the complex task of distributing the bond proceeds.** The HFA has developed an efficient administrative system for distributing the bond proceeds to the lending agencies and for determining who can benefit from the bond sale.

5. **The N.C. HFA has initiated a home improvement loan program in partnership with 11 municipalities.** This program, which will use a $3.3 million bond issue to leverage $730,000 in Community Development Block Grant funds, illustrates how the HFA can extend the benefits of a federal program.

6. **The N.C. HFA achieved a workable compromise on controlling a limited amount of bond issues per year.** Working with various local interests, the HFA has developed a system, which was approved by the legislature, for regulating the maximum $200 million per year in bond issues which the Ullman Act allows. The legislature reserved $30 million for local bond issues, the rest for the N.C. HFA.

7. **The N.C. HFA has stabilized its personnel.** Since Gary Paul Kane became executive director in 1981, the HFA staff has become more stable with clearer program responsibilities.

8. **The N.C. HFA has achieved a quasi-independent status within state government.** The HFA board of directors felt such a status was needed to operate in "a more businesslike manner," as Board Chairman Crosland puts it. This is a significant accomplishment in the view of the HFA board of directors and some within the building and lending industries. Others in government and in the private sector believe the HFA could function equally as well with a more defined role within a state department.

## Problems with the HFA Record

Despite the eight accomplishments named above, six problem areas remain. These are not necessarily failures of the HFA alone. The lack of commitment to state housing programs from the Governor and the legislature have contributed to the six findings detailed below.

## The North Carolina Housing Finance Agency
## Board of Directors, July 1982

| Member[1] | Hometown (all in N.C.) | Occupation | Appointed by[2] | Term[3] |
|---|---|---|---|---|
| John Crosland, Jr.* Chairman | Charlotte | President, John Crosland Co., home builder | Majority of Board (Governor approved) | 1978-1982 |
| Robert D. Brown* | Dallas | Vice President, Summey Building Systems, Inc. (Manufactured Housing)** | Governor | 1977-1985 |
| William E. Antone | Lumberton | Antone Real Estate and Insurance Co. | General Assembly (President of the Senate) | 1982-1983 |
| George E. Carr, Jr. | Greensboro | Executive Director, Greater Greensboro Housing Foundation, Inc. (Community Planning)** | Governor | 1977-1985 |
| Sherrill H. Faw | Wilkesboro | President, Sherrill H. Faw Construction (Subsidized Housing)** | Governor | 1978-1982 |
| Ernest E. Ford* | Lake Waccamaw | Retired, Past President, Pioneer Savings and Loan (Savings and Loan)** | General Assembly (President of the Senate) | 1977-1983 |
| James K. Haley | Winston-Salem | The Shelton Company, real estate | Governor | 1978-1982 |
| Mickey Hanula | Raleigh | Owner, Players Retreat Restaurant | General Assembly (Speaker of the House) | 1982-1983 |
| James Hartis* | Kinston | President and Owner, Kinston Realty (Real Estate Broker)** | General Assembly (Speaker of the House) | 1980-1982 |
| George Hayworth* | Winston-Salem | Senior Vice President, Wachovia Mortgage Corporation (Mortgage Servicing)** | General Assembly (Speaker of the House) | 1980-1982 |
| Robert L. Jones | Raleigh | President, Davidson-Jones Corp., general contractor and developer | General Assembly (President of the Senate) | 1982-1983 |
| William A. Taylor | Cary | Vice President, L.A. Taylor Building Company | General Assembly (Speaker of the House) | 1982-1983 |
| Mark E. Tipton | Greenville | Vice President, Tipton Builders (Home Builder)** | General Assembly (President of the Senate) | 1979-1985 |

*Indicates a member of the Board's executive committee.

**Indicates a "categorical appointee," as required by N.C.G.S. 122A-4, stipulating that certain areas of experience be represented by a member of the board. The category is in parenthesis.

FOOTNOTES

1. Following the N.C. Supreme Court's January 12, 1982, decision in *Wallace v. Bone* and its implication that legislators serving on certain boards and commissions might violate the separation of powers provision of the state constitution, four legislators resigned from the N.C. HFA Board of Directors (Rep. Graham Bell, Rep. Ruth Cook, Sen. Walter Cockerham, and Sen. Sam Noble).

2. The Separation of Powers Act of 1982 (H.B. 1486) amended G.S. 122A, Section 4, to delegate the authority to appoint eight board members to the entire General Assembly, upon the recommendations of the Speaker of the House (four members) and the President of the Senate (four members). (The Speaker and Senate President formerly had appointed these eight directly.)

3. These terms include reappointments for which all board members are eligible. The 1982 appointments are initially one-year terms. The terms for each appointee are specified in Section 4 of N.C.G.S. 122-A.

1. **The major HFA programs – the single-family and multifamily financing efforts – are no longer designed exclusively for low-income people.** Families making as much as $23,500 qualified for the latest single-family HFA-assisted mortgages. The latest multifamily project did aid 100 percent low-income people, as defined by HUD standards. But since federal Section 8 rental assistance will not be available past FY 1982, the HFA has begun to plan an "unsubsidized" multifamily project where persons making up to $21,000 could qualify for 80 percent of the units. The needs of low-income people for housing assistance remain large, and neither the HFA, the Governor, nor the legislature appear to have a plan for addressing these needs. Both the executive and legislative branches are now awaiting the guidance of the Housing Study Commission.

2. **The state has contributed very little financial support to housing through the HFA.** The legislature has never made an appropriation for HFA operating expenses. In 1974, it appropriated $4 million and in 1980 another $2 million to the agency; these funds are kept in reserve accounts. Only the interest that accrues from these principal amounts can be spent. And in the case of the $4 million appropriation, one-half of the interest returns to the state. Traditionally, HFAs in most states aspire to run their programs as cost-effective businesses, not depending on legislatures for funds. (See Table 1 for the funding levels for all southern HFAs.) This method of doing business reinforces the N.C. HFA's desire to work outside regular state-agency channels, in a quasi-independent fashion. Indeed, 7 of the 14 HFAs in the South function entirely outside of state government (see Table 1). If the legislature and the executive branch want more accountability out of the HFA, they need to invest more resources in the agency.

3. **The North Carolina lending industry, which distributes HFA tax-exempt bond proceeds, does not reach the areas with the worst housing.** The HFA utilizes the existing lending industry, primarily savings and loan associations and mortgage bankers, to distribute the bond proceeds and pays a mortgage origination fee for this service. "North Carolina has a very efficient originating and servicing network," says Kane. "It's working very well with us right now." But in fact, the lenders who work well with the HFA are the most sophisticated offices, usually located in urban areas.

The box on page 6 shows that the eight counties with the most units financed by the HFA are all urban. Yet the 17 counties which have had no units financed by the HFA are all rural and have high percentages of substandard units. It is difficult to get lenders, especially in small-town financial institutions, to participate. The complexities of the subsidized lending business are formidable. For example, to participate in the HFA single-family program, a lender must cope with a 28-page packet of information, execute a 39-page "Forward Commitment Mortgage Purchase Agreement – Conventional Mortgages," and finally sign a 23-page "Servicing Agreement."

"We have not felt comfortable participating in their program yet," says Harold King, treasurer of the Smithfield Savings and Loan. Even HFA board member George Hayworth of Wachovia Bank admits the difficulty in getting lenders to participate: "We've come a long way but we still have to massage this thing very positively."

To address the needs of counties not reached by the HFA, the HFA could pursue either of two courses. It might, like Virginia, develop a system of originating mortgages directly to consumers. This process requires a very large staff (note in Table 1 the 100-person Virginia staff compared to the 30-person North Carolina staff). The savings on the origination fees that an HFA pays to lenders would have to cover the costs of the extra staff. This step would cut out much of the assistance the HFA currently provides to the lending industry, a politically difficult step to take (see number 4 below). Secondly, the HFA could target rural counties through seminars, training sessions with local lenders, and other techniques to alleviate the urban-dominated utilization of HFA bond proceeds.

4. **The N.C. HFA subsidizes the state's lending and building industries.** HFA bond proceeds are distributed by private lenders, which receive an origination and servicing fee. The building industry has received a shot in the arm from the $52 million multifamily bond issue; the HFA itself extols the fact that these funds will have a significant multiplier effect, creating 1,500 new jobs and putting $250 million into the state's economy. Nothing about this system is illegal or immoral; no excessive fees are charged. On the contrary, it is a great benefit to the state. But two points must be kept in mind: 1) the HFA was established to benefit low-income people, not the lending or building industry; and 2) a government subsidy – proceeds of a bond sale made possible by tax-exemption for interest on the bonds – is supporting these industries.

5. **The HFA has done very little targeting of its resources to particular groups or to geographical areas.** The HFA has assisted the elderly significantly (39 percent of multifamily units financed in 1980 were for the elderly and 31 percent of the multifamily units financed in 1982). But, unlike such states as Maryland (migrants) and Tennessee (disabled), North Carolina has not targeted other groups. "I don't know how you determine what group has greater needs than another," says Kane. "Our purpose is to serve low- and moderate-

income individuals."

Nor has the HFA tried to direct its financing into geographical areas of particular need. "Our function, as I read the legislative direction," says Kane, "is to spread our resources as equitably as we can, to distribute our resources across the state rather than to target." In addition, the HFA has not developed the full range of services allowed under the legislation to target such special needs as energy conservation, a specific authorization in the legislation added in 1977.[13]

6. **The persons that run the N.C. HFA come almost exclusively from the building and lending industries, which has resulted in three types of conflict of interest.** First, some HFA board members have repeatedly abstained from important votes on bond issues because of a potential benefit to the business for which they work. Second, the board has hired a private law firm to handle HFA legal matters; virtually all other state agencies depend upon either in-house counsel or the staff of the Attorney General's office for legal advice. This firm – Powe, Porter, and Alphin in Durham – has among its clients some of the state's major building and lending associations. Third, Travis Porter and Harvey Stuart, the attorneys that handle most HFA business, lobby for the HFA before the General Assembly, while also lobbying for building and lending interests.

## Conclusion

The Housing Finance Agency model has reached a turning point in its organizational life, in North Carolina and throughout the country. The fate of the single-family program rests largely with the various efforts to amend the Ullman legislation. The multifamily program remains uncertain in an era without Section 8 rental assistance. Given the nature of the bond market and building costs, it appears that the N.C. HFA will not be able to assist low-income people through its traditional vehicle, tax-exempt bonds.

Kane does not seem overly pessimistic, however. "It's not a bad idea for us to begin housing programs which don't rely on federal subsidies because federal subsidies are traditionally turned on and off by the whim of the federal bureaucracy," says Kane. "For the long term needs of the state, I think we're better off setting up a program that isn't relying on federal subsidy assistance."

Thus far, neither the HFA nor the legislature has come forward with such a program. Housing programs in North Carolina have always reacted to federal initiatives rather than taking the lead. If the tax-exempt bond route becomes more and more limited because of federal restrictions and trends beyond the control of state officials, then other housing programs must be developed. The question then becomes, should these programs be engineered by the HFA and what might they be? The burden rests, at least in part, with the Governor, the legislature, and now the Housing Study Commission to steer the HFA programs back onto the low-income course that the HFA was created to pursue and from which financial pressures are diverting them.

Can the policymakers in the legislature and in the executive branch, together with the financial wizardry available through the HFA, design such programs? If not, low-income people – the group for whom the entire HFA structure is justified – will not receive any assistance. And they will continue to listen for the faint ringing of the all too distant bell that signals the end of another deal. □

**FOOTNOTES**

[1]The "put option" allows the bond holder to sell (i.e., "put") the bonds back to the HFA after five years. Should a bond holder choose to exercise this option, Wachovia Bank has, for a fee, promised to purchase those bonds from the HFA.

[2]Kent Hiteshew, "North Carolina's Housing Finance Agency: Can it be More Effective?" *carolina planning,* fall 1978, vol. 4, no. 2, p. 30.

[3]The Mortgage Subsidy Bond Tax Act of 1980 (Public Law 96-499).

[4]1981 Session Laws, c. 895, s. 1, as cited in N.C.G.S. 122A-4.

[5]*Martin v. N.C. Housing Corporation,* 277 N.C. 29, 175 S.E.2d 665 (1970) determined this to be the public purpose of the HFA legislation, N.C.G.S. 122A.

[6]N.C. Constitution, Article V, Section 2 (1), "Power of Taxation."

[7]*Martin v. N.C. Housing Corporation,* op. cit.

[8]N.C.G.S. 122A-5.4, 1979 Session Laws, c. 810.

[9]*In re: Housing Bonds* and the denial of approval to issue thirty million ($30,000,000.00) of single-family housing bonds and thirty million ($30,000,000.00) of multifamily housing bonds for persons of moderate income, 10th District of Wake County, Superior Court. The N.C. Supreme Court will hear the case, having granted a petition allowing the case to bypass the N.C. Court of Appeals (July 13, 1982).

[10]Participating cities include Asheville, Charlotte, Durham, Gastonia, Greensboro, Lenoir, New Bern, Tarboro, Washington, Wilmington, and Winston-Salem.

[11]The six Councils of Governments are: Region A, Southwestern N.C. Planning and Economic Development Commission; Region B, Land-of-Sky Regional Council; Region C, Isothermal Planning and Economic Development Council; Region D, Region D Council of Governments (COG); Region E, Western Piedmont COG; Region I, Northwest Piedmont COG.

[12]Two of the HDOs work out of Winston-Salem, one out of Raleigh, and one out of Wilmington.

[13]N.C.G.S. 122A-5.3.

## North Carolina Takes the Reins

# "Small Cities" Community Development Block Grants

### by Harriet Kestenbaum and John Downs

Three years ago Sawyer Town, a neighborhood in Elizabeth City, was not a particularly nice place to take a stroll on a summer evening, or any other time of the year for that matter. "I used to have to hold my nose when I walked down the street because the odor from the sewage was so foul," remembers Dan Beideman, a Sawyer Town resident. "The sewage often leaked into the ditches and provided a breeding ground for mosquitoes," he adds. Besides the sewage problem many of the houses were in severe disrepair. "The neighborhood looked like a big junkyard," says Maggie Sawyer, another Sawyer Town resident.

In 1979, the neighborhood began to change. Mike Avery, the community development (C.D.) director for Elizabeth City, applied for and was awarded a three-year, $1.5 million grant from the "Small Cities" Community Development Block Grant program (CDBG), then administered by the U.S. Department of Housing and Urban Development (HUD). With these funds, a new sewage system has been installed, sidewalks and streets have been paved, and over 130 houses have been rehabilitated.

"The neighborhood is a changed place now," says Ms. Sawyer. "I wish we could get this project to all the neighborhoods in Elizabeth City where the people are not able to fix up their homes. I wish this could happen to every low-income family."

This year, for the first time in the eight-year life of the CDBG program, Mike Avery and other community development directors across North Carolina did not go to HUD with their grant proposals. Instead, they applied for the federal community development funds through the N.C. Department of Natural Resources and Community Development (NRCD), which has taken over the administration of the Small Cities CDBG program from HUD.

The Reagan administration's "new federalism" gave the states the option to assume the administration of the Small Cities CDBG program, an option that included a great deal of flexibility in deciding how and for what purposes grants would be awarded. Gov. James B. Hunt, Jr. accepted this responsibility and assigned the Division of Community Assistance of NRCD to administer it. North Carolina gained administrative control over $46 million in CDBG funds for federal fiscal year (FY) 1982. Among the 50 states, only Texas received a larger Small Cities CDBG allocation, and Texas did not choose to administer the program.

Since the CDBG program began in 1974, these federal funds have supported primarily housing rehabilitation and various neighborhood-related activities such as street paving, new water and sewer lines, storm sewers, clearance of slums, and relocation of families. Hence, the state has assumed a significant new role in housing rehabilitation and community revitalization. In gaining control over $46 million, the state also gained enormous administrative flexibility, to decide how the funds will be used and to whom they will be given. The state has already developed new administrative guidelines and announced grant-application procedures.

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In September, NRCD Sec. Joseph Grimsley will award more than $40 million to local communities.

How has the state performed in this major administrative transition, taking control over what was once a federal program? To what extent will the new Small Cities CDBG grants improve the housing resources of the state? Most importantly, perhaps, does the way in which NRCD is administering the Small Cities CDBG program indicate a serious commitment to solving North Carolina's housing problems?

Created by Title 1 of the Housing and Community Development Act of 1974, the CDBG program has supplied multipurpose grants to cities, counties and states for activities previously undertaken through individual grant programs. (In effect, the CDBG program is the precursor for the block-grant funding vehicle now being promoted by the Reagan administration.) The CDBG program has two different elements: the Small Cities program, which is now being administered by the state, and the Entitlement program, a kind of revenue sharing for larger cities, which will continue to be administered by HUD.[1] From 1975-1981, about 20 percent of the annual CDBG appropriation went to the Small Cities program and the rest to Entitlement cities. For fiscal year 1982, the Small Cities program received 30 percent of the $3.46 billion appropriated by Congress for the entire CDBG program.[2] Since 1975, approximately 213 communities in North Carolina have received over $457 million in Community Development Block Grants.

In North Carolina, CDBG funds have been used predominantly for housing rehabilitation, from 34-46 percent of the funds according to HUD estimates (HUD does not maintain exact records). In most cases, local officials provided direct grants to qualifying homeowners for rehabilitation. These grants covered labor and material costs and in cases where houses were not able to be repaired, paid for relocating the residents. Other methods of distributing the funds include low-interest loans, matching funds with private lending institutions, and leveraging the funds through other government programs (see page 4 for a description of such a project, the N.C. Housing Finance Agency's Home Improvement Program).

Funds have also been used to establish revolving loan funds, which can continue to help people after the initial grant is gone. In 1979, for example, the city of Wilson received a $1.5 million multi-year CDBG grant to set up a loan fund for housing rehabilitation in a CDBG neighborhood. Residents who met the income qualifications of the program were able to borrow up to $15,000 at three percent and could take up to 15 years to repay the loan, a substantially longer term than most private lending institutions offered. Residents repay the principal and interest to a revolving fund which continues to supply similar loans to others in the area.

In taking over administration of the Small Cities CDBG program, North Carolina had to meet very few federal requirements. The state does have to follow the purposes and objectives of the Housing and Community Development Act of 1974: ". . . the primary objective of this Title is the development of viable urban communities, by providing decent housing and suitable living environment and expanding economic opportunities, principally for persons of low and moderate income."[3] Low and moderate income persons are currently defined by HUD and NRCD as those having an annual income of $13,950 or less for a family of four. In addition, the state must certify to HUD that it:

- engages in planning;
- provides technical assistance;
- provides a 10 percent match of its allocation from state resources; and
- consults with local officials in developing its distribution system.

To build confidence in the new state program, take advantage of local experiences, and comply with the local-participation federal requirement, Gov. Hunt directed NRCD to work closely with the Local Government Advisory Council (LGAC) in developing the administrative procedures for the program. The LGAC, which is composed of elected officials, with the assistance of the N.C. League of Municipalities and the Association of County Commissioners, appointed an 11-member Technical Advisory Committee (TAC) to make recommendations on how the CDBG program should be structured.[4] In just six weeks, between November of 1981 and January of 1982, the committee hammered out a proposed structure for the state's Small Cities CDBG program. It met frequently with the Division of Community Assistance Director Sandra Babb, her staff, and others to formulate categories of funding, allocation of funds among those categories, and a method of distribution.[5]

"At first I thought things had been arranged and that NRCD wanted us to rubber stamp their program," says Ben Shivar, the city manager of Siler City, a former community development director, and a member of the TAC. "But after the first meeting I realized that the state was commit-

The rehabilitation of this older home was funded by a Community Development Block Grant.

Photos by James Giles

ted to hearing our views."

Another C.D. director and TAC member, Lucille Yancey from Clinton, also found the give-and-take a valuable process: "The local government representatives didn't always agree with the state. We had to settle a lot of things, but we departed as friends."

On January 19, 1982, the TAC submitted its final recommendations on how to administer the CDBG program to the LGAC, which in turn submitted recommendations to NRCD. The NRCD staff incorporated them into their own "proposed statement" for the state program's structure and regulations.

To conform with the state's Administrative Procedures Act, NRCD held three public hearings on the proposed statement.[6] About 250 people attended the hearings, mostly local government officials directly involved with the CDBG program. In addition, a wider audience commented on the CDBG program through a series of seven hearings initiated by the Governor and held across the state on all block grants. NRCD incorporated comments from both sets of hearings in a "final statement" on administering the Small Cities CDBG program, which it submitted to HUD.

By June, the first stage of the state takeover of the Small Cities CDBG program was completed: HUD approved the state's final statement governing the distribution of the CDBG funds for the 1982 federal fiscal year. Applications for these funds had to be submitted to the Division of Community Assistance (DCA) within NRCD by July 30. During August, DCA staff began reviewing over 200 proposals for the more than $40 million available for local communities. Grant awards are expected to be announced by the end of September and new projects to begin on October 1, 1982, the first day of the federal fiscal year. (Because of delay by federal officials in promulgating CDBG regulations, FY 82 funds were not available until March 1982. Even though federal FY 83 will begin October 1, 1982, the state will be awarding FY 82 funds.)

Given the freedom to design its own priorities and selection system, North Carolina structured its program in a way that closely parallels the HUD program. "We wanted to examine every component of the HUD-administered program, look at all possible alternatives, before settling on any one idea," says DCA Director Babb. "We didn't set out to copy the HUD program or to discard it, but to be sure we put together the best program possible for North Carolina."

The thrust of the program stayed the same, but there are a few differences which could be significant (see box on page 20). The new changes include the creation of four separate funding categories: community revitalization, economic development, development planning, and urgent needs/contingency. The bulk of the funds – no less than 74 percent – have been designated for community revitalization. Up to 20 percent of the funds could go to grants in the economic development category (if NRCD chooses to allocate less funds to this category, because of the quality of proposals received, the funds go into the community revitalization category). The state system of categories serves to highlight economic development activities. During the seven years HUD ran the program, only two economic development projects were funded in North Carolina, but both of these were "single purpose" grants. Under the old HUD system, some economic development activities could have also been funded through "comprehensive" grants. The development planning category is entirely new. Under HUD administration, sources of funds similar to the state's

CDBG also funds the repair of water and sewer lines in neighborhoods like this one.

urgent needs/contingency category did exist. These sources were known as "imminent threat" grants and the Secretary of HUD's Discretionary Fund.

Other state innovations include a "local option" feature, which allows communities to use up to 20 percent of their grants outside of the identified program area. And the state, in its funding formula for rating grant proposals, is giving much more weight to leveraging of private or other government funds (20 percent for economic development and 10 percent for community revitalization; HUD only gave the leveraging criteria 3 percent for single purpose grants and 0 percent for comprehensive; see chart).

Finally, the state administration dropped the former HUD requirement for a Housing Assistance Plan (HAP); HUD also dropped the HAP requirement this year. In the past, HUD required a local community to survey its existing housing stock, estimate its needs, and make realistic goals for meeting those needs through CDBG as well as other federal programs and private efforts. If a community did not meet its goals outlined in one year's proposal, it could later be penalized through the "past performance" criteria in the funding formula.

No one knows how well the new North Carolina system will work. But a number of questions have surfaced through the various hearings held during the spring and through a series of interviews with local community development officials conducted for this article. Four areas of concern have emerged, as discussed below.

**1. Will the program continue to serve as many low- and moderate-income persons as it has in the past?** Those who fear a reduction in benefit to persons of low and moderate incomes point to the changes made in the system of awarding points for rating grant applications. Under the HUD system, proposals were awarded points relative to the merits of other proposals and were thus rated on a "curve" system. The new state system awards points in "blocks." For example, if a community expects to benefit 80-100 percent low- and moderate-income persons, its application would receive the maximum rating of 200 points (70-80 percent, 150 points; 60-70 percent, 125 points; and 50-60, 100 points.)

"HUD encouraged you to benefit the greatest number of low- and moderate-income persons so you would be highest on the curve," explains a community development director from a rural area in eastern North Carolina. "In the new system, there is no incentive to benefit more than 80 percent low- and moderate-income persons."

**2. Will the primary emphasis of the CDBG program remain housing?** The state has allocated as much as 20 percent of the funds for three categories that do not have a housing emphasis (see box). This suggests to some that housing programs will not retain the same priority as before. "The state should not have included economic development. There are other programs for that. The only program for neighborhood revitalization is the CDBG," says Boyce Hudson, a C.D. director from Wilson.

However some C.D. directors believe that there should be a greater emphasis on economic development activities. "Local people believe that if people have jobs they'll be able to rehabilitate their own homes," explains Kurt Jenne, former C.D. director of Chapel Hill and now a C.D. consultant with the Institute of Government.

**3. Is the state Division of Community Assistance within NRCD as qualified as HUD to run the**

## Administration of Small Cities Community Development Block Grant — Old and New

| | Former Federal Provisions (Fiscal Year 1981) U.S. Department of Housing and Urban Development (HUD) | | New State Provisions (Fiscal Year 1982) N.C. Department of Natural Resources and Community Development | |
|---|---|---|---|---|
| Category of Funding[1] | Category | Percent of Funds | Category | Percent of Funding |
| | 1. Comprehensive. Projects encompassing a wide range of activities directed at removing all deficiencies in a neighborhood. | 64% | 1. Community Revitalization. Activities designed to improve, preserve, or develop residential areas, including housing rehabilitation, public works, and recreational activities. | no less than 74% |
| | 2. Single Purpose. Projects directed at either housing, economic, or public facilities needs. | 34% | 2. Economic Development. Activities designed to promote the creation or retention of jobs, enhance income levels, and provide local ownership opportunities. | up to 20% |
| | 3. Imminent Threat. Projects addressing problems which pose an immediate threat to health and safety. | up to 2% | 3. Development Planning. To help develop proposals for future consideration for CDBG funds. | up to 1% |
| | | | 4. Urgent Needs/Contingency. Discretionary funds for disasters and special needs not adequately addressed by selection process. | up to 5% |

| | | Percent of Weight in Funding Formula Non-Metro[2] | | | Percent of Weight in Funding Formula | |
|---|---|---|---|---|---|---|
| Rating Criteria for Funding Formula | Criteria | Single Purpose | Comprehensive | Criteria | Community Revitalization | Economic Development |
| | 1. Community Need. Severity of problem, based on socio-economic data. | 15% | 16% | 1. Community Need. (same as HUD) | 20% | 20% |
| | 2. Program Impact. Extent to which programs will meet community need. | 41% | 42% | 2. Program Impact. (same as HUD) | 40% | 30% |
| | 3. Low-Moderate Income Benefit. How well low- and moderate-income persons are served. | 21% | 21% | 3. Low-Moderate Income Benefit. (same as HUD) | 20% | 20% |
| | 4. Leveraged Funds. Ability to match CDBG with funds from other government and private programs. | 3% | 0% | 4. Leveraged Funds. (same as HUD) | 10% | 20% |
| | 5. State's Rating. Consistency with state's policies and growth strategies. | 3% | 3% | 5. Consistency with State's Policies and Programs. (same as HUD's "State's Rating") | 10% | 10% |
| | 6. Past Performance. Experiences with past programs. | 15% | 16% | 6. Past Performance. (no longer a criterion) | | |
| | 7. Energy Conservation. Degree to which project promotes energy conservation. | 2% | 2% | 7. Energy Conservation. (no longer a criterion) | | |

| | | |
|---|---|---|
| Application Requirements | 1. Community Plan. Analysis of community development needs and comprehensive strategy to meet those needs. | 1. Community Plan. (same as HUD) |
| | 2. Project Description. Specific plans to be undertaken in local strategy to meet needs. | 2. Project Description. (same as HUD) |
| | 3. Housing Assistance Plan (HAP). Survey of community's existing housing stock, estimate of future housing needs, and realistic goals for meeting those needs. | 3. Housing Assistance Plan. (no longer required) |
| | 4. Assurances for Fair Housing and Equal Opportunity. | 4. Assurances for Fair Housing and Equal Opportunity. (same as HUD) |

[1]The former federal and the current state categories differ in design. The major HUD categories were based on the scope of the proposed projects —i.e., single purpose or comprehensive. Both "community revitalization" and "economic development" activities – as defined by the major state categories – could have been included in either the "single purpose" or "comprehensive" categories as defined by HUD. The state system highlights the economic development category; the federal system allowed some economic development activities to be subsumed under "comprehensive" grants.

[2]The former federal provisions distinguished between "metro and "non-metro" projects. Very few of the Small Cities grants went to "metro" areas, as defined by HUD.

*Source:* N.C. Department of Natural Resources and Community Development, Division of Community Assistance.

**program?** The DCA staff includes four former community development directors and four others who have worked in a C.D. program. In addition, the DCA has had almost four years experience administering a HUD-funded program, 107 Technical Assistance, which is designed to assist recipients of CDBG grants improve their capacity in utilizing the CDBG funds. Despite this level of expertise, many C.D. directors wonder if the DCA can absorb such a major responsibility in such a short time. "I'm concerned about how the state is approaching staffing," worries Ben Shivar. "They need more people." Boyce Hudson adds: "There are a variety of logistical problems. There's more than they can do."

**4. Can the program remain insulated from political pressure?** Many communities and local community development directors developed strong, positive relationships with the Greensboro HUD Area Office staff, who were well insulated from political pressures in their administration of the CDBG program. Local officials fear that politics may play a role in the administrative decision process under the state program. "The states have less resistance to political pork barrels," says Kurt Jenne. The DCA is well aware of this danger. "If this program is not administered with a high degree of integrity, the results will be disastrous," says Sandra Babb.

The CDBG program has great adaptability to local priorities and the ability to attract private funds. These characteristics make it consistent with the Reagan administration's "new federalism." Thus, the program may be expanded to take over where larger and more direct housing subsidies are being cut back. The 1982 President's Commission on Housing recommends in its report that an expanded CDBG program, which would allow funding for new construction, replace the housing programs of HUD and the FmHA, to "allow the CDBG program to become the primary vehicle for dealing with the supply of adequate housing for low-income households."

Housing is not, however, the only area where federal programs are being cut back. The dilemma facing North Carolina and other states that have taken over the Small Cities program is how to allocate a limited pot of funds among a broadening surge of underserved needs. The Appalachian Regional Commission's programs, the Economic Development Administration's programs, the Public Housing Modernization program, and various HUD programs are among the victims of federal budget cuts. And all of them have provided funds for activities which satisfy the broad federal objectives of the CDBG program.

Because of the ways in which the CDBG program fits into the Reagan administration's priorities and because of the program's ability to meet a variety of interrelated community needs, it may well become an even more important program in the future. Thus far, the state's Division of Community Assistance has developed a program consistent with the national objectives of ". . . viable urban communities . . . decent housing . . . a suitable living environment . . . expanded economic opportunities . . . principally for persons of low and moderate income."[7] The general design of the state program resembles the HUD program it follows.

The state has, however, instituted some innovations, the major ones being "local option" funds, development planning grants, a set-aside for economic development projects, more emphasis on leveraging of CDBG funds, and the award of project benefit points in blocks rather than on a curve. An analysis of these innovations must await the awarding of the first round of grants to local communities. The rapid changes at the federal level make such an analysis all the more important. The state, through its administration of the Small Cities CDBG program, will indicate to what extent it is prepared to handle federal funds efficiently and fairly. And the state will show to what degree it views housing as a priority need. □

FOOTNOTES

1 Entitlement cities in North Carolina are: Asheville, Winston-Salem, High Point, Greensboro, Burlington, Charlotte, Gastonia, Concord, Salisbury, Durham, Raleigh, Fayetteville, Jacksonville, Wilmington, and Hickory.

2 From 1975-1981, funds were divided between "metro" and "non-metro" categories rather than between "small cities" and "entitlement cities." Metro funds went primarily to entitlement cities, but not exclusively; some areas classified as small cities received some metro funds. The system was changed in 1982. Funds are now divided exclusively according to the two programs, small cities and entitlement cities.

3 P.L. 93-383, Title I of the Housing and Community Development Act of 1974, as amended, Sec. 101(c).

4 TAC members were: David Taylor, Tarboro town manager (now town manager of Chapel Hill); Jeanie Beal, Triangle J Council of Governments; Bill Davis, Bladen County community development director; Logan Delaney, Asheville community development director; Tyler Harris, Craven County Assistant Manager; Joel Mashburn, Henderson County Administrator; Lewis Price, Lenoir City Manager; Ben Shivar, Greenville community development director (now Siler City City Manager); Barry Webb, Mecklenburg County community development director; Dave Wilkerson, Shelby City Manager; and Lucille Yancey, Clinton community development director.

5 Others who worked with the TAC include: Dave Reynolds, League of Municipalities; Ed Regan, Association of County Commissioners; Billy Ray Hall, NRCD Asst. Sec. for Policy Coordination; and Jack Woods, Local Government Advisory Council.

6 The hearings were held in New Bern on April 26, Raleigh on April 28, and Morganton on April 29.

7 P.L. 93-383, op. cit.

# A Charlotte Housing Tour

## Programs and Preferences of Government

by Steve Johnston

Break the myth that the term "government housing programs" refers only to give-aways to the poor. Then the state will be prepared to weigh the options, and make the difficult choices, that will confront North Carolina as economic realities and the declining role of the federal government alter the housing market of the 1980s.

In Charlotte, the state's largest city, one can find examples of most of the forces that have shaped the state's housing patterns since World War II. The experiences of this single city illustrate how government at all levels shapes housing resources, how housing programs now on the books are benefiting widely varying economic groups, how many "housing" programs also serve other public purposes, and how every program can be made to work and every economic group can be assured of housing – for a price. As the last decade in Charlotte has shown, sustaining political support for housing initiatives, which by definition are expensive, controversial, or both, is extremely difficult.

Since World War II, the predominant governmental influence over housing resources has been the funding, programs, tax deductions and shelters, and other rules and regulations that the federal government channeled to the local level, both to municipal governments and to the private sector. A short tour of Charlotte will illustrate some of the many ways the programs and preferences of government have affected the housing market. Such a tour can also highlight some telling trends to state officials, who must prepare for an increasingly important role in the housing field.

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*Steve Johnston is on the staff of* The Charlotte News. *Photos by Steve Johnston.*

## A Tour of Charlotte

As a result of a post-World War II building boom, Charlotte is ringed by suburbs – a pattern typical of 1980s America. Low-interest-rate mortgages from the Veterans Administration and the Federal Housing Administration have fueled this suburban sprawl, together with the federal income tax deduction for interest paid on home mortgages. Middle- and upper-income families have been the chief beneficiaries of this government largesse. Today, even though a very mobile population lives in Charlotte, more than half of the city's housing units are owner-occupied. A variety of federal programs have made this home ownership possible, and various rental programs have also left their mark in Charlotte, as the tour below shows.

- **Fourth Ward.** In a 13-square-block area a stone's throw from the center of the city, where slums stood only a decade ago, people now tend their $50,000 to $120,000 condominiums and restored Victorian homes. The neighborhood's turnaround was made possible by federal tax law, which eliminates the tax on the interest from loans made to municipalities for the purpose of financing urban renewal. Relieved of the tax burden, the lenders, led by North Carolina National Bank, loaned money to the city at rates far below market rate. The city, in turn, lent the money to homeowners who, for the lower interest rates, were willing to take the risks of moving back downtown. Thus a federal tax policy designed to encourage urban renewal has, along with the pluck of the residents and the commitment of lending institutions, made Charlotte's much-touted "Fourth Ward" a success story.
- **"North Charlotte" Neighborhood.** Blue-collar workers live in older mill-village housing rehabilitated with loans and grants made possible through the federal Community Development Act of 1974. In this and eight other neighborhoods, the city has invested about $6 million in federal funds – a quarter of it in rehabilitation, the rest in land acquisition, new public utilities like streets, social service programs, and overhead. In a tenth neighborhood, housing was razed to redevelop the land for urban industrial uses.
- **Fashionable Suburbs.** Across town stand luxury apartment complexes financed by limited partnerships of investors who are sheltering income from federal taxation.
- **Declining Neighborhoods.** Peppered throughout the city, substandard housing, rather than being repaired, is sometimes destroyed while the landlord retains the land, which is the primary investment. A landlord can thus make a capital gain on the land, and in the process, deduct property taxes and other expenses from tax liabilities. In the meantime, the lot sits vacant, often a blight on the neighborhood.
- **Pine Valley and Windsong Trails.** In two subdivisions developed in the early 1970s, working families who are unable to finance mortgages rent single-family homes from the Charlotte Housing Authority. Part of their rent goes toward a mortgage downpayment. After five years of renting, each family should be able to begin enjoying the fruits of home ownership.
- **Southwest Charlotte.** Just off Interstate 77, 500 families, some of them relocated from downtown urban renewal areas in the 1960s, live in immaculately kept, investor-owned apartment buildings. If they meet an income test, residents get below-market rental rates – a condition built into the investors' mortgage contract with the Federal Housing Administration.
- **Plaza-Midwood.** On the declining edge of this early 1920s residential area, owners are using low-interest loans from the Neighborhood Housing Services' program to rehabilitate their old homes. The difference between the low interest rate charged owners, and the higher rate at which the loans are bought by a consortium of insurance companies at the national level, is made up from two sources. Some cash comes from contributions made by local lending institutions seeking federal tax advantages or meeting their responsibilities under the federal Community Reinvestment Act. But most of the money has so far come from City Hall, where federal general revenue sharing funds

**Federal tax laws encouraged restoration of Charlotte's Fourth Ward – condominiums (opposite page) and spruced-up older homes (above) – in a downtown area that was deteriorating 10 years ago.**


Working families rent these homes in Pine Valley from the Charlotte Housing Authority.

were used to implement the City Council's commitments to shoring up older residential areas. (See article on page 29 for background on Neighborhood Housing Services.)

• **Cherry.** In this 60-year-old community, built for domestics serving the upper-income Myers Park area, two landlords who owned most of the 260 housing units insisted that housing rehabilitation would not be profitable. The city used block grant funds to buy out the landlords. Now the city is funneling more block grant funds through the neighborhood's community organization to pursue rehabilitation.

• **Earle Village.** Six blocks from the heart of restored Fourth Ward, 1,400 poor people live in conventional public housing. Rents at Earle Village, the 409-unit complex in First Ward, combined with rents from the Charlotte Housing Authority's 3,000 other non-elderly units at 16 more sites around the city, pay only half the Authority's operating expenses. Despite that, the Authority and others like it throughout the country may face up to a 25 percent cut in federal operating subsidies from Washington this year. To make ends meet, the Authority struggles to achieve rent distribution goals that call for 42 percent of its tenants to be paying $100 or more a month and only 22 percent paying less than $40 a month. In July 1980, its actual rent distribution was 27 percent paying $100 or more and 29 percent paying less than $40. To change the rent distribution, the Authority must give preference to families with the highest allowable incomes and turn away those needing help the most.

To build new public housing in compliance with federal rules and local commitments to scatter public housing, the city has paid both a financial and political price. The city will foot six percent of the cost of 165 public housing units at four sites now under construction. All the city money is going for land purchases. The political cost has been borne by the City Council, which has found housing policy to be among its most controversial and time-consuming issues in the past five years.

• **Multifamily Units.** At some 100 addresses across the city, investors are rehabilitating housing units through the federal Section 8 moderate rehabilitation program. For agreeing to rent to tenants eligible for federal monthly rent subsidies, after bringing the housing up to housing code standards, the investors get guaranteed market-rate rents and protection against extended vacancies.

• **Third Ward and Five Points.** In these two "community development" neighborhoods, a nonprofit corporation, using the Housing Authority as agent, will build 61 housing units with $1.5 million in block grant monies. Rental priority will be given to poor residents of the neighborhoods displaced by renewal activity. With all construction costs already paid by block grant funds, rents will only have to cover operating costs and can thus be kept low. (See article on page 16 for background on the Community Development Block Grant.)

• **Apartment Complex.** Housing Authority bonds, authorized by a state statute that first allowed North Carolina local housing authorities in 1935, have helped a nonprofit group purchase a long-vacant apartment complex for rehabilitation. Low-interest Housing Authority bonds were used to purchase the complex because market-rate financing, on top of financing the repairs, would have raised rents above what the low-income neighborhood could command.

• **Belmont-Villa Heights.** In 1981, a group called Jeremiah 29:7,* formed by seven Charlotte churches, targeted this neighborhood, an area just north of downtown, for attention. Seeking church participation in low-income housing problems, the group plans to rehabilitate existing housing and buy vacant lots for construction of inexpensive housing. The group hopes to keep costs down by using labor of church volunteers and prospective homeowners to supplement professionals. The key to making the program result in homes neighborhood residents can actually afford will be a $1.5 million capital fund of donated money. Homeowners will repay to the capital fund the price of their homes, but will be charged no interest.

• **Scattered Enclaves of Poor People.** Throughout the community, from Sterling in the southwest to an unincorporated area just north of the city's Derita area, live most of Charlotte's poor and near-poor. Their spendable dollars come from disparate sources – work, Social Security, Aid to Families with Dependent Children, and Supplemental Security Income. But they share one thing in common: They live in privately owned housing, unassisted by any federal, state, or local program. Most of them will be untouched by even the most ambitious state housing program, whatever form it takes. Their housing problems, to the extent that they have them, will continue.

## Lessons from the Tour

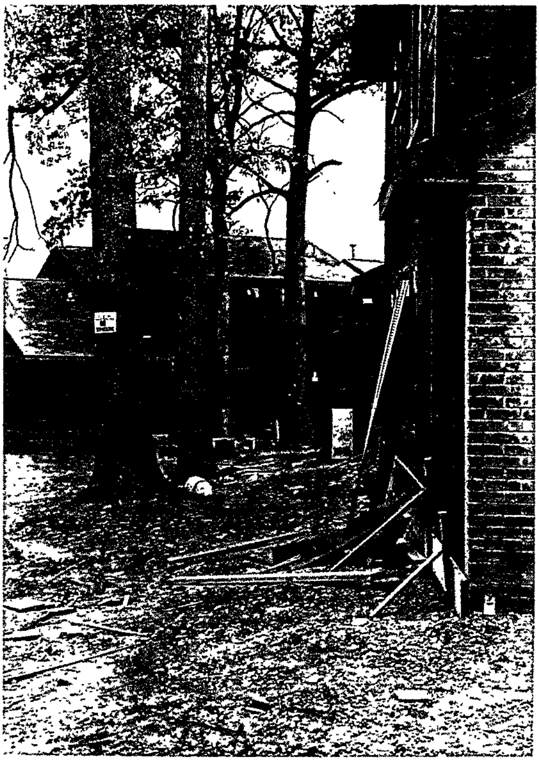
State policymakers are well aware that many of the programs behind these Charlotte housing activities may disappear in coming months or years. Both the President and members of Congress, for example, are flirting with a "flat tax" scheme which, in some of its forms, would eliminate such deductions from the Internal Revenue Code as the home mortgage interest break which has fueled home ownership, tax-sheltering deductions which make housing investments attractive both for individuals and corporations, business deductions which helped banks commit to Fourth Ward-type low-interest loan programs, and charitable contributions on which nonprofit groups like Charlotte's Jeremiah 29:7 depend. Elimination of some or all of these tax programs could substantially dislocate the state's housing industry and cause massive changes in the state's housing resources.

More specifically, federal housing programs are already in decline. While Congress' 1983 budget will include some housing funds, a variety of federal programs have been cut back, from Farmers Home Administration funds to Section 8 assistance to public housing subsidies. The loss of federal programs, or their revision into block grants to the state, may leave North Carolina more administrative flexibility, but also more responsibility, for determining how to allocate government resources for housing.

Charlotte's experience with housing programs holds no magic formulas to guide the revision of state housing policy. But this review of housing patterns in Charlotte does suggest five observations.

1. **Government has had a major influence on the housing market, and housing programs, collectively, have benefited persons of all income groups.** Depending primarily on how the federal housing priorities are reshaped, both rich and poor alike may pressure for state action to benefit their particular economic group.

2. **Individual housing programs now in existence tend to benefit specific economic groups.** Tax deductions on mortgage interest, for example, are no incentive to the poor with little tax liability. Tax programs designed to encourage private investments in housing will allow investors to make a profit off rents lower-middle-income families can pay, but not from rents of low-income families.



**This 32-unit project, on Charlotte's Muddy Pond Lane, is one of four "scattered site" low-income public housing projects under construction in the city.**

*Jeremiah 29:7: "But seek the welfare of the city where I have sent you into exile, and pray to the Lord on its behalf, for in its welfare you will find your welfare."

3. **No program can provide housing for the poorest of the poor without ongoing subsidy.** The Housing Authority uses a combination of federal operating subsidies and the higher rents of better-off tenants to subsidize the operating costs of lowest-income tenants. In the nonprofit group's construction project of 61 units for low-income displacees, the Housing Authority calculates that what Five Points tenants (requiring two-bedroom units) can pay will cover only 52 percent of its operating costs. The city of Charlotte, under court order to provide housing for all households displaced by its renewal activities, has agreed to make up the difference.*

4. **State housing programs can – and should – serve other state priorities such as employment, transportation, education, and balanced growth.** The cost of housing must be assessed in the context of spillover benefits. Two Charlotte experiences illustrate how housing can serve multiple public purposes. First, new housing activity in near-downtown Charlotte neighborhoods not only created housing but also stimulated commercial activity, made downtown office space more attractive to relocating businesses, eased commuter transportation arteries, and gave the downtown core a round-the-clock presence essential for vitality. Second, scattered-site public housing has not only housed poor people but also dispersed the poor and reassured non-poor neighborhoods that dispersal would affect all parts of town more or less equally. In Charlotte, scattered sites have also been perceived as playing a role in the long-term easing of the rigors of the nation's first court-ordered school busing plan.

5. **Subsidized housing developments tend to be economically rigid.** The best example is the home ownership program called "Turnkey III" which was begun in the late sixties and suspended in 1973. Under this program, the public housing tenants' monthly payments went toward ownership of their single-family units. Additionally, the tenants were required to build up "sweat equity" in their homes by providing all routine repair and maintenance themselves. Charlotte's experience with the program mirrored the national pattern: Most tenants did not stay long enough to accumulate the equity required for ownership. The Turnkey III units in Charlotte remain 94 percent renter-occupied today.

## Conclusion

As North Carolina policymakers consider the future of the state's housing stock, they must make some choices. No single "housing program" can serve all types of goals. For example, the state could give municipalities more flexibility in meeting local housing needs. The purposes for which revenue bonds and property tax revenue may be expended could be revised, for example, to allow cities to use these local sources of revenue to meet local needs.

In the long run, the state faces a complex dilemma. All housing costs money, and the state no longer has surplus revenues. *Annual appropriations required for statewide housing initiatives vary inversely with the income of the target group.* The state must choose, then, whether to spread its resources thin, providing a small subsidy to a wide range of people, or to invest more heavily in housing, which will allow assistance for poverty-range persons.

If the state spreads its resources thin, such programs will generally gain the cooperation of housing developers, particularly when the housing market is flat. The beneficiaries of such a policy will be middle class or near middle class, persons who pose the fewest risks for lenders and developers.

If the state makes a greater investment – and indicates a willingness to become more directly involved in the housing process – it can also create housing for poverty-range North Carolinians whose income will not support market-rate housing. To create housing for the poorest of the poor without expensive – and politically vulnerable – annual operating subsidies, the state could explore such techniques as combining construction grants with escrow accounts which would supplement tenant rents to cover operating costs. But only with the greatest investments – and a taste for long-term involvement akin to the state's commitment to education – can the state serve the housing needs of those who need housing the most.

The state must face, then, a difficult long-term dilemma: To what extent will it invest in the housing process and to whom will it target resources? How the legislature and the Hunt administration resolve these questions will reveal more than any policy statement about housing. In the end, articles like this one must carefully note what is perhaps all too obvious. The difficulty of insuring that all North Carolinians live in decent, safe, modern housing results not from there being inadequate housing programs – but from there being inadequate income resources among many of its citizens. □

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* In 1981, the city of Charlotte agreed in a court settlement to spend $500,000 from their federal general revenue sharing funds during each of the fiscal years 1982, 1983, and 1984 "for the purpose of providing housing for low-income relocatees," so long as this federal program continues during those years (Court order issued May 29, 1981, by U.S. District Judge James B. McMillan for the western district, *Harris-Kannon* v. *City of Charlotte,* Case No. 2767). This settlement is only one element of a complex, 12-year-old case still before that federal court.

# Cutbacks In Federal Housing Programs

## by Priscilla Cobb

Talk to a state or local official working with any type of housing or community development program, and you will hear a common refrain: "We're adjusting our program to the federal cutbacks." Because the federal government has played the major role in financing housing programs for the last two generations, the current wave of federal budget cuts is having a dramatic impact on housing policy. The reduction trend begun in fiscal year (FY) 1982 appears to be accelerating for FY 1983. As the federal role in housing declines, the level of state activity in housing becomes much more important – and visible.

The accompanying chart shows the levels of funding for FY 81 and FY 82 for the major housing programs within the U.S. Department of Housing and Urban Development (HUD). The programs are divided into three categories: new construction, rehabilitation and maintenance, and planning/technical assistance.

**New Construction.** In FY 82, which began October 1, 1981, federal funding for new construction programs was severely curtailed. In FY 81, North Carolina received $110.2 million through HUD's five major programs to subsidize the construction of low-income housing. In FY 82, the total for these programs dropped to $40.6 million, a decline of 63 percent.

HUD's Public Housing program, the largest and oldest subsidized new construction program for low-rent housing, received a reduction in committed funds of more than 90 percent between FY 81 and FY 82. In North Carolina, this program has subsidized the construction of almost 40,000 low-rent housing units by local public housing authorities.

Section 8, HUD's other major low-income new construction effort, was allocated only $4.1 million in FY 82, after a FY 81 commitment of $12.5 million. Since it began in 1974, this Section 8 program has subsidized over 11,000 units in North Carolina by providing rental assistance. The Section 8 assistance for these units was committed and budgeted for an average of 20 years; hence the current federal funding reductions do not affect them. The reductions only affect rental assistance available for new construction.

The Section 235 home ownership program, which has subsidized the purchase of more than 3,000 single-family homes since 1976, had its funding reduced almost 100 percent between FY 81 and FY 82.

**Rehabilitation and Maintenance.** In FY 82, most maintenance and rehabilitation programs were not reduced as severely as were new construction efforts, but they still felt the pinch. From FY 81 to FY 82, North Carolina expects to receive a slight increase in public housing operating subsidies (from $21.2 to $22.5 million) and has received an increase in public housing modernization funds (from $16.0 to $16.1 million). These small increases, however, do not keep pace with the operating and maintenance costs of the public housing projects for which the programs are designed.

From FY 81 to FY 82, the funds committed for the Community Development Block Grant (CDBG) program increased $3.2 million. Funds committed for the Section 312 rehabilitation loan program decreased $1 million. Neither of these funds residential rehabilitation programs exclusively. The CDBG program funds a wide range of projects from water and sewer improvements to economic development efforts. The Section 312 program provides loans for the rehabilitation of non-residential, as well as residential, buildings.

**Planning/Technical Assistance.** From FY 81 to FY 82, planning and technical assistance funds for the state and local governments were cut substantially. In 1982, North Carolina received no Section

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701 money; this program funded the North Carolina "housing elements" of 1972 and 1977 and most other housing studies conducted in the state. The Section 107 program is expected to be reduced by more than a third; this program allows the state's Division of Community Assistance to help the recipients of CDBG grants to make the best use of those funds.

For FY 82, Congress authorized $17 billion for all HUD housing assistance programs. Congress has not yet finalized FY 83 funding levels but has tentatively authorized only $10 billion for all HUD housing programs (Senate Concurrent Resolution 92). If the $10 billion is the final authorization, which appears likely, HUD will have to spread 41 percent less funds among its programs, even after a year of severe cutbacks.

Other major reductions affecting housing also appear likely, particularly housing programs through the Farmers Home Administration and the Appalachian Regional Commission (ARC). Since 1974, the ARC has financed the construction or rehabilitation of 3,200 housing units in the state. Since 1968, the Farmers Home Administration has assisted some 75,000 North Carolina families in purchasing homes at below-market interest rates.

As North Carolina policymakers start to understand better the magnitude of the federal cutbacks in housing, they must begin to fill the voids left by the demise of the federal programs. ☐

## FEDERAL FUNDS COMMITTED FOR HUD PROGRAMS IN NORTH CAROLINA
### Fiscal Years 1981 and 1982

| | Funds Committed (millions of dollars) FY 1981 | FY 1982 | Percent Change[2] |
|---|---|---|---|
| **New Construction Programs[1]** | | | |
| Public Housing | 57.4 | 4.1 | - 93 |
| Section 8 New Construction/ Substantial Rehabilitation | 12.5 | 4.1 | - 67 |
| Section 202 | 13.8 | 12.9 | - 7 |
| Government National Mortgage Association (GNMA) | 8.4 | 19.0 | + 126[3] |
| Section 235 | 18.1 | .5 | - 97 |
| **Total New Construction** | **110.2** | **40.6** | **- 63** |
| **Rehabilitation/Maintenance Programs** | | | |
| Community Development Block Grant (CDBG)* | 64.3 | 67.5 | + 5 |
| Section 312 | 1.4 | .4 | - 75 |
| Public Housing Modernization | 16.0 | 16.1 | + 1 |
| Public Housing Operating Subsidies | 21.2 | 22.5** | + 6 |
| **Total Rehabilitation/Maintenance** | **102.9** | **106.5** | **+ 4** |
| **Planning/Technical Assistance Programs** | | | |
| Section 701 | .6 | 0.0 | - 100 |
| Section 107 | .4 | .2* | - 36 |
| **Total Planning/Technical Assistance** | **1.0** | **.2** | **- 76** |

*Includes "Entitlement" and "Small Cities" funds.
**Funds anticipated but not yet committed in full.

Source: Greensboro Area Office of the U.S. Department of Housing and Urban Development (HUD).

FOOTNOTES

[1]This listing includes rental assistance, mortgage purchase, and loans for new construction, but not loan insurance programs.

[2]The percent changes are calculated from whole numbers since using the rounded figures yields slightly different percentages.

[3]These funds are committed on a project-by-project (not state-by-state) basis through a lottery. Although funding for the program was reduced by 9 percent nationally between FY 81 and FY 82, through "the luck of the draw" North Carolina received a large increase.

# Neighborhood Housing Services

## – A Public/Private Partnership at Work in the Marketplace

by Brent Glass


Photo by the *Winston-Salem Sentinel*

**Eleanor Elliott (second from right), an Old North Durham block captain, guides visitors from the Greenway neighborhood in Winston-Salem on a tour of her neighborhood in December 1981.**

Last December, 18 Winston-Salem homeowners visited a residential area near downtown Durham, the Old North Durham section. For two days, the visitors from Winston-Salem's Greenway area reviewed home rehabilitation projects, learned about revolving loan funds, met local bankers, city officials, and neighborhood residents.

"I'm really impressed with what they have done here," said Curtis Canty, president of the Greenway Neighborhoood Association. As Canty and the others walked among the 550 housing units in this racially-mixed, low- and middle-income neighborhood, they heard how a success story might begin.

"We had thought off and on about moving for 10 years," Eleanor Elliott, a lifelong Old North Durham resident, told the Greenway group. "But after this program got started, we decided to stay. We put $6,000 into a new furnace, new roof and all. All through private financing."

Mrs. Elliott and scores of other residents have formed a locally-controlled, non-profit corporation, the Durham Neighborhood Housing Services (NHS). Similar groups are at work in some 180 neighborhoods and 130 cities across the country, linked together in an umbrella network called Neighborhood Reinvestment Corporation, a federally chartered, non-profit organization. The Corporation helps launch new NHS programs and offers training and support for existing ones. One of the Reinvestment Corporation's main efforts is to help those groups just getting started to learn from existing NHS programs nearby, to bring a Curtis Canty and an Eleanor Elliott together. Such efforts seem to make a difference. "I'm encouraged that Greenway will respond to the program as well as Old North Durham has," Canty said after the Durham visit last December.

Six months later, the Winston-Salem NHS had begun to function. In securing funding commitments from local banks and the city, and by gaining the participation of the Greenway residents, the Winston-Salem NHS organizers have set into motion the fourth such program in North Carolina, joining those in Durham, Charlotte, and Wilmington.

Unlike many government housing programs and various non-profit efforts in the housing field, the NHS model of neighborhood assistance usually succeeds. By relying primarily on local, private-sector financing and by targeting services to the particular needs of a local area, NHS programs

*Brent Glass is the executive director of Durham Neighborhood Housing Services. Glass, who received a Ph.D. in history from the University of North Carolina at Chapel Hill, formerly served as deputy state historic preservation officer for the N.C. Department of Cultural Resources. Photos courtesy of Durham Neighborhood Housing Services.*


**Marketing the neighborhood improvement program builds confidence and changing attitudes about inner-city housing.**

have helped to stabilize deteriorating neighborhoods through "reinvestment without displacement" – by upgrading people's homes without pushing the residents out.

Using the strengths of a particular neighborhood, NHS helps restore confidence – the key ingredient to their success. "I had gotten where I never enjoyed walking around the neighborhood any more," remembers Mrs. Elliott. "But then all the rehabilitation started. Now my neighborhood is coming back."

In the late 1970s, the inner city areas around downtown Durham were following the pattern of many urban neighborhoods – an increasing percentage of absentee ownership, more relaxed enforcement of building codes, less homeowner investment as financing costs increased, and a general loss of neighborhood cohesiveness and pride. Durham city officials, aware of NHS programs in other cities, invited the Reinvestment Corporation to develop a partnership among local lenders, city officials, and neighborhood residents, helping these groups to identify a common interest in preserving the area. In 1980, the Durham NHS marked its formal beginning with a series of "rehab" Saturdays in its new office, a 60-year-old frame house in disrepair on East Trinity Avenue.

By 1981, Durham NHS had acquired the basic components of most NHS programs around the country – a resident-controlled board of directors and a small staff helping the neighborhood to help itself. The board includes six Old North Durham residents, a "resident-at-large" from any Durham neighborhood, three Durham lending officials, and the Durham assistant city manager for development. Because the board represents diverse community interests, its monthly meetings become a forum for community problem solving and decision making. The staff consists of an executive director, a rehabilitation specialist, and an office manager. The operating budget – around $70,000 per year – comes primarily from private contributions, the city of Durham, foundation grants, and the Reinvestment Corporation. A neighborhood church donated office space in a house next door to its sanctuary; renovating the office became an opportunity for volunteers to work directly in a revitalization effort.

The staff works with the nitty-gritty of home improvement, from the dilapidated bathroom in the NHS office to a crumbling foundation on a nearby home, from traditional financing to low-interest loans. The rehabilitation specialist, for example, examines homes with city inspectors and then works with the owner to decide how to finance the repairs. The program emphasizes conventional loans, encouraging homeowners to spend their own money on their houses. The NHS believes such financing methods stimulate more of a psychological investment than do government housing subsidies. In its first two years of operation, Durham NHS worked with 95 projects using private funding worth more than $400,000.

For those low-income homeowners who cannot qualify for conventional loans, the Durham NHS established a revolving loan fund, varying its rates and terms according to the borrower's ability to pay. Grants from the Reinvestment Corporation and the city of Durham provided the seed money for the fund. Repayment of the loans made in the Old North Durham neighborhood replenish the fund, which is then used to make more loans in the area. Thus far, the revolving fund has made 18 low-interest loans to Old North residents totaling $178,000. The conventional and low-interest loans have covered everything from new roofs and paint jobs to energy conservation projects and kitchen remodeling.

NHS helps to keep the cost of all the rehabilitation reasonable by arranging contractor bids, providing technical advice, monitoring the construction in progress, inspecting the quality of the work, and recruiting local fraternity groups and other volunteers for jobs involving heavy labor (like an outside paint job). And the program emphasizes self-help, for the work as well as the financing.

Like NHS groups throughout the country, the Durham program also plays an active role as a public educator. As Bill Whiteside, the executive director of Neighborhood Reinvestment, puts it, "NHS is government as teacher." The Durham program, for example, publishes a newsletter using residents' stories, offers workshops on subjects like energy conservation, financing, and crime prevention, maintains a directory of qualified contractors, and has a "good neighbor" bulletin board.

Flexibility and local control, the underlying tenets of all these activities, have resulted in NHS auxiliary projects for specific local needs – home ownership promotion, apartment improvement, owner-built housing, energy conservation, and commercial revitalization. In some cases, the spinoff activity has required an entirely new organization with its own board of directors. The Neighborhood Reinvestment Corporation has supported 35 such projects with planning grants. Successful projects have become models for other cities just as the original NHS concept has spread from one Pittsburgh neighborhood to over 130 cities in just 14 years.

In 1968, the NHS model emerged from a transitional but not yet blighted Pittsburgh neighborhood. As absentee ownership in the area increased and the housing stock deteriorated, homeowners and landlords deferred maintenance of their property, setting into motion the "disinvestment" process. Lending institutions and insurance companies, losing confidence in the area, withdrew their services and the city cut back housing inspections, public safety, sanitation, and capital improvements. To try to halt this pattern, local residents convinced city officials, local savings and loan associations, and the Carnegie-Mellon Foundation to co-sponsor a non-profit organization. The effort succeeded in turning around the Pittsburgh neighborhood.

The Federal Home Loan Bank Board (FHLBB), the regulatory agency for the savings and loan industry, recognized the success of the NHS program and in the early 1970s adopted it as its pilot urban program, replicating the Pittsburgh experience in five other cities. In 1974, the FHLBB formed the Urban Reinvestment Task Force with four financial regulatory agencies* and the Department of Housing and Urban Development (HUD) to accelerate the development of NHS programs throughout the country. In 1978, Congress voted to convert the task force into a public corporation with an appropriation of $10 million. The agencies that directed the task force continue to serve as the board of directors for the Reinvestment Corporation.

The Reinvestment Corporation initiates NHS programs through a carefully conceived developmental process. A city or neighborhood interested in starting an NHS program contracts with Neighborhood Reinvestment to help create the non-profit organization. Over a year's time, five workshops build the commitments necessary to create a lasting partnership among the various local actors – bankers, residents, city officials, and others. A development committee formed from the first workshop participants selects a target neighbor-

** Federal Reserve Board, Federal Deposit Insurance Corporation, Comptroller of the Currency, and the National Credit Union Administration.*

**Workshops sponsored by Durham NHS focus attention on specific projects and involve area residents. In the fall of 1981, John Hargette, rehabilitation specialist for NHS, directed students from Durham Technical Institute and from the North Carolina School of Math and Science in the installation of a solar greenspace at the NHS office.**

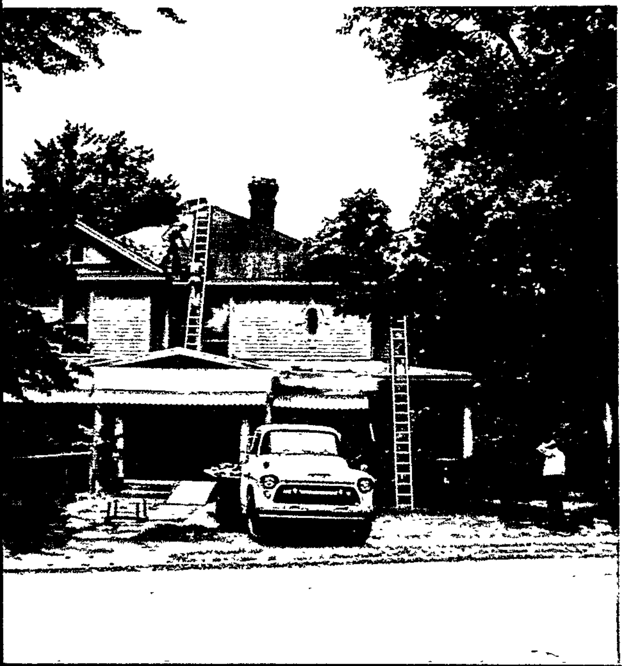
hood that meets several criteria established by Neighborhood Reinvestment.

First, a core of homeowners, preferably more than 50 percent of any area, must want to improve their homes and neighborhood. Second, the average income of residents in the neighborhood should be at least 80 percent of the city median and the housing should be in need of, but not beyond, repair. Finally, to increase the impact of the rehabilitation program, the target neighborhood should be highly visible. Once the neighborhood has been selected, the workshops concentrate on incorporation, selection of a board of directors, fundraising, and hiring an executive director. This process often breaks down initial barriers between some of the different groups.

"The most important thing is opening up channels of communication," said Richard Furr, a vice president of Central Carolina Bank and a member of the Durham NHS board. "When we started out, Neighborhood Reinvestment probably thought I was a cold-blooded conservative, and I know I thought they were wild-eyed liberals," Furr recalls, chuckling. "Now we're making good loans in even worse neighborhoods than Old North Durham. The key is to get the community behind the program, and convince the lenders that the neighborhood is changing for the better."

Nationwide, the NHS reinvestment efforts are impressive. Every dollar of public funds spent in an NHS target area has generated at least ten private dollars. Programs more than five years old average $2.5 million of reinvestment in their target neighborhoods. Twenty-four programs have expanded their service areas into thirty-four additional neighborhoods. By the end of 1981, over one million people lived in NHS neighborhoods.

**Property improvement activity in Old North Durham includes the full range of renovations, from roof repairs and exterior painting to energy conservation.**



A bipartisan and powerful group of policy-makers support this success story, from David Stockman, director of the Office of Management and Budget and the chief budget cutter in the Reagan administration, to U.S. Sen. William Proxmire (D-Wisconsin), known for his careful scrutiny of cost efficiency in government. Federal funding for the Neighborhood Reinvestment Corporation has grown from $10 to $14 million since 1977 and the Reagan administration has recommended a 12 percent increase for federal fiscal year 1983.

Despite their adoption by the federal government, the NHS programs work very hard at retaining flexibility and local orientation, the characteristics which account for their success and distinguish them from other government-supported housing programs. "Government wants to treat everybody alike, so they demand uniformity," says Bill Whiteside, who has led the NHS programs at the national level for a decade. "NHS doesn't have regulations. Our people are encouraged to use their own judgment, to adapt, to take risks."

Despite having built a successful track record, NHS has also fallen short in some areas. Advocates of low-income groups, for example, criticize NHS for concentrating on neighborhoods with a substantial number of persons with moderate incomes. Similarly, most NHS programs emphasize services for homeowners, not for renters. And even in targeted areas, which must have a moderate-income mix, successful programs have sometimes escalated the value and cost of housing so that low- and even moderate-income residents can no longer afford the rents and property taxes necessary to remain in their neighborhood.

NHS programs do not hope to develop housing exclusively for low-income people, but rather to improve the housing stock for low- and moderate-income people in a particular neighborhood. Having income levels high enough within a neighborhood to support conventional financing forms a fundamental part of the NHS model. And requiring that residents control the NHS boards offers some insurance against the displacement of existing residents.

Another problem for NHS is sustaining financial support from the private sector for operations. At a time of reduced government support for housing programs in general, this is an extremely important issue. The Neighborhood Reinvestment Corporation, in launching an NHS program, usually calls for three-year funding commitments by lending institutions, local businesses, and city

*A small-scale orientation, an emphasis on private financing, and a commitment to self-help distinguish NHS from most federally funded programs.*

governments. After this initial period, most programs are still providing services in the target area, but private funding often drops substantially. Most programs survive by broadening the base of the original partnership to include support from housing-related industries like real estate, insurance, utilities, building supply, and construction. Some programs enter into for-profit housing ventures, often with private developers. Even so, as a program grows older, a greater share of its budget is likely to come from public sources, and the proportion from lenders and local businesses dwindles.

The relatively modest amount of private funding in most NHS programs in North Carolina has been of particular concern to the Neighborhood Reinvestment Corporation. The Wilmington program receives very little financial support from the lending community and appears to have become little more than an extension of city government. In Charlotte, public funds provided 25 percent of the operating budget during its first three years, but the program has now managed to raise its full budget from private sources. Durham has thus far raised more than 60 percent of its operating budget from private sources but reliance on public support is likely to increase in the near future. Only the Winston-Salem NHS, which began in the summer of 1982, has depended from the outset exclusively on private support.

State legislative initiatives have helped to address the funding problem. California and Florida have established NHS foundations that make matching grants to local programs. Florida, Missouri, Colorado, and others offer tax credits for contributions to NHS-type organizations. In Florida, for example, businesses may take a 50 percent tax credit up to $200,000 per year for contributions and up to $50,000 per year on ad valorem taxes for expanding or locating in distressed urban areas. The state set an annual limit of $3,000,000 in credits for all businesses.

Although NHS was born and developed in large metropolitan areas of the northeast and midwest, small and medium-sized cities in North Carolina are applying the concept with great success. The ability of NHS to influence the housing marketplace is based upon the belief that the private market is a natural force that can be manipulated. To restore confidence in the quality of urban life, NHS builds upon a market psychology. Durham NHS, for example, does not claim to have single-handedly turned the neighborhood around, but it has created the atmosphere that has led to the improvement of housing in Old North Durham and to a greater appreciation of living in the neighborhood.

Within the last decade, non-profit corporations have provided a necessary bridge between the private and public sectors in stabilizing and improving the quality of housing in urban communities. The NHS model has emerged from the various non-profit structures as a valuable way to address housing problems. A small-scale orientation, an emphasis on private financing, and a commitment to self-help distinguish NHS from most federally funded programs. As government funding for all social programs tightens, the NHS model – which generates about 10 private-sector dollars with a single public dollar – could serve as an important model for neighborhood groups, non-profit organizations, and government officials. Although financial underpinning for non-profits has weakened in recent years, the role of such organizations will have to expand as an instrument of future public policy in the field of housing.

"Greenway neighborhood had just started out the door and Reaganomics pushed us back in the house," lamented the Rev. Rhodford Anderson of Winston-Salem during his visit to Durham last December. "Neighborhood Housing Services is giving us another chance." □

# What Should A State Housing Policy Contain?

## by Michael A. Stegman

North Carolina must adopt a comprehensive housing policy for three reasons. First, a large number of North Carolinians still live in substandard housing units. Just six other states in the nation have higher proportions of housing without complete plumbing than does North Carolina. Second, a large and growing number of North Carolinians cannot afford to buy a house at today's high interest rates. As a result, high rates of unemployment exist in the state's homebuilding industry, and the state's lending institutions face severe hardships. Third, the federal housing policies and funding levels are going through a critical transformation. After cutbacks in fiscal year 1982, housing programs face major new reductions in 1983 (see article on page 27). At the same time, the Reagan administration is turning over some major housing programs, such as the Community Development Block Grant, to the states for administration.

How can the state respond to the dramatic changes in federal housing policies and programs without a plan for action? If President Reagan has his way, virtually all of the Department of Housing and Urban Development's (HUD) low-income new construction programs will be eliminated in FY 83, which begins October 1, 1982. Equally important to North Carolina, which has the nation's largest rural housing program, the Farmers Home Administration (FmHA) housing budget may be slashed by more than 75 percent across the country. *Rural America* has estimated that North Carolina will receive around $59 million in FmHA housing loans next year compared to $198 million this year, a 70 percent reduction. Under this budget, the number of FmHA-supported housing units in North Carolina would decline from some 5,500 this year to less than 1,500 next year.

A state housing policy should contain at least nine elements.

1. **Specify the state's housing goals and the relative importance of each.** Reducing the incidence of substandard housing, increasing home ownership opportunities for young families, and strengthening the homebuilding and lending industries during recessionary periods could be considered. Such goals should be ranked in importance, and the rankings should determine the relative quantity of resources devoted to each.

2. **Detail the nature of the state's relationship with local governments on housing issues.** The state must determine how and to what extent it will facilitate and support local housing efforts through technical and financial assistance. When a local government abandons its responsibility, the state must be prepared to intervene.

3. **Address a wide range of housing needs.** Hous-

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ing needs range from making home ownership more affordable to improving the condition of migrant farmworker housing, and all types of needs must be addressed. The state's principal housing agency, the N.C. Housing Finance Agency, works primarily through marketing tax-exempt mortgage revenue bonds; consequently, defining all housing needs in terms that can be solved solely by such bonds is tempting. But housing needs should suggest programs and delivery systems, not the other way around.

4. **Target available resources, either geographically or to particular population groups.** Housing problems are not distributed uniformly throughout North Carolina, so the state must target its resources where the need is greatest. Problems are more serious in the eastern counties than in the Piedmont, are worse for renters than for owners, and are more concentrated among low-income blacks and Indians than other population groups. The state is beginning to assume administrative responsibility for federal housing programs that assisted people and places most in need. These new state resources must not be treated as another form of general revenue sharing and distributed equally, on a per capita basis, throughout the state.

5. **Define the state's relationship to housing producers.** The state must be willing to direct its housing efforts through the private homebuilding and lending industries as well as through nonprofit sponsors, self-help efforts, and other types of production systems.

6. **Explain how the state will organize itself to carry out its housing responsibilities.** The state is not well organized to carry out a coordinated housing program. Though its housing activity is dominated by a strong and increasingly effective housing finance agency (HFA), this agency's interests and expertise are still quite narrow. From an organizational standpoint, the HFA is also not yet suited to assume non-bond-financed housing program responsibilities, nor to become the principal advocate of the housing needs of the poor in North Carolina.

7. **Articulate a state housing plan which can be carried out by a politically accountable agency or institution.** The Housing Finance Agency, now the centerpiece of the state's housing effort, is overseen by a board of directors, not by a member of the Council of State or a secretary of a cabinet-level agency like other state functions such as transportation and commerce. Some argue that because of mortgage finance and bond underwriting responsibilities the housing agency must operate as a quasi-independent, corporate entity. But other state agencies also engage in capital market activities, are responsible for hundreds of millions of dollars, and are mandated to operate in a businesslike fashion. Should the HFA's responsi-

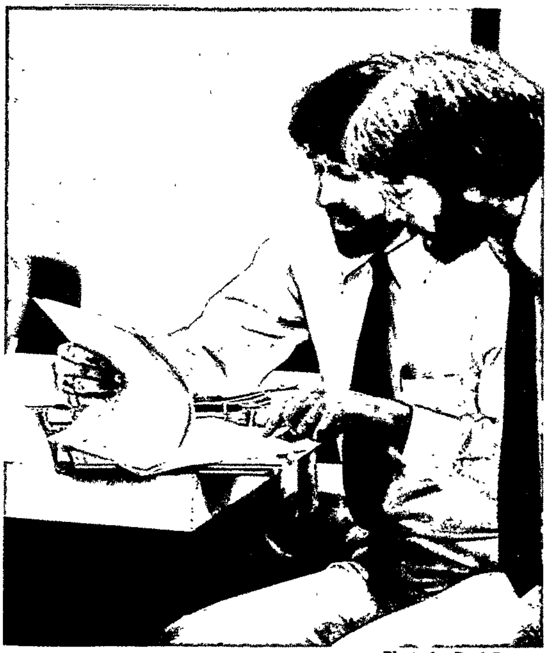

Photo by Paul Cooper

**Michael Stegman (left) at a recent meeting of the N.C. Housing Programs Study Commission.**

bilities be broadened to include housing activities unrelated to tax-exempt bond financing, consideration should be given to making the agency part of a larger departmental entity, to altering the composition of the HFA's board of directors to include members of the Cabinet or Council of State, and/or to making the executive director an appointee of the governor rather than of the board of directors.

8. **Provide for a means to monitor the progress that is made, so as to refine existing programs and design new ones as needed.** No state agency has the overall responsibility of assessing what is happening on the housing scene. In adopting a set of housing goals, the state must also develop a system to monitor progress in achieving these goals. An annual or biennial report on state housing could serve as the basis for the General Assembly's ongoing consideration of housing issues.

9. **A housing policy must have adequate appropriations behind it to give it meaning.** The state cannot afford to replace the federal housing budget dollar for dollar. Yet the state must consider a major commitment to housing, akin to its commitment to education or transportation – and the appropriations such a commitment represents – if a comprehensive plan has meaning. In the last decade, many states have abandoned the "silent partner" role with federal housing programs and have begun to supplement federal efforts. As the federal role declines sharply, the state has a far greater challenge in determining to what extent it will enter the housing arena in a meaningful and lasting way. ☐

Photo by Tom Norr

# *Who Makes Housing Policy in North Carolina?*

*by Priscilla Cobb and Bill Finger*



In an era of microelectronics and space shuttles, a simple house has become one of society's most complex, elusive products. For the structure to take form, craftsmen must join hands with financiers, insurers must swap papers with landowners, and builders must tap into an ever-tightening money market. The complexity of the product has

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spawned a diffuse and disorganized governmental system for one of life's fundamental needs – adequate shelter. From building inspectors to bond supervisors, from septic tank codes to lending laws, government has reached deep into the housing business.

Federal and state involvement in the housing world dates from the very beginning of the republic. In North Carolina, the colonial administrators designed their capital city, New Bern, with the same degree of detail that today's government officials model their "planned communities." And one of the state's earliest statutes required Smithfield landowners to build "one Bricke House, Sixteen Feet Square at least, and Ten Feet Pitch in the Clear." [1]

North Carolina quickly became more involved in housing – collecting property taxes, writing building codes, and zoning land. In 1933, the General Assembly created the state Building Code Council to oversee building codes throughout the state; three years later the Council published a statewide building code. But the great leap in governmental involvement in housing came not through expanded state efforts but at the federal level, especially during the New Deal.

As millions of homeless people wandered the countryside, a variety of federal housing-related vehicles emerged – from lending agencies to public housing assistance. In 1935, to take advantage of newly available federal funds, the N.C. General Assembly authorized local communities to create housing authorities. This action established a pattern that to a large extent has continued for almost 50 years: The major governmental efforts in housing have been at the federal and local levels.

In 1951, the General Assembly reinforced this federal-local pattern. Like other states, the legislature allowed urban areas to create redevelopment commissions to take advantage of federal funds. Local governments could then purchase or acquire through the power of eminent domain blighted areas of the city, clear these sections, and sell them to private developers.

Attention to housing problems escalated during the 1960s, particularly under President Johnson's Great Society. In 1964, the Institute of Government at the University of North Carolina issued the state's first major study on housing. This report, based on 1960 U.S. Census data, documented "a housing problem of major proportions," where more than two of every five people in the state (44 percent) lived in substandard houses.[2] This report prompted a study by Gov. Terry Sanford's office, "A Housing Program for North Carolina," written by Thad Beyle and issued in December 1964. Four years later, the N.C. Department of Administration issued the first of three official state housing reports. This 1968 document recommended that the General Assembly adopt as an official state goal "the achievement by the year 1980 of a decent, safe, and sanitary home in an adequate and healthful environment for every North Carolinian," and it called on the legislature to create a state department of housing to reach this goal.[3]

While the General Assembly did not act on these two major recommendations, in 1969 it did establish the N.C. Housing Corporation as a "public agency and instrumentality of the state." The legislature charged the Housing Corporation to increase the rate of subsidized housing construction in the state by 10,000 units per year. Thus, North Carolina entered the housing business in a formal way for the first time, joining an enterprise pursued by federal and local governments since the 1930s.

In 1972 and again in 1977, the state prepared official housing plans, or "elements" as the U.S. Department of Housing and Urban Development (HUD) called them, in order to qualify for HUD planning grant funds in the community assistance area.[4] The 1972 effort, an extensive five-part series of reports, reiterated the goals of the 1968 report and the 1969 legislative charge to the state's housing corporation.

Despite the repeated findings of major housing problems, neither the N.C. Housing Corporation nor any other executive-branch agency was taking aggressive or innovative actions. The data seemed to accumulate like so many bricks, the proposed state actions piled one upon the other like so much mortar. Consequently, in 1973, the General Assembly closed down the Housing Corporation and established a study commission to prepare yet another report recommending state action. In 1974, as proposed by the Special Legislative Study Commission on Housing and at the urging of both Gov. James E. Holshouser, Jr. and Lt. Gov. James B. Hunt, Jr., the General Assembly created the N.C. Housing Finance Agency, similar to the housing corporation but with expanded powers and financing abilities.

Meanwhile, the legislature was also taking actions which tended to diffuse housing-related programs. In 1973, for example, the General Assembly passed the Sedimentation Pollution Control Act, which created the N.C. Sedimentation Control Commission.[5] This group developed a comprehensive state erosion and sediment control program to which builders have to conform. The Department of Natural and Economic Resources was designated to administer this program, and local officials were to enforce it.

Other housing-related regulatory functions con-

## North Carolina State Government Departments with Housing Responsibilities

| Department/Division, Council, etc. | Housing Programs | Regulatory Responsibilities | Data Collection |
|---|---|---|---|
| **Department of Administration** | | | |
| Human Relations Council | fair housing assistance | | |
| Commission of Indian Affairs | Section 8 "existing" | | |
| Office of Policy and Planning | | | a) Governor's Commission on Housing Options for Older Adults (1981) b) The Commission on the Future of North Carolina |
| Division of Veterans Affairs | VA loans (field assistance) | | |
| **Department of Commerce** | | | |
| Savings and Loan (S&L) and Banking Commissions; S&L Division | | regulation of mortgage lenders | |
| Energy Division | weatherization assistance | | |
| **Department of Cultural Resources** | | | |
| Division of Archives and History | assistance with historic properties | | |
| **Office of the Governor** | | | |
| Housing Finance Agency | single family and multifamily financing assistance, Appalachian Regional Commission, Section 8 | | |
| Office of State Budget and Management | | | a) N.C. State Data Center b) Housing Study Commission staff (1982) |
| **Department of Human Resources** | | | |
| Operations Section | | | Title XX survey (last updated 1981) |
| Division of Health Services | | wells and septic tank standards | |
| **Department of Insurance** | | | |
| Engineering and Building Codes Division | | a) Building Code Council b) Manufactured Housing Board | |
| **Department of Justice** | | | |
| Consumer Protection Division | | Landlord-tenant, real property, mobile homes | |
| **Department of Natural Resources and Community Development** | | | |
| Division of Community Assistance | a) CDBG small cities program b) Section 107 technical assistance program | zoning and subdivision regulation assistance | |
| Division of Envir. Mngmt. | clean water bonds | | |
| Division of Land Resources | | Sedimentation Control Commission | |
| Office of Coastal Management | | Coastal Resources Commission (land use plans and permits) | |
| **Department of Revenue** | | | |
| Ad Valorem Tax Division | | property tax | |
| **Department of Transportation** | | | |
| Division of Highways | relocation program | subdivision road standards | |
| **Department of State Treasurer** | | | |
| Investment Banking Division | | management of state pension funds | |
| State and Local Government Finance | | Local Government Commission (bond approval) | |

*Source:* Fiscal Research Division, General Assembly, March 16, 1982, memorandum and agency survey by Priscilla Cobb, N.C. Center of Public Policy Research, March-May 1982.

tinued to be performed by departments ranging from Insurance (building codes and homeowner insurance) to Cultural Resources (historic preservation) and from Administration (fair housing) to Commerce (mortgage-lender regulation). Meanwhile, various other departments incorporated housing programs into their primary areas of activity, such as the Departments of Transportation (a housing relocation program as part of road construction) and Commerce (a home weatherization program in the energy division) (see box on page 38).

As the North Carolina Housing Finance Agency began operations in 1974, a major change took place in federal housing policies. President Nixon recast HUD priorities, eliminating many programs but at the same time incorporating more involvement of the private sector through a direct rental-assistance payment system. In addition, Nixon established a Community Development Block Grant (CDBG) program as a kind of federal revenue sharing to local governments which could be used for housing-related assistance. Also at this time, the Housing and Urban Development Act of 1968, which gave state housing finance agencies preference in the allocation of federal housing subsidy funds, was beginning to have a substantial impact on the degree of housing initiatives taken by various states.

With the establishment of the state Housing Finance Agency (HFA), North Carolina seemed to have an administrative vehicle capable of a major role in initiating and coordinating housing programs in the state. But placed in the Department of State Treasurer (to take advantage of that department's expertise with bonds), the HFA did not have a strategic location for becoming the hub of state housing policies. As the various housing regulatory and programmatic functions spread to no less than 11 state departments, the Department of Natural Resources and Community Development (NRCD), reorganized in 1977, began to emerge as a central location for housing policy.

The 1977 housing element, which was produced by the Division of Policy Development within the Department of Administration, in cooperation with NRCD and the Department of State Treasurer, put forth the reorganization of NRCD as a catalyst for new housing initiatives. "Reorganization . . . will strengthen the state's role in housing. A new housing section in NRCD will focus state resources in a more coordinative and effective manner," concluded the report's abstract.[6] The report went on to say that although the state had taken some major steps to provide housing for low-income citizens, "tremendous deprivation" remained.

But the organizational goals of the 1977 report proved as difficult for the state to attain as did the report's substantive aims. In 1977, the General Assembly transferred the HFA into NRCD and left the authority to approve HFA bonds with the Department of State Treasurer. The major organizational challenge occurred not within this inter-agency arrangement, however, but within NRCD, where the technical and financial orientation of the HFA had to be meshed with the policy and community development perspective of the Division of Community Housing.

From 1977-79, the HFA and Community Housing Division lived side by side within NRCD. Then in 1979, the two merged into a new Division of Community Housing, with one person heading both and reporting to both the Board of Directors of the HFA and the Secretary of NRCD. Meanwhile, the Office of Community Development,

### State Housing Programs and Regulations: Who They Affect

*The state housing programs and regulatory functions directly affect four groups of North Carolinians – consumers, lenders, builders, and local government officials. The chart on the left lists each program and regulatory function according to the department and division of state government in which it is located. Below, each of these programs and regulatory functions is listed according to the group most directly affected. Many of those listed under local government ultimately affect all four groups, but directly affect local government officials; i.e., the sedimentation control commission establishes minimum standards which local governments must enforce.*

**Consumers**
- Section 8 Existing Rental Assistance Program
- Veterans Administration Loans (Application Assistance)
- Relocation Program (for persons displaced by highway construction)
- Landlord-Tenant Disputes
- Weatherization Assistance Program
- Fair Housing Assistance

**Lenders**
- Single-Family and Multi-Family Mortgage Purchase and Construction Loan Programs
- Regulation of Mortgage Lenders

**Builders**
- Section 8 New Construction/Moderate Rehab Rental Assistance Program
- Appalachian Regional Commission Housing Programs
- Building Code Council and Manufactured Housing Board
- Subdivision Road Standards

**Local Governments**
- Small Cities Community Development Block Grant Program
- Section 107 Technical Assistance Program
- Clean Water Bonds
- Well and Septic Tank Standards
- Zoning and Subdivision Regulation Assistance
- Sedimentation Control Commission
- Coastal Resources Commission
- Property Tax
- Assistance with Historic Properties Purchase and Renovation

also within NRCD, was working through a series of drafts of a comprehensive housing strategy for the state. No official document emerged from this effort past a report labeled "Cut Five" of "A Proposed Housing Policy for North Carolina."[7] More importantly perhaps, the marriage between HFA and the Division of Community Housing proved uneasy at best.

Finally in 1981, as the degree of cooperative spirit between the HFA Board of Directors and the NRCD leadership was spiraling downward, the General Assembly once again moved the HFA, giving it quasi-independent status within the Office of the Governor. Aware that no coordinated state housing program had yet emerged, the legislature created their second major Housing Study Commission since 1973 (see box on page 45).

While the NRCD lost the Housing Finance Agency in 1981, it gained control over distributing to local governments over $40 million in federal community development funds, much of which can be spent for housing. The Reagan administration, as a part of its block grant funding vehicles, allowed states to administer the "small cities" portion of the already existing Community Development Block Grant program. North Carolina chose to administer this CDBG money through NRCD. The NRCD Division of Community Assistance (the Division of Community Housing was abolished when the HFA moved out of NRCD) developed new regulations for allocating the $40 million after a series of public hearings. In the process, a new group of NRCD officials again grappled with many policy-related questions regarding housing, such as whether to make rehabilitation or water and sewer projects a priority for awarding CDBG grants (see article on page 16).

Meanwhile, the HFA, in its new quasi-independent status and under the leadership of a new and more aggressive executive director, was floating a series of both single-family and multifamily bond issues. The HFA also began a home improvement program which will combine HFA-generated funds with the CDBG funds still administered by HUD. By the middle of 1982, the HFA seemed to be emerging as a major state housing agency (see article on page 2).

In addition to the various housing elements and two major legislative study commissions already discussed, reports have come from the Governor's Citizen Task Force on Fair Housing (1979) and the Governor's Commission on Housing Options for Older Adults (1981). Other study efforts such as the N.C. Council on State Goals and Policies and now the Commission on the Future of North Carolina (N.C. 2000 Commission) have also contained a housing focus. But still no central coordinating strategy has emerged. Into this arena now comes the Reagan administration's "new federalism" which is transferring the potential for governmental housing initiatives from the federal to the state and local levels. Local governments have long been involved with housing programs but always through a federal conduit; now these local officials must increasingly turn to Raleigh rather than Washington for technical assistance, funds, and coordination.

In 1982, two state agencies – the N.C. Housing Finance Agency and the Department of Natural Resources and Community Development – seem possible candidates for the location of a long-awaited state housing policy. The recommendations of the current Housing Study Commission to the 1983 General Assembly will help to define where the central policy and decision apparatus will be located (see box on page 45).

But recommendations alone – as the last decade has demonstrated – do not guarantee progress on the housing-policy front. Translating proposals into action requires that state leaders, together with citizens' advocacy groups, target housing as a major priority, in the same way that they have targeted such issues as hazardous wastes, highway funding, and the microelectronics industry. In the current housing "crisis" mentality, where home builder associations and middle-class consumers are as concerned about housing opportunities as are nonprofit church groups and tenants organizations, the time may have finally arrived for housing to become a political priority as well as a well-studied subject. Until the political machinery – the legislative and executive branches – responds to the state's housing needs in a coordinated fashion, state government will not be able to implement a well-defined housing policy. □

**FOOTNOTES**

[1] "An Act for Establishing a Town on the Lands of John Smith, and other Purposes," Chapter XV, Laws of North Carolina, 1777. Found in The State Records of North Carolina, Walter Clark, editor, Vol. XXIV, Laws 1777-1778, p. 21.

[2] Mace, Ruth, "Housing in North Carolina; A Preliminary Report on Housing Conditions, the Home Construction Industry, Home Financing and the Use of Federal Aid," Chapel Hill, The Institute of Government, 1964.

[3] Mace, Ruth, "Toward Good Housing for All North Carolinians," N.C. Department of Administration, 1968.

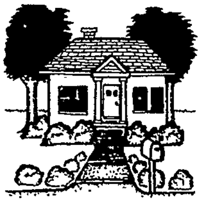
[4] The Center for Urban and Regional Studies, UNC-Chapel Hill, *North Carolina's Housing Element,* N.C. Department of Administration, 1972; and N.C. Division of Policy Development, *Preliminary Housing Element,* N.C. Department of Administration, 1977.

[5] N.C.G.S. 113A, Article 4.

[6] N.C. Division of Policy Development, op. cit.

[7] Housing Policy Subcommittee, N.C. Department of Natural Resources and Community Development, "A Proposed Housing Policy for North Carolina: Working Paper – Cut Five," 1979.

# A Housing Profile



As North Carolina assumes a larger role in formulating and implementing housing programs than in the past, policymakers need a central data bank of housing-related information on which to base decisions. Currently, state officials depend primarily on U.S. Census data, coordinated and reported in North Carolina by the Office of State Budget within the Governor's Office. The Census provides useful raw data but does not provide an analytical framework on which to base policy decisions.

For example, the Census does not define a "substandard" unit. It only reports on certain criteria, such as "lacking complete plumbing" (hot and cold piped water, a flush toilet, and a bathtub or shower), overcrowded (more than one person per room), lack of electricity, and lack of heat. With a variety of criteria to use in determining what is substandard, officials interpret the Census data without uniform guidelines. This can lead to different conclusions on which policy decisions are based.

Other sources of housing information also exist. These assist in coordination in some cases but further diffuse the data base in other instances. In 1981, the N.C. Department of Human Resources conducted a federally funded survey which had a housing component. Meanwhile, 11 of the 18 regional Councils of Governments in the state have developed analyses of the housing problems in their particular areas, using primarily Census data. At the local level, some cities and counties, as a requirement of receiving federal Community Development Block Grant funds, have prepared "housing assistance plans" based on data from house-to-house surveys. The N.C. Housing Finance Agency and the Department of Natural Resources and Community Development accumulate housing data through their program efforts (see articles on pages 2 and 16, respectively). Other information sources include the Attorney General's Office (consumer complaints) and the Department of Insurance (building code and mobile home regulations); see box on page 38.

Currently, no single state agency is coordinating these various efforts. Past reports on housing, including the state's three official housing "elements," found the absence of a comprehensive state data bank a barrier to a more aggressive state role in housing. The housing elements, produced in 1968, 1972, and 1977, recommended that the state collect more housing-related information and provide it to a wide range of governmental units, agencies, and private-sector organizations and individuals that might benefit from such data. The Housing Finance Agency (HFA), in conjunction with the Department of City and Regional Planning at the University of North Carolina at Chapel Hill, has begun a comprehensive analysis of the newly-available 1980 Census results. This effort could provide a broader statewide understanding of various housing issues, if the next critically important step is put into place: Some coordinating mechanism is needed to focus on the lessons learned from this study effort and the ongoing information gathering done in other departments.

Until some state agency undertakes a larger data-gathering and analytical function, the Census data provides the major data base for an overview of the state's housing conditions. In addition to supplying raw data, the Census figures reveal important trends and provide a basis for comparative analysis. The sections below review the latest data regarding housing type, ownership patterns, household size, age and condition of housing stock, and distribution of substandard housing in North Carolina. The source for all tables is the U.S. Census, U.S. Department of Commerce.

**Housing Type.** A declining portion of North Carolinians are living in single-family structures. From 1970-1980, the portion of the state's housing stock in single-family units declined from 82 to 76 percent. In contrast, the portion of mobile homes and multifamily housing units increased. From 1960-1970, the portion of the housing stock that was mobile homes jumped from one to six percent; from 1970-1980, the figure climbed to almost ten percent. From 1970 to 1980, the portion of the total housing units in buildings with five or more units nearly doubled, from 4.3 to 7.6 percent (see Table 1).

**Ownership Patterns.** Home ownership increased slightly during the last decade, from 65 to 68 percent of the state's occupied units. Condominiums, a type of housing becoming more and more attractive to upper- and middle-income groups, accounted for less than one percent of the owner-occupied units in 1980. Black North Carolinians were less likely to own their home than were whites. Blacks, who make up 22 percent of the state's population, comprise 19 percent of the state's households and occupy only 14 percent

## Table 1. Number and Percent of Total Year-Round Housing Units by Type of Structure for North Carolina, and Percent for the Nation, 1960-1980.

| Type of Structure | 1980 North Carolina Number of Units | 1980 North Carolina % | 1980 U.S % | 1970 North Carolina Number of Units | 1970 North Carolina % | 1970 U.S. % | 1960 North Carolina Number of Units | 1960 North Carolina % | 1960 U.S. % |
|---|---|---|---|---|---|---|---|---|---|
| Single-family (one unit) | 1,698,675 | 75.9 | 66.2 | 1,333,579 | 82.3 | 69.1 | 1,198,754 | 90.6 | 75.0 |
| Duplexes (2-4 units) | 152,124 | 6.8 | 11.2 | 117,552 | 7.3 | 13.3 | 71,453 | 5.4 | 13.0 |
| Multifamily (5 units and over) | 170,541 | 7.6 | 17.5 | 69,943 | 4.3 | 14.5 | 33,499 | 2.5 | 10.7 |
| Mobile Homes | 216,842 | 9.7 | 5.1 | 98,474 | 6.1 | 3.1 | 19,133 | 1.4 | 1.3 |
| Total | 2,238,182 | 100.0 | 100.0 | 1,619,548 | 100.0 | 100.0 | 1,322,839 | 100.0 | 100.0 |

Sources: *1960 Census of Housing,* Volume 1, Part 6, Table 4.
*1960 U.S. Summary,* Table 11.
*1970 Census of Housing,* Volume 1, Part 35, Table 35 and Part 1, Table 22.
1980 Census of Population and Housing, "Provisional Estimates of Social, Economic, and Housing Characteristics: North Carolina and United States," N.C. Office of State Budget and Management, July 1982.

of the owner-occupied units. Almost three of every four white households own their home while only one of every two black households owns a home (see Table 2).

**Household Size.** In North Carolina and throughout the country, households are getting smaller, a trend which has significant impact on the type of housing needed. From 1970-1980, the average North Carolina household declined from 3.24 to 2.78 persons, a 14 percent decrease. (The national household size in 1980 was 2.75.) During the 1970s, as the state's population increased by 16 percent, the number of households increased at more than twice that rate, from 1,509,564 to 2,043,291. The growing number of elderly and single-parent families account for much of this increase. By 1980, an astounding one of every five North Carolinians lived in one-person households, twice the percentage of 1970.

**Age of Housing Stock.** Houses in North Carolina are generally newer than those across the nation. Almost one-third of the state's year-round occupied housing stock is less than ten years old; only one-fourth of the nation's housing stock is that new. Over half of the state's occupied units were built since 1960. By 1980, only one of six occupied housing units in the state was at least 40 years old (one out of four nationally). One in five rental units in the state was built before 1940 compared with one in seven owner-occupied dwellings.

**Condition of Housing Stock.** Using Census data to define the condition of housing stock, as explained at the beginning of this article, results in a variety of interpretations. One Census measure of substandard housing, for example, is the absence of complete plumbing inside the unit for the exclusive use of its occupants. This variable "alone is almost certain to result in an underestimate of the real problems," concluded the *North Carolina Housing Element* of 1972. In 1970, North Carolina ranked ninth nationally in the percent of its housing units lacking complete plumbing. In 1980, despite a decline in such units from 252,000 to 115,000, the state ranked seventh in percent of units lacking complete plumbing.

Another often-used measurement of substandard housing is overcrowding – more than one person per room to a housing unit. Combining the complete plumbing and overcrowding criteria, 8.7 percent of the total North Carolina housing stock was substandard in 1980. The number of units

## Table 2. Occupied Housing Units, 1980, by Race and Ownership

| | White Households Number | White Households % | Black Households Number | Black Households % | Total Households* Number | Total Households* % White | Total Households* % Black |
|---|---|---|---|---|---|---|---|
| Owner Households | 1,182,390 | 72.8 | 199,828 | 51.0 | 1,397,425 | 84.6 | 14.3 |
| Rental Households | 442,288 | 27.2 | 192,174 | 49.0 | 645,866 | 68.5 | 29.8 |
| Owner and Rental Households | 1,624,678 | 100.0 | 392,002 | 100.0 | 2,043,291 | 79.5 | 19.2 |

*** Totals include all households – white, black, American Indian, Asian, and other. Hence, the "% white" and "% black" do not add up to 100%.**

Sources: 1980 Census of Population and Housing, "Provisional Estimates of Social, Economic, and Housing Characteristics: North Carolina and United States," N.C. Office of State Budget and Management, July 1982.

**Table 3. Condition of Year-Round Housing Units, Number and Percent for North Carolina, and Percent for the Nation, 1970 and 1980.**

| Type of Unit | 1980 North Carolina Number of Units | 1980 North Carolina % | 1980 U.S. % | 1970 North Carolina Number of Units | 1970 North Carolina % | 1970 U.S. % |
|---|---|---|---|---|---|---|
| Total Year-Round Units[a] | 2,223,007 | 100.0 | 100.0 | 1,618,103 | 100.0 | 100.0 |
| Lacking Plumbing | 115,928 | 5.2 | 2.7 | 252,319 | 15.6 | 6.9 |
| Overcrowded | 91,854 | 4.1 | 4.2 | 153,718 | 9.5 | 7.7 |
| Subtotal | 207,782 | | | 406,037 | | |
| Overcrowded and Lacking Plumbing[b] | – 13,951 | | | – 55,124 | | |
| Substandard | 193,831 | 8.7 | 6.6 | 350,913 | 21.7 | 13.5 |

[a]Total Housing Units minus vacant seasonal and migratory housing.
[b]Subtracting the Units which are both overcrowded and lacking complete plumbing from the subtotal avoids double counting.

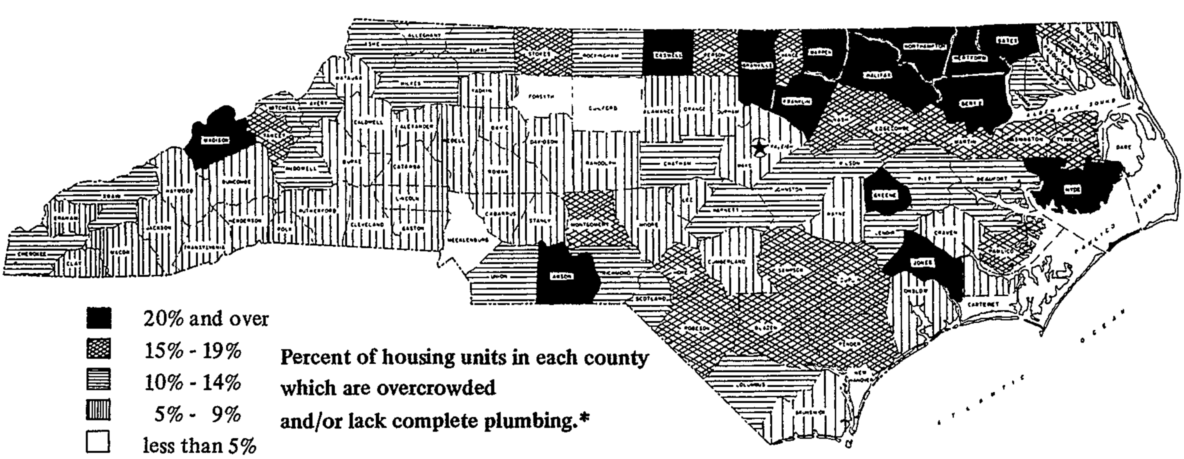
Sources: *1970 Census of Housing*, Vol. I, Part 35, Tables 2 and 3 and Part 1, Tables 3 and 4.
1980 Census of Population and Housing, Summary Tape File 1A, North Carolina and United States.

lacking plumbing and/or overcrowded dropped during the decade from 350,900 to 193,800 (see Table 3).

The N.C. Department of Human Resources, in its 1981 survey, found that 15 percent of the state's housing stock was still substandard. This survey defined a dwelling as substandard if it lacked at least two "amenities" such as a toilet and electricity, or if it had at least two structural problems such as a leaking roof or broken windows.

**Distribution of Substandard Units.** The Census data indicates that persons have different levels of substandard housing depending on where they live, whether they rent or own their units, and whether they are black or white.

- In 1980, more than 80 percent of the state's households lacking complete plumbing were in rural areas. In contrast, only 57 percent of the overcrowded households were in rural areas.
- The counties with the worst housing, based on the plumbing and overcrowding variables, were concentrated in the state's coastal plain region in 1980 (see map).
- In 1980, 21 percent of all non-white households occupied substandard housing (overcrowded and/or lacking complete plumbing).
- Rental housing is more likely to be substandard (13.4 percent) than owner-occupied housing (5.3 percent), based on 1980 plumbing and overcrowding data. ☐



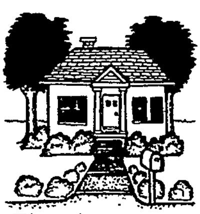

**Percent of housing units in each county which are overcrowded and/or lack complete plumbing.***

*Percentages for each county dervied as follows: (total of overcrowded units + units lacking complete plumbing) – units both overcrowded *and* lacking plumbing ÷ total year-round units. This procedure avoids double counting.

Source: *North Carolina, 1980 Census of Population and Housing, County Summary Data,* March 1982, N.C. State Data Center, Office of State Budget and Management.

Rep. Ruth Cook (D-Wake), chairperson of the Commission to Study the Housing Programs of North Carolina.
Photo by Paul Cooper

# The Housing Study Commission Goes to Work



In 1981, the General Assembly created an 18-member "Commission to Study the Housing Programs in North Carolina" and instructed the group to report to the 1983 legislature. The Commission, chaired by Rep. Ruth Cook (D-Wake), has been meeting throughout 1982, first hearing from experts in all aspects of the housing field and then dividing into subcommittees to formulate concrete proposals for action.

"The Commission is delving deeper into housing than the state ever has before," says Secretary of Natural Resources and Community Development (NRCD) Joseph Grimsley. Gary Paul Kane, executive director of the N.C. Housing Finance Agency, underscores the importance of the Commission's work: "We are looking to the Study Commission to formulate its ideas of how housing programs should operate and then follow within that context. . . . [The Commission] will help us in maintaining a direction."

Rep. Cook, who served on the board of a Raleigh nonprofit housing group in the 1960s, began focusing on state housing programs when appointed to the board of directors of the N.C. Housing Finance Agency (HFA) in 1981. Concerned about the lack of public members on the HFA board and about the HFA program, Cook began to see gaps in the state's efforts in housing. During the 1981 legislative session, a debate over the location of the HFA and six housing specialists within the state bureacracy prompted a wider awareness of the housing problems and the creation of the Study Commission. "We really did not have an overall housing policy in the state," says Cook, now halfway through her tenure as chairperson of the Commission. "We do not know in this state what it is we need to do to provide what I consider a basic right of people – a right to shelter. I view the Commission as a major vehicle for providing a coherent housing policy for this state."

The Housing Study Commission has a structure similar to groups like the Savings and Loan and Mental Health Study Commissions, both of which have resulted in major legislation being passed. An independent body, not part of the ongoing Legislative Research Commission's work, the Housing Commission has a broad-based membership prescribed in the legislation (see list below), has authority to seek funding from the state's Contingency and Emergency Fund (the Commission has received about $30,000 thus far and may ask for more). and has the time to consider its subject thoroughly and develop public and legislative support for its recommendations. "Having differing points of view expressed on the Commission is very important," says Cook. "It enables Commission members to work through controversies and thus generate broad-based support for legislation that the Commission might propose."

Since January, the Commission has been meeting for two-day sessions once a month, in June breaking into three working subcommittees – on housing policies, on the housing economy, and on basic housing needs. Within these subcommittees, the Commission is considering everything from existing state housing programs (particularly the Housing Finance Agency and the Community Development Block Grant program) to housing code and zoning issues, from condominium conversion to local government initiatives.

The Commission is also concerned about coordination. "It's an underlying issue. We're very much aware of it," says Cook. "We don't necessarily think that we need to have more state agencies but we might need to have an ombudsman or an interagency effort in the housing field. Whether it's people looking for houses or developers who are interested in building housing or communities wanting assistance in providing housing, they need to go to the same place. It's something that we will address."

While the Commission has not yet formally decided upon its priority areas, the policy subcommittee and Rep. Cook have arrived at three tentative priorities: first, to provide for decent housing for those living in inadequate facilities; second, to assist "middle income" North Carolinians in owning a home; and third, to ensure that North Carolina has a viable and healthy home construction and lending industry.

The Commission plans to issue a final report and recommend specific legislation. Some recommendations may also address existing rules and regulations and not require legislative changes. "I want the Commission to have a futuristic approach," says Cook, "to consider what the needs of people are in terms of requiring shelter and to devise whatever ways we can to facilitate that. That's the overall mission. I do not expect us to solve all the problems, but I expect us to solve some of them and to supply guidance and state a cohesive policy for housing in North Carolina. I would like to think that the report of this Commission will be used repeatedly and be updated when needed."

The outlook for the Commission appears bright, if enough legislative and public support can be generated for its recommendations. Rep. Cook and Sen. Robert Jordan (D-Montgomery), the vice-chairperson for the Commission, will provide the leadership in their respective legislative bodies. And the extent of support for the Commission's recommendations from Gov. James B. Hunt, Jr. will also be important. The Hunt administration is represented on the Commission through NRCD Deputy Secretary James Summers, an ex-officio member.

At this stage, the Commission subcommittees are compiling long lists of possible recommendations for adoption by the Commission. Some of them might eventually make a difference in housing opportunities for North Carolinians. "We realize what an important charge we have," says Cook, "and we fully intend to carry it out." □

**The North Carolina Housing Programs Study Commission**

| Members | Appointed by | Hometown | Represents | Subcommittee |
|---|---|---|---|---|
| Rep. George Brannan | Speaker of the House | Smithfield | House of Representatives | State Housing Policy |
| William Breeze | Governor | Rougemont | Subsidized Housing Management | State Housing Policy |
| State Treasurer Harlan Boyles | Ex-Officio Member | Raleigh | Dept. of State Treasurer | State Housing Policy |
| Rep. Ruth E. Cook | Speaker of the House | Raleigh | House of Representatives | Commission Chairperson |
| Michael Ferguson | Speaker of the House | Waynesville | Realtors | Housing Economy |
| Sen. James B. Garrison | Lieutenant Governor | Albemarle | Senate | Housing Economy |
| Mickey Hanula | Speaker of the House | Raleigh | Public | Basic Housing Needs |
| Robert Harrington | Governor | Lewiston | Manufactured Housing | Basic Housing Needs |
| Joe E. Harris | Lieutenant Governor | Elkin | Savings and Loan | Housing Economy |
| Sen. Robert B. Jordan, III | Lieutenant Governor | Mt. Gilead | Senate | Commission Vice-Chairperson |
| Michael Stegman | Governor | Chapel Hill | Community Planner | State Housing Policy* |
| Durwood Stephenson | Lieutenant Governor | Smithfield | Builders | Housing Economy |
| NRCD Dep. Sec. James Summers (for NRCD Sec. Joseph Grimsley) | Ex-Officio Member | Raleigh | Dept. of Natural Resources and Community Development | State Housing Policy |
| Wade H. Thomas | Governor | Asheville | Public | Basic Housing Needs |
| David Weil | Governor | Goldsboro | Public Housing Policy | Housing Economy* |
| Leslie J. Winner | Governor | Charlotte | Public | Basic Housing Needs* |
| Jim Moore | Speaker of the House | Sylva | Mortgage Bankers | Housing Economy |
| Carl Johnson | Lieutenant Governor | Asheville | Public | Basic Housing Needs |

*Chairperson of Subcommittee

# An Interview with Joseph W. Grimsley

Photo by Paul Cooper

**Joseph W. Grimsley, 46, has been secretary of the N.C. Department of Natural Resources and Community Development (NRCD) since August of 1981.** Reared in Wilson, N.C., where he was a boyhood chum of Gov. James B. Hunt, Jr., Grimsley studied at the University of North Carolina at Chapel Hill (B.A., 1961) and George Washington University (M.A., 1964). He worked with the Peace Corps from 1963-68 and then joined the Coastal Plains Regional Commission in 1968. "I have been in and out of the Department of Administration since 1968," says Grimsley, "where I've seen the whole (housing development) process take place." The early state housing studies were based in the Department of Administration, where Grimsley has been a program development assistant (1970-71), assistant secretary (1973-74), and secretary (1977-79, 1981). Grimsley interrupted his tenure at the Department of Administration to work as a special assistant to Jim Hunt (1974-75) and to lead Hunt's successful campaigns for lieutenant governor (1972) and for governor (1976, 1980). For more information on the major housing program within NRCD, see the article on page 16. Bill Finger and Priscilla Cobb conducted this interview with Mr. Grimsley on June 25, 1982.

*What do you feel are the most serious housing problems in the state?*

Housing for the very poor. In the last ten years we've made a lot of improvement; we've reduced the substandard housing by 50 percent. When I grew up in rural eastern North Carolina, there were a lot of houses that were sitting out in the countryside with poor people in them. You ride along those roads now and most of those folks don't live there any more. Many of them have moved into improved subsidized housing in town or FmHA [Farmers Home Administration] housing.

But today the affordability of housing is an absolute disaster. The marketplace problems that upper- and middle-income homebuyers face may be affected by short-term changes in interest rates. But the long-term solutions to the shortage of good housing for low-income people are still very serious. The state has 194,000 substandard housing units. Housing for the elderly, who live on fixed incomes, is going to be a continuing problem as our population ages. The only way low-income people will receive housing in the future is through government involvement. We don't see the private sector building low-income housing without some public support.

*What is the state's role in housing?*

We see ourselves in state government as having a gap-filling role in the housing field. The gap-filling area has to be viewed as the low- and moderate-income area. I have been in and out of the Department of Administration, in different roles, since 1968. I was involved in the preparation of the state's housing elements and in the development of the N.C. Housing Corporation.

I've seen the whole process take place. The state posture has been to keep an eye on housing and monitor it and, where it was appropriate within a reasonable amount of resources, to step in and take a position or action. We felt that the feds have the major-league role in housing. We also knew that a lot of local communities were very intent on keeping their programs, particularly public housing. So we maintained our gap-filling role.

(continued on page 48)

# An Interview with Gary Paul Kane

Photo by Paul Cooper

**Gary Paul Kane, 39, has been executive director of the North Carolina Housing Finance Agency (HFA) since February of 1981.** An attorney (University of California at Berkeley, 1966), Kane has served as tax counsel for the state of California, vice president and general counsel for the California Housing Finance Agency, and counsel to eight local California redevelopment agencies. From 1979-1981, he served as secretary and counsel to the Mortgage Roundtable, a group of 16 chief executive officers from major financial institutions, in Washington, D.C. While in Washington, Kane also administered HFA programs for the U.S. Department of Housing and Urban Development and served as counsel to the National Association of Home Builders. For more information on the N.C. Housing Finance Agency, see the article on page 2. Bill Finger and Priscilla Cobb conducted this interview with Mr. Kane on June 25, 1982.

*What are the most serious housing problems in the state?*

There are really two, but these are the same kinds of housing problems that exist everywhere. One is the number of substandard units that exist, by whatever definition you want to use. The second is the problem of affordability; people can simply not afford to buy a new house now. Many cannot afford the rents for a newly constructed apartment building.

*Are there any problems peculiar to North Carolina within those two?*

No, I don't see anything peculiar here. There are a large number of people moving into the state. Therefore there's going to be a greater need for housing in this state than there might be in other states.

*How about the fact that we're a very rural state?*

I don't think there is anything peculiar about rural rather than urban areas. There are substandard units in both areas and a lack of needed units in rural as well as urban areas. One difference in North Carolina is in the size of apartment projects. In states with substantial urban populations, these apartment projects consist of 150-200 units. The apartment projects that we finance in this state mainly consist of 30, 40, and 50 units, serving smaller size communities. That's a reflection of perhaps the more dispersed nature of the population of this state.

*What responsibility do you have for developing and implementing a housing policy in North Carolina?*

A housing finance agency is one component of the overall attempt to satisfy the housing needs of the state. We attempt to address the needs of one segment of the population – low- and moderate-income families. We attempt to provide money that might not otherwise exist so that housing can be developed for those people.

*Is that a part of a current housing policy for North Carolina?*

The state has a commitment to housing, expressed through various mechanisms – the Housing Finance Agency, the Department of Insurance, and others. Ours is one component of that overall picture.

*What do you view as the major housing programs in the state today?*

First there are privately financed housing programs by savings and loan associations and others,

# Grimsley

*Do you still think of yourselves that way?*

For the moment, but I'm looking forward to the Ruth Cook Study Commission report [Housing Study Commission chaired by Rep. Ruth Cook, see page 44.] That commission is delving deeper into housing than the state ever has before. It is an exciting project because before this it was tough get a lot of attention to housing.

As long as I have been in this business I have never seen a grassroots clamoring to make housing a top issue in North Carolina. I don't think we ever set out to have a major housing effort at the state level. I don't think any former governor has ever felt that housing was to be a major area. The state did not view itself as being a major factor in the housing industry.

*Do you think it does now?*

I can't say it does but it's the first time we've had a structure — the study commission — that has incorporated such a broad, in-depth perspective on housing. It can raise issues regardless of the power structures, the political bases, and the special interests. I think a new awareness is going to come from the Cook effort. I believe that in 1983 or 1984 we're going to see another move in housing at the state level. I don't know exactly what it's going to be. But there will definitely be some progress made in the further involvement of state and local government. Housing may be the medical care issue of the 80s and 90s.

*Do you think the state needs a housing policy?*

We continually need to be involved in housing, and I think we have a housing policy in a sense. We view housing as an important element in the quality of life in North Carolina, as an important element of economic development. The state of North Carolina has decided that the low- and moderate-income people deserve access to affordable housing so they've gone to a subsidized financial group with the HFA [N.C. Housing Finance Agency]. Establishing the HFA was a major commitment, putting money into the housing business and having the HFA borrow in the state's name. Our willingness to take on the CDBG program [Community Development Block Grant, from the U.S. Department of Housing and Urban Development (HUD)], shows we are now taking on some responsibilities.

*What executive-branch department is responsible for developing and implementing a housing policy for the state?*

# Kane

without any government subsidy or interference. Then there are the heavily subsidized federal programs, which let you reach the really low-income families; these are the HUD [U.S. Department of Housing and Urban Development] and Farmers Home programs [see article on page 57]. The state has the Housing Finance Agency and NicMic [North Carolina Mortgage Insurance Company]. The Department of Insurance has some building and regulatory functions. NRCD [Department of Natural Resources and Community Development] is now working with Community Development Block Grants in small areas. That will have some impact.

*In this array of programs, do you view the role of the N.C. HFA as the principal state housing program?*

I think of it as a major program of the state of North Carolina. We have a responsibility to help provide better housing for a particular group of citizens of this state. That is our stated purpose, to provide funding for housing for low- and moderate-income individuals. A second function is to work with the private sector, to funnel our financing through the private sector and act as a catalyst for the home building and the real estate financing industries of this state.

*Housing finance agencies have a dual mission, do they not, to provide subsidized housing to low- and moderate-income people and at the same time to function as a sound financial institution? Does one mission take priority over the other?*

I see our mission as providing housing for low- and moderate-income people. We do that within the context that we were set up by the legislature to do: to operate essentially as a business, without state appropriations, without administrative expenses [to the state]. To take some risks but to protect the state's credit rating against unnecessary risks. The agency's programs must be self-sustaining, where enough revenue is generated from a bond program to pay the debt service on those bonds. There are no state subsidy funds available so the program has to be self-sufficient. So we operate very much on a businesslike basis. [Since 1974, the General Assembly has appropriated $6 million to the HFA as a reserve for bond issues. The HFA can spend a portion of the interest on this reserve on administrative expenses.]

*Do you think a state housing plan can be developed which guides state housing programs? Or do you have to respond to the bond market and the needs of lenders, factors which are beyond the control of*

The N.C. 2000 Project out of Policy Development [Division of the Department of Administration] is the appropriate place to set those overall goals and parameters.

*What distinguishes the state's current focus on housing – through the study commission and the N.C. 2000 Project – from previous efforts?*

They're more important than the state's housing elements prepared for HUD because they are North Carolina initiatives. They are part of **our** thrust. One is the Governor's initiative; one is the legislature's. They have a great potential for receiving attention because of the personalized leadership.

*Would it be possible to implement a housing policy which identified specific targets, say to rehabilitate houses in the ten poorest counties? Or target particular groups of people?*

We could, certainly, if those were our goals. But targeting geographically is not an agreed-upon policy concept in North Carolina. There's an old basic ethic here that's called equity. It's very hard to give preferential treatment with state money; you can do it with federal, but the state legislature does not buy into that. Through our balanced growth policy, for example, we continue to reach out. We don't let the big cities grab all the dollars. CDBG won't do that, HFA won't do that. There's a benefit to that system, but it also makes it more difficult to target.

The state, on the other hand, does target low-income persons. Any gap-filling we do essentially has to target low-income persons. And we're going to have to look at unique kinds of categories within that income group: single heads of households, elderly, and others.

*Do you think of yourself as the chief executive branch person responsible for housing?*

There are lots of pieces to the pie. The HFA is the primary appropriation base of the state's housing interest. But it's not the only place in state government where things are happening. We've got the CDBG program in NRCD and a uniform state building code, which is another way to maintain the state's housing stock, through the Department of Insurance.

The appropriate thing to say is that I am the [Hunt] administration's spokesman. The Governor still views NRCD as having an interest in housing even though HFA was shifted to another base [Office of State Budget and Management in 1981, before Grimsley came to NRCD]. We maintain our communication with them; we are still working together.

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*any state policy? Put another way, do the financial elements dictate which policy you can follow or is the policy articulated first, and then you follow it?*

It is a complicated question. We are looking to the legislative study commission [Housing Study Commission chaired by Rep. Ruth Cook (D-Wake) see page 44] to formulate its ideas of how housing programs should operate and then follow within that context. I think that Rep. Cook's Commission is making a very thorough study. I think that will help us in maintaining a direction. There are some constraints that market conditions place upon us, constraints as to when we can lend money and the group of people that we can serve. As interest rates go up, for example, it becomes more and more difficult for us to finance single-family housing at affordable rates for people at the low- and moderate-income levels.

*What if a state housing policy – developed by the Cook Commission and then passed by the legislature – mandated some kind of single family assistance that in your judgement would be too risky. How would you reconcile that conflict?*

No conflict has arisen yet. I don't see any conflict necessarily arising from the Cook Commission. If we're given direction by the legislature, then it's our function to try and carry out that direction as best we can.

*What do you think are the state's major housing priorities? Are there geographic priorities, for example?*

There are housing needs all across the state, and we attempt to distribute our funds as equitably as we can across the state. Different communities have different needs and to the extent you're going to tailor programs, you tailor them to the specific housing needs of a particular community. If we found an area of the state that wasn't using our programs as we would like them to do, we would try to get out into those communities to encourage them to use our programs. Our function, as I read the legislative direction, is to spread our resources as equitably as we can rather than to target.

*Do you have to design your programs differently to find people in rural areas to participate in them?*

It does require an outreach effort to reach lenders who lend in rural areas. A rural lender will originate one or two or three mortgages; they won't be generating very many. It takes a while for them to understand how our process works and then go out and make the mortgage money available to people in their communities. We have quite an outreach effort. Before we did this single-family bond issue [November 1981], we made a very concerted effort to make lenders throughout the

# Grimsley

*What type of coordination now exists between NRCD and HFA?*

We have a good flow of talk and conversation with Gary Paul [Kane, HFA executive director]. I get minutes from his meetings; he sends me an agenda. We've been meeting with his staff and they come to our workshops on CDBG grants. He doesn't administer his budget through us. But we're in the process of negotiating an agreement with him to provide the HFA with the resources for one staff person to liaison with us on CDBG. There are benefits to leveraging the CDBG program against any other housing program, whether it's ARC [Appalachian Regional Commission] or Section 8 [HUD rental assistance], or rental rehabilitation. We don't want to get into a great deal of the financing end. If it's a public sector program, the grants will come through us; if it involves the private sector it will probably go through the housing finance agency. So there is going to be some mixing of programs. [For more on the CBDG programs administered by the HFA and NRCD, see articles on pages 2 and 16 respectively.]

I've known John Crosland [chairman of the HFA Board of Directors] for many years; we don't have any problems working across the lines. He's been very conscientious in letting us know what they're doing, in keeping us informed. Day-to-day contact is not so important. But basic coordination is important. Are our policies in agreement? Are we going in the same direction? Are there opportunities to collaborate and do a better job? I don't see any problems of collaboration at present.

*How does N.C. activity in the housing field compare with that of other states?*

If you consider housing in a larger context, keeping in mind that North Carolina is largely rural, we are very favorable. Using clean water bonds, for example, the state has put an awful lot of resources into building the infrastructure of water and sewer which urban areas need to increase their housing stock. [Clean water bonds totaling $380 million were issued between 1974-1981, some of which were used for residential development.]

In the rural areas, North Carolina has used its share of FmHA housing funds – and those funds that other states weren't able to spend – to subsidize rural housing [see article on page 57]. North Carolina has been an effective state working with HUD on urban programs and with FmHA in rural

# Kane

state and especially in rural areas aware of our programs and to encourage them to participate in the programs.

*How about certain population groups? Migrants? Indians? Handicapped?*

I don't know how you determine what group has greater needs than another. Our function is to serve low- and moderate-income individuals. That is a select group.

*How about rehabilitation vs. new construction?*

Both are important. Through our Home Improvement Loan program, for example, we're specifically directing some attention to helping people fix up their houses. There's some housing stock in this state that can be fixed up and make for much better living accommodations. In time this state is going to need more and more units just to take care of the population. That means that you're going to have new construction.

*Will more interagency programs be attempted at the state and/or local levels? For example, you have a kind of interagency program with your Home Improvement Loans. Is that a model you will pursue more?*

Yes, we hope so. The Home Improvement Loan Program is the first time we've worked in partnership with local communities to develop a housing program tailored to the needs of those communities. On our first home improvement loan program, we're working with 11 cities; that would become a prototype so that we can use it in other communities.

*How about with other state departments?*

We have a very close tie with NRCD and their Community Development Block Grant [CDBG] program. [NRCD Secretary] Joe Grimsley, [NRCD Assistant Secretary for Policy Coordination] Billy Ray Hall, and I are in regular communication. I send all of the materials I send to my board members to them just as if they were board members.

*Your primary coordination process now is keeping them posted?*

Talking with them about our programs and discussing how they intend their programs to operate. To try and coordinate those efforts. We're talking very much with each other now about CDBG funds and how they can be best used to tie into our home improvement loan program. I meet with Joe and Billy Ray on a regular basis and my staff people meet their staff on a regular basis, invite them to seminars in local communities to show them how our program is operating, how we're areas. So you see a state that has been working very hard in the area.

*What have been the state's major failures in housing?*

I don't see us having any failures. The Housing Corporation as it was first created didn't work, it didn't get off fast, so I'd say we weren't as successful as we ought to have been in creating that institution. So we recreated it as the Housing Finance Agency.

*Given the past reliance on federal housing programs and the current cutbacks in federal programs, do you anticipate an expansion of the state's housing role beyond gap-filling?*

We've had the Housing Finance Agency's programs. We've had the Appalachian Regional Commission although the ARC is winding down. We've had the "107" program through which the Division of Community Assistance [within NRCD] provides technical assistance to CDBG recipients. The N.C. Mortgage Investment Corporation that Harlan Boyles created shows an intervention by the state.

The government's role depends on what happens to the economy. The economy may come back strong and be able to provide housing for a larger share of the population than at present. If not, the public sector's going to get involved, just like in other countries, in a greater way than ever before.

I see the marketplace being obviously the major force in housing still, and the governments – state, federal, and local – filling the gaps. The larger cities in North Carolina have been moving in on their own to fill the gaps. So the state's really concerned about the smaller cities and rural areas. And of course the FmHA was doing such a great job in the rural area that we didn't have to go into it.

*And the FmHA is being cut back severely now?*

Yes, and that's a whole new program problem. Our Housing Finance Agency doesn't have enough resources to close those gaps of financing. And that's where I think the question arises: How much more of those gaps can we fill?

*What will make the state take a more aggressive stance in filling these gaps?*

Middle-income people who want to buy a home as well as the building and lending sectors are feeling a real pinch in the housing area now. It's no longer just a low-income problem. More segments of the population need assistance with housing-related problems. That might make the difference, might create the support for housing to become a higher priority than it's been in the past. □

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structured, and to see if they have any problems with anticipating how their CDBG program is working.

*How did moving the HFA from NRCD affect your coordination?*

The results of moving the agency out are demonstrated by the fact that since the agency was made quasi-independent by the legislature, we've issued $90 million in bonds. The agency in its previous eight years had only issued $135 million. The proof of the wisdom of the state legislature is what the agency has been able to accomplish. Another factor is that no person can work for two bosses. Under the previous structure I was working both for a board of directors and a cabinet level secretary. A person just can't have two masters. The legislation clarified my reporting responsibilities.

*Do you think there's some duplication of efforts now?*

I don't think so. We're working well with NRCD and their CDBG program. Part of their program will involve housing and I think we have a good communication network with them. Our housing development offices are located in NRCD's field offices. In developing housing in communities, they refer to the resources that NRCD staff people have.

We're attempting to do a housing needs analysis of the state – substandard units, affordability, where housing is needed, etc. It will probably be a six-month study by our staff in cooperation with the City and Regional Planning Department [at the University of North Carolina] at Chapel Hill. NRCD is aware of this, and we will be sharing our information with them. We're going to try to examine statewide housing needs and that means defining substandard housing in more detail than was done in the 1980 Census.

*Do you think we need a state housing department?*

I think that's a question that the legislative study commission is going to address.

*Do you view yourself more as a technician and administrator than as a policymaker?*

Our Board of Directors was given some ability to make policy by the legislature. Our board makes some policy and gives us some direction.

*In many cases you bring policy priorities to the board and then they approve those.*

The function of the staff is to bring ideas to the board and to present the pros and cons of those ideas, the risks involved, and the returns. And then let the board make a decision. □

# Shedding Light on

# N.C. State Government

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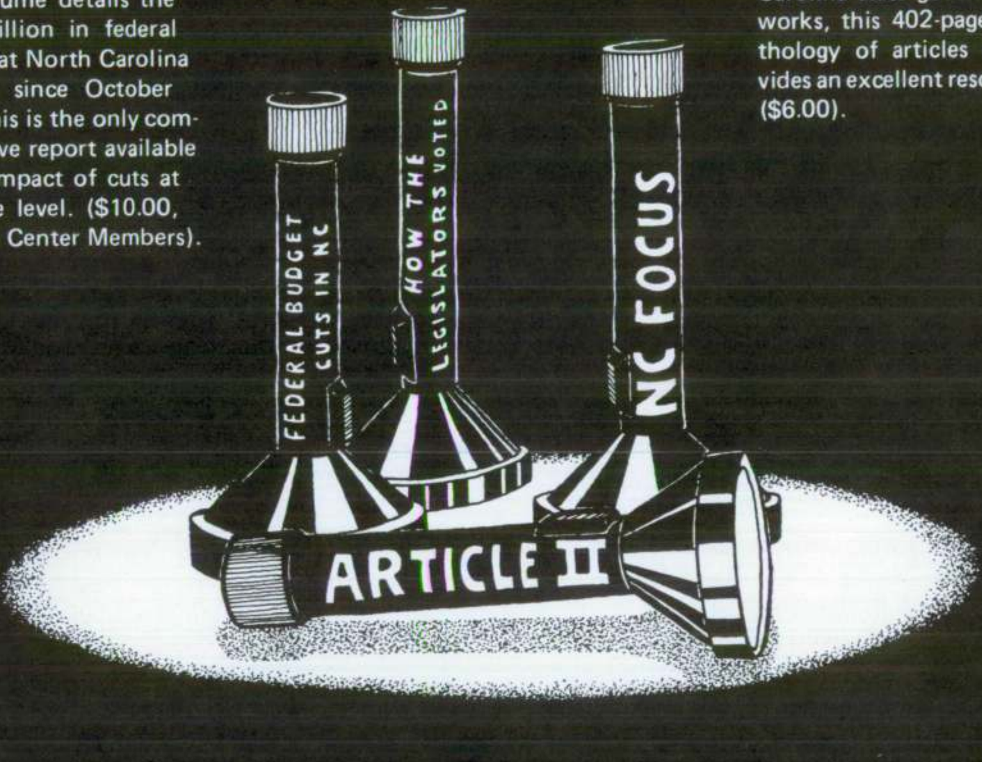


**Article II – A Guide to the N.C. Legislature, 1981-82** (3rd Edition) This book gives background on all members of the N.C. General Assembly including: their education, occupation, committees on which they serve, selected bills introduced, votes on 16 major issues before the 1981-82 Legislature, and an up-to-date effectiveness survey based upon the ratings by fellow legislators, lobbyists, and capital correspondents. ($6.00).

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# *Want a Mobile Home?*

## *Better check the zoning requirements first*

### *by Stephen McCollum*

In early 1981, P.D. and Irene Duggins had a chance to own their first home. Duggins' sister had given him a one-acre lot in a newly annexed part of Walnut Cove, a community in Stokes County 23 miles north of Winston-Salem. A 52-year-old maintenance worker for the Lorillard Tobacco Company, Duggins felt that his age would handicap him in arranging financing for a conventional home. So he and his wife decided to buy a new "double-wide" mobile home instead, a 1,344 square foot beauty that cost $24,500 on the lot.

Before purchasing the home, the Duggins requested and received a permit from Walnut Cove to install the "manufactured" home – as the industry now calls today's version of the house on wheels – on their lot. The Duggins then put $2,474 down, obtained financing at 17½ percent for another $22,026, paid a $200 fee to tap into the town's water system, and arranged for the two sections of their home to be delivered to their land.

"We brought it out on a Wednesday," remembers Irene Duggins, "and the neighbors up the street started fussing about it." As the Duggins were preparing to build a foundation around their new home, town officials halted installation, claiming the placement violated the town's zoning ordinance for a restricted residential area. The Duggins didn't like what they heard. "It's very upsetting to have people tell you where you can or can't live," says Mrs. Duggins.

Backed by the N.C. Manufactured Housing Institute (NCMHI), the industry trade association in Raleigh, the Duggins went to court to contest the constitutionality of restrictive zoning of mobile homes. In May of 1982, N.C. Superior Court Judge James Long ruled that Walnut Cove has the right to exclude mobile homes from residential districts. NCMHI and the Duggins are appealing the decision to the N.C. Court of Appeals. Meanwhile, the Duggins double-wide new home sits nearby on his sister's farm, unoccupied. And the Duggins are still renting. "I've paid on a house for a year and can't even live in it," laments P.D. Duggins.

Photo by Howard Walker, courtesy of *Winston-Salem Journal*

**P.D. and Irene Duggins with their mobile home sitting unoccupied in the yard of Mr. Duggins' sister. The town of Walnut Cove has prevented the Duggins from placing the home on their own property through restrictive zoning. The Duggins are appealing a N.C. Superior Court ruling, which supported Walnut Cove, to the N.C. Court of Appeals.**

No one knows how many people like the Duggins have come up against restrictive zoning ordinances. But statistics do suggest that many North Carolinians may be sharing the Duggins' fate. North Carolina ranks fourth in the nation in sales and shipments of mobile homes. One of every 10 households, according to the 1980 U.S. Census, lives in a mobile home, a percentage that almost doubled during the 1970s. The cost of a mobile home seems to be the most important factor in this trend. In 1981, according to the NCMHI, the average retail price of a mobile home was $13,750. Even if other costs were added to this figure – transportation, land, site preparation, unit set-up, and any additions that make a mobile home appear a more permanent part of the area – it still would fall far below the $41,700 average price tag for all 1981 conventional homes for which permits were issued.

It is clear that mobile homes will continue to be an important housing source for an increasing proportion of North Carolinians, particularly the

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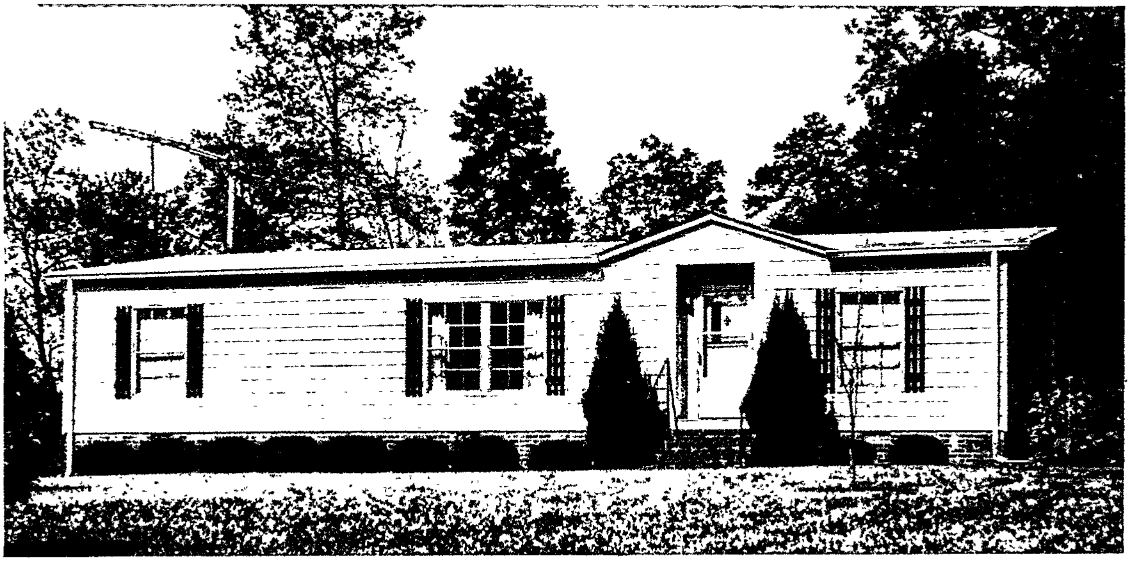


Photo by Stephen McCollum

**Double-wide mobile home in a rural area east of Charlotte.**

moderate-income, rural, and elderly populations. What is not clear is whether these people will continue to face highly restrictive zoning laws regulating the placement of their homes.

Since the 1930s, when the first live-in trailers were hitched to cars, mobile homes have had a transient image. But in the last decade, a decided shift has taken place within the mobile home industry toward a larger and more "conventional" looking home. The multi-section, or double-wide, model now accounts for about 15 percent of annual production in North Carolina and 30 percent nationally. Meanwhile, strict federal construction and safety codes have eliminated the basis for many traditional complaints regarding the quality of mobile houses. Moreover, the trailer image no longer reflects the reality; only four percent of mobile homes are now moved from their original location.

These trends have prompted the industry to begin referring to their product as "manufactured" homes (MHs) rather than mobile homes. "Mobile" reinforces the transient image. "Manufactured" implies soundness and permanence. (The shift in language can sometimes be confusing. One might assume, for example, that a modular dwelling, which is constructed in sections in a factory but assembled on the building site, is included in "manufactured" housing. This article follows the language of the trade association, using "mobile" and "manufactured" interchangeably, but neither includes modular structures.)

Despite the contemporary appearance and quality of manufactured homes, the conventional image remains: "the pink and white rectangular box squeezed into a trailer park by the side of a highway, next to the aquamarine dinosaur in the miniature golf course," as Thomas E. Nutt-Powell put it in *Manufactured Homes – Making Sense of a Housing Opportunity*.

Failing to distinguish mobile-home parks and single placements in residential areas further complicates this persistent image problem. "If it weren't for the bad history of mobile-home parks, they would have been out of the woods on this long ago," says Philip P. Green, Jr., an authority on zoning at the Institute of Government at the University of North Carolina at Chapel Hill. "Most towns now have adequate regulations for mobile-home parks, but they are still uncomfortable about having mobile homes come onto any lot in town. The feelings about property depreciation are so strong it creates political pressure on local leaders. The courts may have to take the lead."

Relying on a 1923 state zoning enabling act that allows municipalities to regulate the use of property for the "general welfare of the community,"[1] local officials have restricted mobile home location. While mobile home owners have contested the degree to which their homes do indeed detract from the "general welfare of the community," the North Carolina courts have stood firmly behind the local officials. As recently as 1980, the N.C. Court of Appeals held that "mobile homes are sufficiently different from other types of housing so that there is a rational basis for placing different requirements upon them" (*Currituck County v. Willey*, 46 N.C. App. 835). That "sufficiently different" assertion by the court is at the heart of the zoning debate over manufactured homes.

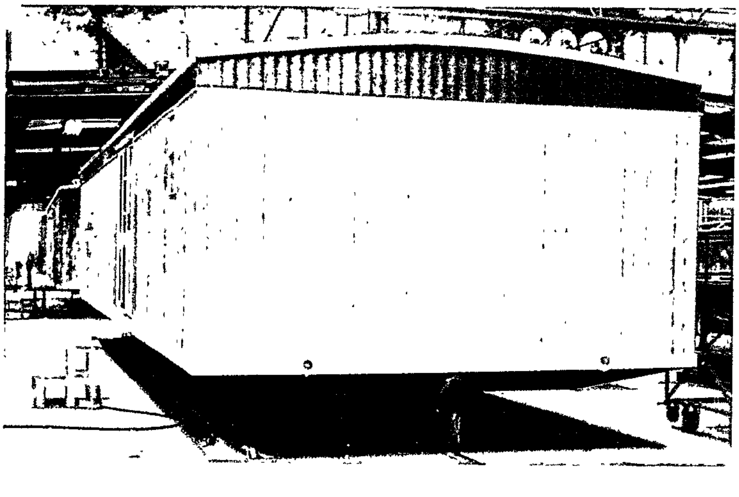
There is a certain irony in this "sufficiently different" rationale. While the judicial branch has reinforced a restrictive policy, effectively separating manufactured from conventional site-built housing, the legislature has taken the lead nationally in regulating manufactured housing. Legislation has served to upgrade the quality of mobile homes and make them more competitive with site-built homes. In 1969, the state legislature enacted the Uniform Standards Code for Mobile Homes, affecting all mobile homes produced after July 1, 1970. Congress did not take similar action until five years later, passing the National Manufactured Home Construction and Safety Standards Act. The U.S. Department of Housing and Urban Development (HUD) administers this code, which pre-empted the state act. The state and federal actions have resulted in upgrading the quality of the building materials used in mobile homes, effectively reducing the number of homes easily susceptible to damage by fires and high winds. This upgrading process has in turn increased consumer pressure to allow manufactured homes into previously restricted residential districts.

For example, in Mt. Holly, a town in Gaston County west of Charlotte, an increasing number of double-wide, manufactured home owners recently requested permits to place their homes in restricted areas. In response to this pressure, Mt. Holly changed its ordinance, now allowing double-wide MHs in approved residential areas, provided the MHs meet specific "appearance criteria," on roof pitch, facade, foundations, and other features. "It was suggested that manufactured homes be kept in moderate-to-low income areas," says Allen Medlin, planning and zoning director for Mt. Holly, "because the homes serve people out of the conventional home price range." But Medlin, who says he welcomes the zoning change, sees a definite shift toward a wider acceptance of manufactured houses in the future "because that is what people can afford."

A similar kind of change is underway in Union County, on the east side of Charlotte. "We've had to turn down a lot of people who want mobile home [permits]," says the county's planning director, Luther McPherson. For over a year, officials have been debating a proposed zoning amendment that would reduce the lot size requirement for a manufactured home. After the county planning board initially rejected the amendment, McPherson drafted a new ordinance based on an American Planning Association model. The latest draft, which has not passed as of this writing, divides manufactured homes into three classes based on such appearance standards as minimum width, roof, pitch, exterior facade, and permanent foundation. The Class A home, which would most closely resemble conventional single-family homes, would be the least restricted of the three classes of manufactured homes by the new ordinance.

The N.C. Manufactured Housing Institute supports such zoning efforts as the Mt. Holly and Union County officials are pursuing. William Maskal, a zoning consultant for the NCMHI, has drafted a model zoning ordinance similar to the one being considered in Union County. "The idea that zoning is not supposed to deal with aesthetics is just not true any more," says Maskal. On May 4, 1982, the N.C. Supreme Court made a finding that supports this position. Reversing a long-standing legal doctrine in the state, the high court gave local governments the flexibility to base planning and zoning decisions solely on aesthetics [*State v. Jones,* 305 N.C. 520 (1982)].

Maskal believes the model ordinance, if adopted in enough towns across the state, would open up the market and make manufactured homes available to first-time buyers and persons on fixed incomes who can't afford or qualify for conventional housing. "Land use and zoning policies have consistently discriminated against manufactured housing by being exclusionary or limiting its placement to uncomplimentary sites," says Maskal.



**Mobile home comes off the assembly line at Carolina Homes, Inc. in Rockwell, North Carolina.**

Photo by Stephen McCollum

Basing local ordinances on aesthetics rather than image represents only one of the recent policy shifts in support of manufactured homes. In August of 1981, the Federal Home Loan Bank Board (FHLBB), the regulatory agency for federal savings and loan associations, said that manufactured housing which is permanently affixed to a lot could be treated by lenders as real, rather than personal, property. (This ruling also applied to associations chartered in North Carolina.) Historically, mobile homes have been treated as personal property, like a car, for taxing and financing purposes. The new FHLBB rule allows a manufactured home to be financed just like a site-built home, which means lower down payments and a longer term of payments than in the past. Shortly after the FHLBB action, the Federal National Mortgage Association (FNMA, known also as Fannie Mae) announced that it would buy mortgages on manufactured housing, an action sure to increase a saving and loan association's willingness to make loans for MHs.

Some states have also begun to treat manufactured housing more like conventional homes. California and a number of other states, for example, now tax mobile homes as real property, like a conventional house, not as personal property. In addition, 14 state housing finance agencies have assisted in some type of financing for mobile homes. And even in the controversial area of zoning, California, Vermont, New Hampshire, and Florida have enacted non-discriminatory zoning statutes prohibiting local governmental jurisdictions from excluding manufactured homes except through the use of appearance criteria similar to those included in the Mt. Holly ordinance.[2] (California and Florida, like North Carolina, are among the leading states for number of residents living in mobile homes and number of such homes produced.)

North Carolina has a mixed record concerning policies affecting manufactured homes. As mentioned earlier, the state took an aggressive stance on construction and safety standards, enacting legislation five years before federal action. In addition, in 1981 the General Assembly found that "mobile homes have become a primary housing resource for many of the citizens of North Carolina" and created a Manufactured Housing Board. The new Manufactured Housing Board, which began operation in 1982, will administer a warranty program, will license manufacturers and dealers, and will monitor consumer complaints. The nine-member board includes the N.C. Commissioner of Insurance, six representatives from the various sectors of the manufactured home and finance industries, and two public members. The NCMHI worked closely with the Department of Insurance, which monitors consumer complaints in accord with the HUD code, in the development of the Manufactured Housing Board. NCMHI Executive Director Becky Griffin says that the creation of this state board does not mean the industry is over-regulated. The board can "only be a plus factor for our credibility," says Griffin.

While taking major initiatives in safety standards and monitoring of the industry, the state has pursued a much more passive stance towards zoning, tax, and finance issues. For example, the N.C. Housing Finance Agency does not have a program designed specifically to help finance mobile homes, a difficult task in today's financial world but one which could be considered. Regarding property taxes, local governments can now choose how to tax mobile homes. The General Assembly could vote to require local governments to tax mobile homes as real property, a complex policy decision but one worth thoughtful debate. But the major deterrent towards the industry's breakthrough into the mainstream of the housing market remains the zoning battle.

At a time when a conventional home is too expensive for an increasing number of North Carolinians, more and more people are beginning to question the value — and the legality — of ordinances restricting mobile-home locations. If zoning ordinances were altered to reflect appearance standards, more North Carolinians might consider a manufactured home as a viable option in a tight housing market. Becky Griffin, the NCMHI director, does not live in a manufactured home yet. "But I would in a minute if I could put it where I wanted it," she says.

Is Ms. Griffin taking a public relations stance expected from a person in her position? Or is she reflecting an important new trend among potential homeowners? To discover just how many persons would choose mobile homes in today's market, state officials will have to take a serious look at the central policy questions still unresolved in North Carolina regarding mobile homes:

- whether to tax them as real or personal property;
- whether to finance them through state-supported lending programs; and
- whether to zone them in a non-discriminatory fashion. □

**FOOTNOTES:**

[1]*N.C.G.S. 160A-381.*

[2]*California Government Code Section 65852.7; Vermont Statutes Annotated Title 24, Section 4406(4)(A); New Hampshire Revised Statutes Annotated Section 36-C:2(IX); and Florida Statutes Annotated Section 320.8285(5).*

# Farmers Home Administration (FmHA)
## For Many North Carolinians, It's "The Loan"

by Ferrel Guillory

A young Raleigh woman recently bought a three-bedroom, passive solar heated house in Zebulon, a town of 2,055 just east of the capital city. With an annual income of about $12,700, this woman could not have afforded the $42,000 home at today's mortgage interest rates of 14 to 17 percent. But because she was willing to live in a small town and because of her income level, she qualified for a Farmers Home Administration loan. Though she is not a farmer, she got a mortgage at 3¾ percent, keeping her monthly payments at a manageable $212.

Since 1968, when the Farmers Home Administration (FmHA) moved into the housing business in a major way, some 75,000 North Carolina families have been able to purchase homes at interest rates substantially below market levels. The FmHA rental housing program has also helped to finance some 8,000 units in rural areas, says Thurman Burnette, who heads the FmHA's housing division in North Carolina. For thousands of low- and moderate-income people in the rural reaches of North Carolina, FmHA has served as the primary source of affordable mortgage credit, the key to ownership of a decent dwelling.

Before joining the state FmHA office, Thurman Burnette ran the agency's Hyde County office. "In Hyde County," Burnette recalls, "I doubt if many people knew what FmHA was. We were just 'the loan.'"

In this state, poverty and its accompanying problem of inadequate housing are spread widely from hollows to branch heads, from back roads to small towns. Almost half of the 330,000 Tar Heel households below the poverty level live in rural areas. In the extremely rural Bertie, Gates, Madison, Northampton, and Warren Counties, one of every five housing units lacks complete plumbing; this is the primary measuring tool for substandard housing used by the U.S. Census.

In the 1970s, North Carolina made substantial gains in improving its housing stock, according to

**A new FmHA home ready for sale in Wendell, N.C., 1982.**

the "complete plumbing" criteria. During the decade, the number of year-round units without complete plumbing dropped 54 percent from 252,000 to 116,000. Much of this improvement took place in the rural parts of the state. FmHA cannot take credit for the entire decline, and indeed some of the state's worst housing remains in the mountain hollows and on the dusty back roads. But as the principal government housing program in rural areas, perhaps FmHA can claim, as Burnette says, to have "taken the top off" the rural housing problem.

FmHA — the lower case "m" sets it apart from its widely-known bureaucratic cousin FHA, the Federal Housing Administration — is a division of the U.S. Department of Agriculture. Created in 1948 out of the old Farm Security Administration, FmHA was conceived as an agency to help small farmers who couldn't get money anywhere else. Farmers must borrow large sums each year to get their crops in the ground. FmHA developed primarily as a lending institution to meet this need.

In the 1960s Presidents Kennedy and Johnson drafted FmHA into the war on poverty, considerably expanding the FmHA into the housing field. Since 1968, the FmHA has run a wide variety of housing-assistance programs, particularly a subsidized mortgage program for single-family homes. In addition, the FmHA:

- provides some unsubsidized mortgages to persons above FmHA income limits;

*Since 1972, Ferrel Guillory has been a political reporter for* The News and Observer *of Raleigh, as the chief capital correspondent and head of the Washington bureau. Now associate editor, he is responsible for the editorial page. Photo courtesy of Farmers Home Administration, Raleigh office.*

> **Farmers Home "has taken the top off" the state's rural housing problem.**
>
> *Thurman Burnette, FmHA housing division*

- grants loans to developers of multifamily rental housing so that reduced rents can be offered (rents in new FmHA financed units average about $200);
- makes housing grants to the low-income elderly for repairs;
- supports a farm-labor housing loan program;
- sponsors a housing-repair loan program for very low-income persons;
- maintains a group of model housing plans, including a passive solar design (about 500 solar homes in North Carolina have been financed since 1980); and
- makes site loans to non-profit organizations.

The law requires FmHA to target its housing assistance both to rural areas and to persons of low and moderate incomes. It can serve communities with a population up to 20,000 (up to 10,000 in metropolitan areas, thus excluding places like Cary, near Raleigh). For its mortgage subsidy and rental assistance programs, the maximum adjusted gross income of participants in 1981 ranged from $12,000 to $15,000. The interest rates on mortgages often were three to four percent.

In the case cited at the beginning of this article, the FmHA required the woman to devote 20 percent of her income to the house payment, taxes, and insurance. FmHA shares in the appreciation in the value of her home, eventually recapturing the subsidy on the interest rate if the house is later resold at a higher price. Because her lot had an $8,000 selling price, the $42,000 mortgage exceeded somewhat the standard FmHA loan. More typically, a mortgage will be no more than $38,000.

"Farmers Home is that rare federal bird, a direct lender," explains Martin Mayer in *The Builders – Homes, People, Neighborhoods, Governments, Money*. Applications for mortgages are made directly to FmHA county agents, a process that helps insure a foreclosure rate lower than other federally-supported housing programs. "While the FHA loses 85 percent of its insurance guarantee on the average foreclosure," Mayer wrote in 1978, "FmHA rarely takes a significant loss, because rather than go through a court proceeding (during which the householder in possession tends to let the house deteriorate mightily), FmHA agents try to find new purchasers for the home." In 1981, FmHA had 280 foreclosures and 148 voluntary conveyances on loans outstanding in North Carolina. Together, these account for less than one percent of the 63,000 total FmHA loans outstanding in the state.

At the FmHA prices, there are usually a lot of customers for vacated homes, especially in North Carolina which recently has received more FmHA housing funds than any other state. For fiscal 1982, North Carolina received an initial allotment for the FmHA single-family subsidized program of $115.6 million. Puerto Rico had the next highest allocation of $90.3 million. Under the rental program, North Carolina had a $46.2 million allocation, with Texas next at $44.5 million. Because of the popularity of the program, North Carolina has often drawn beyond its initial allocation. In fiscal 1981, for example, North Carolina had a $126 million allotment for the single-family program but eventually provided loans totaling $175 million. North Carolina gets such large amounts of FmHA money because of the distribution formula, which favors a heavily rural and poor state (see box on page 59). FmHA arranged these loans through 87 local offices working in all 100 counties. The FmHA staff in North Carolina totals 386, all of whom are employees of the U.S. Department of Agriculture.

FmHA in North Carolina has also benefited from having active political support. In 1948, U.S. Rep. Harold D. Cooley of North Carolina sponsored the original FmHA legislation. And from 1975-81, then U.S. Sen. Robert Morgan chaired the Senate's rural housing subcommittee where he functioned as an FmHA proponent. While there has sometimes been political turmoil surrounding the appointment of the N.C. FmHA diector, the housing division has had relatively stable leadership. Thurman Burnette is only the second state housing director, having moved up from deputy. He succeeded James O. "Buck" Buchanan, who joined the agency in the late 1940s and has long been active in the Democratic Party. Buchanan's wife, Barbara, is the personal secretary of N.C. Governor James B. Hunt, Jr.

Despite the successes that FmHA has achieved both in North Carolina and nationwide, the program has come under criticism from several quarters. Some have found FmHA a slow-moving, excessively bureaucratic agency. A year or more can elapse from the application for a loan to the actual occupation of a dwelling. David Raphael, executive director of Rural America, a non-profit organization created in 1967 under the name Rural Housing Alliance, said his members have become "increasingly concerned about the sluggishness, the bureaucratic administration" of FmHA. He said the agency has been largely unresponsive to community organizations and that a "serious reexamining" needs to take place.

A second area of concern lies more with the FmHA as a whole than with the housing division. The U.S. Civil Rights Commission, Legal Services of the Coastal Plain, and black farmers have accused FmHA of discriminating against black-owned farms. "The primary federal agency on which small farmers depend – the Farmers Home Administration – seems to function as a friend for only certain types of farmers," says Frank Adams, a community educator in Gates County. While these groups have leveled their charges (including legal actions) at the farm-loan side of FmHA, not the housing program, the negative effects inevitably spill over to the entire agency. (See "How Can a Farmer Survive Without any Land," *N.C. Insight,* Vol. III, No. 2.)

Asked about FmHA's bureaucratic tendencies – its non-risk-taking style for marginally qualified loan applicants and the discrimination charges – Burnette characterized the N.C. FmHA housing program as "a liberal lender with a firm collection policy." For a liberal program to be successful, Burnette said, "you had better operate it conservatively." Put another way, as a close FmHA observer explains, if there is a bias in FmHA loans, it is a hesitancy to take a risk on economically borderline families, many of whom are black.

Perhaps the most serious criticism – certainly the most threatening – comes from the budget cutters within the Reagan administration. In his proposed fiscal 1983 budget, President Reagan moved to reduce substantially FmHA's role in housing assistance, calling for a 67 percent reduction, from $4.2 to $1.4 billion.

"Farmers Home should not be considered as the major housing lender in rural areas," Charles W. Shuman, national FmHA administrator, wrote in a memo to state directors. "This role is adequately being filled by the private banking industry." In a briefing for a group of journalists, U.S. Secretary of Agriculture John Block conveyed the Reagan administration viewpoint far more bluntly: "FmHA has really gotten entirely out of hand. It was throwing money around like confetti. This administration is not going to do that."

Congress rejected Reagan's original budget proposal for 1983, and as of this writing, the level of future FmHA housing appropriations remains unclear. Several budget proposals before Congress would keep FmHA at its 1982 funding level. But a bill pending in the Senate would allow FmHA to provide loans only at unsubsidized market interest rates and would create a new block grant to the states for rural housing assistance.

Even if FmHA withstands the attempt at budget-cutting this year, Raphael of Rural America predicts that Farmers Home will be "increasingly in jeopardy." The uncertain future for FmHA puts Raphael and other advocates of rural development in a bind. While Raphael criticizes how FmHA is administered, he also calls it "the only game in town" for rural housing assistance.

The question, therefore, is whether FmHA will be reformed or restricted. If FmHA's housing assistance is severely restricted, North Carolina, as the largest user of the program in the country, will have the most to lose. □

## *How FmHA Distributes its Funds*

The national Farmers Home Administration distributes subsidized funds for its major single-family, low-income program (the 502 program) according to four factors:

Factor A: state percentage of national rural population;

Factor B: state percentage of national rural population living in substandard dwellings;

Factor C: state percentage of national rural population below the poverty level;

Factor D: average cost indicator for housing in the state.

FmHA uses these four factors to determine the annual allocation for each state through the following formula:

**(Factor A x .30 + Factor B x .30 + Factor C x .30 + Factor D x .10) x Funds Available = State Allocation**

Some states do not use their entire allocation. These unused funds go into a reserve pool from which other states with active programs, such as North Carolina, draw additional funds. In 1981, for example, North Carolina had a $126 million allocation but distributed $175 million, using the reserve pool for the extra funds. The top five allocations in 1981 (in millions) were:

| | |
|---|---|
| North Carolina | $125.7 |
| Texas | $ 94.4 |
| Puerto Rico | $ 94.1 |
| Georgia | $ 82.2 |
| Kentucky | $ 78.5 |

# FROM THE CENTER OUT

## *Recommendations for the State*

"As long as I have been in the business I have never seen a grassroots clamoring to make housing a top issue in North Carolina," said Secretary of Natural Resources and Community Development Joseph Grimsley, a 15-year veteran of government service, in an interview for this issue of *N.C. Insight.* "But there will definitely be some progress made in the further involvement of state and local government. Housing may be the medical care issue of the 80s and 90s."

A month after Secretary Grimsley made these statements, Governor James B. Hunt, Jr. released the results of a survey conducted by the North Carolina 2000 project. The 2000 project had distributed a questionnaire throughout the state asking citizens what their priorities of needs were and had tabulated the results from 112,000 returned questionnaires. "The availability and cost of housing ranked third on the list of improvements needed, which I believe reflects the current problem with high interest rates," reported Gov. Hunt.

No wonder that housing ranked third behind jobs and education in the priority of issues. The median purchase price of a home in the South increased from $52,000 in 1979 to $72,500 in 1981, according to the U.S. League of Savings Associations, an average price higher than that in the Northeast or North Central regions. Meanwhile, the home building and lending industries face severe hardships as interest rates soar, and 1 of every 12 North Carolinians continues to live in substandard housing. Moreover, federal housing policies and programs are going through a major overhaul, forcing the states to define their role in the housing arena.

No single advocacy center for housing issues exists within North Carolina state government. Home builders lobby for their interests, and consumers work for their concerns. State officials in 11 different departments administer programs affecting various aspects of housing. The regional councils of governments survey housing problems in their areas and search for the right office or program to help. City and county officials work with the private sector, with the U.S. Department of Housing and Urban Development, and with state offices.

In this issue of *N.C. Insight,* a number of policy questions have emerged. Unfortunately, the N.C. Center for Public Policy Research cannot identify a single state official or department to which to address these questions, for no one person has responsibility for housing issues. With a few possible exceptions, problems in the housing area may have the most diffused advocacy structure of any issue of urgency in the state. And yet a decent shelter remains one of the essentials of life.

"There's great difficulty in getting it all together," says Durwood Stephenson, past president of the N.C. Home Builders Association and currently representing the industry on the Housing Study Commission. "If we had a focal point, a quasi-housing department, then we'd be better off."

Three possible options exist to streamline the labyrinth of responsibilities in the housing field.

1. **Some coordinating mechanism with power could be created through which all housing recommendations could be channeled.** Such a coordination vehicle could be located in the governor's office. One caution about a coordinating vehicle: This effort must not substitute for necessary housing programs themselves. There is also a danger that such a vehicle would disappear as priorities and administrations change.

2. **A new Department of Housing could be established.** Such an effort would not necessarily require an expanded bureaucracy. Existing housing-related functions could be moved from their current administrative home into a new department with one central purpose. While bureaucracies inevitably work to avoid losing any programs, they also bow to strong and well-conceived leadership.

3. **The Department of Natural Resources and Community Development could be split into a Department of Housing and Community Development and a Department of Natural Resources.** Such an effort would be part of a larger movement to reorganize the Department of Natural Resources and Community Development. Since the reorganization of this department in 1977, many have felt that the natural resources and the community development components have never meshed into a unified structure. In the 1981 session of the General Assembly, a bill was introduced to study the establishment of a Department of Natural

Photo courtesy of N.C. Division of Archives and History

Resources (HB 959). The bill was ratified but no appointments were made by the Legislative Research Commission. The time might be right for addressing housing needs through such a reorganization effort.

If one of these three options is followed, the recommendations below would certainly have a better chance of receiving full consideration. Even without a consolidation of housing programs, the following recommendations — taken from the articles in this issue — deserve attention.

### Establishing a State Housing Policy

- Specify the housing goals the state will pursue, according to their priority. Fund these goals according to a state housing plan.
- Target available resources to geographical areas or to particular population groups which have the greatest housing needs.

### Small Cities Community Development Block Grant (CDBG)

- In administering the CDBG Small Cities program, North Carolina should attempt to serve at least as many low- and moderate-income people as the program served in the past.
- Housing should continue to be the primary emphasis of the Small Cities CDBG Program.

### Housing Finance Agency (HFA)

- The HFA programs should continue to assist low-income persons, not become entirely moderate-income programs.
- The state should fund the HFA to assist it in serving low-income persons.
- The HFA should target its resources to particular geographical areas and population groups which have the greatest housing needs.
- The HFA should avoid possible conflicts of interest. Consumer groups should be represented on its board as well as building and lending industries.

### Neighborhood Housing Services (NHS)

- Establish an NHS foundation to make matching grants to local NHS programs.
- Offer tax credits for contributions to NHS and other nonprofit housing organizations.

### Mobile Homes

- Consider taxing mobile homes as real rather than personal property.
- Finance mobile homes through state housing programs.
- Require non-discriminatory zoning of mobile homes by local governments. □

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