HOUSING PROBLEMS OF THE ELDERLY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON HOUSING FOR THE ELDERLY

OF THE

SPECIAL COMMITTEE ON AGING UNITED STATES SENATE

EIGHTY-EIGHTH CONGRESS

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NOTE.—Three hearings on housing were held and they are identified as follows:
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Part 2—Los Angeles, Calif.
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HOUSING PROBLEMS OF THE ELDERLY

WEDNESDAY, DECEMBER 11, 1963

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

The subcommittee met at 10 a.m., pursuant to call, in room 1318 New Senate Office Building, Senator Frank E. Moss (chairman of the subcommittee) presiding.

Present: Senators Moss and Mechem.

Staff members present: J. William Norman, staff director, Special Committee on Aging; Frank C. Frantz, professional staff member, Subcommittee on Housing for the Elderly; John Guy Miller, minority staff director; and Gerald P. Nye, professional staff member (minority).

Senator MOSS. The subcommittee will come to order.

We expect there will be some additional members of the subcommittee joining us. This is a rather busy time with a lot of conferences on between the Houses and a number of hearings underway, especially on appropriations, so it is difficult to gather a full complement of the subcommittee.

We are pleased to be here today to hold a hearing of the Subcommittee on Housing for the Elderly. We are going to hear today from representatives of our Federal agencies who are particularly concerned with the problems that this subcommittee is now investigating.

We are currently engaged in compiling information on the status and accomplishments of the various Federal programs which assist in providing housing for the elderly. The agencies responsible have been gathering a considerable amount of information which we have requested, and this hearing will give us an opportunity to discuss, face to face, current activities and problems in these programs.

This hearing, too, will give the subcommittee valuable background information for field hearings we are planning to hold at which we will hear from sponsoring groups and others who are interested in improving the housing of the elderly.

We have represented here today all of the Federal agencies with major programs designed to meet the housing needs of older people. Three of these programs are assigned to three constituent agencies of the Housing and Home Finance Agency. Representatives of these agencies are present, with Mr. Sidney Spector, who coordinates these programs in the Office of the Administrator. We also have representatives from the Farmers Home Administration to discuss their programs for the elderly established by the Senior Citizens Housing Act of 1962.

I would like to have this hearing proceed with somewhat less formality than the usual Senate hearing, and to have a meeting in which we can have some free and lively discussion of these programs.

Now, Mr. Spector, if you will lead off and introduce your associates who are seated at the table, you may proceed from there as you would care to do.

HOUSING AND HOME FINANCE AGENCY

STATEMENTS OF SIDNEY SPECTOR, ASSISTANT ADMINISTRATOR FOR HOUSING FOR SENIOR CITIZENS; SIDNEY H. WOOLNER, COMMISSIONER, COMMUNITY FACILITIES ADMINISTRATION; STANLEY BERMAN, ASSOCIATE DEPUTY COMMISSIONER, FEDERAL HOUSING ADMINISTRATION; C. FRANKLIN DANIELS, ASSISTANT COMMISSIONER FOR MULTIFAMILY HOUSING, FEDERAL HOUSING ADMINISTRATION; AND JOSEPH BURSTEIN, GENERAL COUNSEL, PUBLIC HOUSING ADMINISTRATION

FARMERS HOME ADMINISTRATION

BERNARD H. POLK, ASSISTANT ADMINISTRATOR, REAL ESTATE LOANS, AND LOUIS D. MALOTKY, DIRECTOR, RURAL HOUSING LOAN DIVISION

Mr. SPECTOR. Thank you, Mr. Chairman. It is a pleasure to be here this morning.

I would like to introduce my associates here at the table.

On my left is Mr. Sidney Woolner, who is the Commissioner of the Community Facilities Administration; and next to him, on the left, is Mr. Joseph Burstein, who is the General Counsel of the Public Housing Administration; and on my right, Mr. Frank Daniels, the Assistant Commissioner for Multifamily Housing in the Federal Housing Administration; and next to him, Mr. Stanley Berman, who is Associate Deputy Commissioner of the Federal Housing Administration. These are the constituent agencies involved with programs for the elderly in the housing agency.

And at the end of the table, the Farmers Home Administration, I think Mr. Polk would like to introduce himself and his associate.

Senator MOSS. Do that, please, Mr. Polk.

Mr. POLK. Thank you. We are pleased to be here, too, Mr. Chairman.

I am Bernard Polk, Assistant Administrator for Real Estate Loans; and this is Mr. Malotky, Lou Malotky, the Director of our Rural Housing Loan Division for the Farmers Home Administration.

Senator MOSS. Very good. We are pleased to have all of you gentlemen with us and we look forward to making a very good record on which we can build for our field hearings.

Mr. SPECTOR. If you like, Mr. Chairman, I would read this short statement that I have here on the programs in the Housing Agency, and then discuss any questions that the committee would have.

Senator MOSS. All right.

Mr. SPECTOR. It is a great pleasure for me to represent the Housing and Home Finance Agency before this subcommittee, which has made such substantial contributions to the field of good housing for America's senior citizens. The work of this subcommittee and its excellent staff has helped make available new opportunities for dignified living in the retirement years.

One of the significant developments of recent years has been the recognition by private, voluntary organizations of a special responsibility to provide opportunities for suitable housing for older Americans. Civic, fraternal, and church groups, labor unions, business organizations, and State and local agencies, have taken initiative—with the assistance of Federal financing programs—to build and operate housing specially designed for the elderly.

They have assumed this responsibility not only as a matter of meeting an immediate social need, but as a continuing long-term obligation. It represents a historic example of effective cooperation between Government and private voluntary groups to enable senior citizens to achieve a better standard of living and a more active, useful role in society.

Those concerned with housing for the elderly today recognize that Americans are living longer, healthier, more active lives. Such housing is, therefore, designed for efficient living and takes into account physical and psychological changes which occur with age. Through specially designed facilities it is hoped that independence and meaningful activity by elderly occupants will be sustained even when some disability or decline occurs.

With the passage of the Housing Act of 1961, the Housing Agency has a basic set of programs which seek to meet the varied housing needs of America's senior citizens flexibly and quickly.

These programs include low-rent housing with Federal contributions, direct loans at below-market rates of interest, and mortgage insurance for rental and individually owned housing and for proprietary nursing homes. They offer a wide choice for sponsoring organizations and older persons to select the kinds of housing they desire to meet their individual needs.

Early in 1961, the Administrator of HHFA created the Office of Housing for Senior Citizens to assist in coordinating the policies and standards of these senior citizen housing programs. Through this Office, the Agency has developed a common policy on the objectives of senior citizen housing and has worked out a generally common set of technical standards. The Office provides informational and technical services to sponsors, is a clearinghouse of information on each of the programs, thus minimizing duplication of activity and enhancing the exchange of knowledge.

Actual operation and administration of these programs, however, continue as the responsibility of the constituent operating agency: Public Housing Administration for the federally subsidized housing, Community Facilities Administration for the direct loan program, and the Federal Housing Administration for mortgage insurance aids.

Now, the first of these programs is that of low-rent public housing.

The Public Housing Administration administers a low-rent housing program for the elderly providing Federal financial and technical assistance to local housing authorities in this field. Annual contributions can be made by PHA to cover interest and amortization of the capital cost of the project but the dwellings are planned, built and operated by local housing authorities. The Housing Act of 1961 authorized an additional subsidy of up to $120 a year for units occupied by older persons where this is necessary to make the project solvent.

During fiscal year 1963, almost one-half of all public housing units placed under annual contributions contracts were specially designed for low-income elderly. In this program, there are annual examinations of tenant income for purposes of determining continued eligibility for occupancy.

Today, approximately 129,000 elderly families are living in public housing units of all kinds. Since rents charged are based on the occupant's ability to pay, local authorities can, with the contributions that are authorized, make suitable housing available to older persons of low income at rentals averaging around $32 per month.

The PHA is opening new opportunities in the low-rent public housing program for the construction of facilities for older persons who need some help in their daily living. These group residential facilities can include dining rooms, activity areas, and with the cooperation of the Department of Health, Education, and Welfare, ready access to a full range of community health and social services.

In this environment, the older person who may need some assistance, but who no longer wishes or is able to live in a fully self-contained unit, can be offered a dwelling place in a regular community in housing of his own choice—to live as independently as his capacities permit without being institutionalized.

The second program is that of direct loans.

For eligible senior citizens in the lower middle income range, the Housing Agency—through the Community Facilities Administration—may make direct loans of up to 100 percent of development cost for rental or cooperative housing and related facilities. These loans are at a below-market rate of interest, currently 3⅝ percent, and they may be for terms as long as 50 years in order to achieve the lowest possible rents.

This is the newest program. It started in 1959 with an authorization of $50 million and has grown in the past several years to a recently authorized total of $275 million. Of this amount, $150 million has been appropriated through fiscal year 1963, and another $100 million of appropriation has been approved by the conferees to be included in the independent offices appropriation bill for fiscal 1964.

As of September 30, 1963, there were 24 projects completed and occupied and 24 more under construction, for a total of 4,510 units. In addition, funds had been reserved for 76 projects, amounting to 9,044 units. In total, investment of housing for the elderly under this direct loan program has amounted to more than $150 million.

The third major program is administered by the Federal Housing Administration. It is authorized to insure private lenders against losses on mortgages on homes and apartments occupied by persons 62 years of age and over. It is a total program designed to give free, wide choice to an older person in selecting his residence.

Under this FHA program, profit-motivated and nonprofit groups may be eligible for insured loans to construct or rehabilitate rental housing for senior citizens. For nonprofit groups, insurance can go up to 100 percent of replacement cost and for profit-motivated groups up to 90 percent. The maximum rate of interest is 5¼ percent, plus one-half of 1 percent mortgage insurance premium. The term of the loan may be up to 40 years.

On January 1, 1961, there were approximately 9,000 units under commitment for a total mortgage insurance of $88.5 million. As of September 30, 1963, the FHA had made total net cumulative commitments (including initial and final endorsements) of 31,552 units for a mortgage insurance amount of $371 million.

In total, the FHA had 273 rental housing projects either committed or actively being processed, representing 43,319 units, and mortgage insurance of $517 million. Of these, 121 projects were completed and occupied, providing 14,432 units. Ninety-three additional projects for 17,120 units were under construction or had received commitment for insurance.

In addition, the FHA may insure mortgages for proprietary nursing homes for up to 90 percent of estimated value. As of September 30, 1963, the FHA had issued commitments (including insured mortgages) for 25,427 beds, amounting to $157.4 million in mortgage insurance.

The objectives of our national housing policy have been and will continue to be broadened through the emergence of the growing aging population as a major social phenomenon of our times. The need must be met for good housing adapted to the physical, psychological, and economic changes which take place with age: Housing designed to achieve independence and dignity; housing which the aging can afford; housing which nurtures self-respect and usefulness in the retirement years.

Senator Moss. Thank you, Mr. Spector. That is a very good statement.

Do your colleagues have anything to add at this time, or shall we proceed? As I said, this is to be very informal. This is to be a discussion as much as anything.

Mr. Spector. Perhaps you might like to hear about the Farmers Home Administration to get a rounded view of the total programs, and then my associates and I will try to answer your questions.

Senator Moss. All right, let us proceed in that manner.

Mr. Polk. Mr. Chairman, we have a brief statement about the senior citizens or elderly housing programs administered by the Farmers Home Administration, which, as you know, is a rather recent authorization that has been given to this agency.

The Farmers Home Administration, an agency of the Department of Agriculture, makes and insures loans to provide rental housing in rural areas for senior citizens who are farmers or rural residents. We also make loans to individual senior citizens to provide housing for themselves.

Under both the direct and insured loan program loan funds may be used to construct, buy, improve, or repair rental housing designed to meet the needs of senior citizens who are capable of caring for themselves. Funds may be used to provide appropriate recreational and service facilities, to buy and improve land on which the buildings are to be located, to develop water and sewage disposal systems needed for the housing. Loans are not made, however, for nursing homes, special care, or institutional-type homes.

The direct rental housing loans may be made to nonprofit organizations or consumer cooperatives.

The occupancy of the housing is limited to rural senior citizens in the low- to modest-income groups.

The current interest rate on these loans is 3⅝ percent, and they may be scheduled for repayment over a 50-year period. There is an administrative limit at the present time placed on the amount of these loans and that limitation is $200,000.

Insured loans may be made to a wide variety of applicants; namely, individuals, cooperatives, associations, trusts, or partnerships.

The occupancy of the rental housing financed with insured loans is not restricted to families in the modest- or low-income groups. The loans are limited by law to $100,000. The interest rate presently is 5¾ percent, and the loans may be scheduled for repayment over a period up to 40 years.

Money for insured loans is provided by banks, insurance companies, retirement funds, and other sources of investment money. These loans are guaranteed and serviced by the Farmers Home Administration.

The loans that may be made to the senior citizens themselves are 4 percent interest loans, and may be repayable over as long as a 33-year period. These loans may be made to construct, repair, remodel, or build homes suitable for the senior citizen's family and they also may be made to purchase a previously occupied dwelling or to purchase a site and to finance the construction of a home on that site.

That, incidentally, differs somewhat from our regular housing program that we have.

The Farmers Home Administration has had only a limited amount of experience with the senior citizen housing program. However, we do believe that it does show considerable promise for providing housing for these senior citizens in rural areas and farmers who are retiring from farming, to permit them to continue to live in the communities in which they have their roots, their friends, their children, their churches, and other associations that they want to continue.

Today, under the rental housing authorization, we have completed or have under construction 38 units. There are five applicants. And we have on hand 56 additional applications which would provide, if approved, about 500 units.

In the category of loans to individual families, not rental, as of November 30, we had obligated $2.5 million for this fiscal year, and those loans average approximately $6,000 per loan.

Thank you, Mr. Chairman.

Senator Moss. Thank you, Mr. Polk, for your statement.

What proportion of your sponsors, to whom you make these loans are nonprofit organizations?

Mr. POLK. Well, may I go just a little bit into the background? With our direct loan, that is a revolving fund type of financing, and the authorization was passed by the Congress in 1962, it was at the end of the 1963 fiscal year before there was funds provided. Until this time we have several of those loans in process but we haven't actually approved a direct loan.

The loans that we have made today have been of the insured type. That is the 5¾-percent-interest-type loan. So the majority of the loans that we approved to date have been to individuals or the profit-motivated-type corporation.

Mr. Malotky may have that figure exactly.

Mr. MALOTKY. Of the applications we have under consideration, sir, 25 percent of them are of the nonprofit type.

Senator MOSS. Twenty-five percent of the current applications?

Mr. MALOTKY. Of applications under current consideration, yes, sir.

Senator MOSS. I see. Thank you.

Since we are talking from applications, it is a little hard to get any final figures. I was wondering about the cost per unit in these housing applications that you are currently considering.

Mr. POLK. Mr. Chairman, I will ask Mr. Malotky if he will comment on that question for us also.

Senator MOSS. All right, Mr. Malotky.

Mr. MALOTKY. For those that were under construction or completed costs ran about $5,700 per unit; we have others under consideration running in the $5,000 to $6,000 class. Some of them have been submitted at $7,500 per unit. I think the highest one was about $9,000 per unit.

Senator MOSS. By "unit," you mean the full amount of housing space that the elderly couple or elderly person would need?

Mr. MALOTKY. Yes, sir; that would be a mixture of efficiency-type apartments, one-bedroom apartments, and the two-bedroom apartments, and the figures I have quoted would include the land costs and the land development costs as well as the building costs.

Mr. FRANTZ. May I ask a question?

Mr. Malotky, in the projects from which you have derived this figure, are there areas allotted to recreation and to common areas which would be included in that cost figure?

Mr. MALOTKY. Most of the plans that have been submitted to us have included areas for recreation and parking and ancillary facilities of that type.

Mr. FRANTZ. Would you be able to guess at a percentage figure of total space that is devoted to common areas in these projects?

Mr. MALOTKY. It has been so variable that I would hesitate to venture a guess on it.

Senator MOSS. Senator Mechem?

Senator MECHEM. Does this include profit and nonprofit type of developments?

Mr. MALOTKY. The figure I have quoted? Yes, sir.

Senator MECHEM. What kind of criteria do you apply to income? Does this include only the amount of annual income, or does it include all the assets that the individual has? How do you make your determination on this?

Mr. POLK. There is not a limitation on the amount of income for occupancy in connection with the insured loan that we administer. But with our direct loan, there is the limitation of only low to modest income elderly citizens who are eligible for occupancy; the income limit is placed on a local basis. It is determined or recommended by a county committee of three people who are generally leaders in the community and are the Farmers Home Administration county committee.

After they have surveyed the area, usually the county or maybe a wider basis, to determine levels of income in the area they recommend the income level necessary for an elderly couple to live comfortably but not extravagantly. This recommendation is given to our State director, and a final decision made by him.

The guideline that we have in our policy is that in any situation where the level would appear to be above $6,000 the Administrator will review the recommendation, and finally make the determination.

Those that we have, the indication is that around $5,500 to $6,000 is the figure that is being considered.

Senator MECHEM. How do you determine eligibility in the other cases, other than the direct loan?

Mr. POLK. The other case, the insured-type case, I think you mean.

Senator MECHEM. That is right.

Mr. POLK. Usually a profit motive is involved with the applicant in such cases.

We take into consideration that applicant's experience in the operation of rental housing or experience that would be likely to lead to his successful operation of a rental housing unit, and we also take into consideration his financial condition. We could not make the loan to him if he could get credit from private sources.

Senator MECHEM. Do you take into consideration the demand for housing and the existence of other facilities?

Mr. POLK. Yes. There has to be a finding that there is a need for such housing, and, in fact, the finding usually is that there is a very serious need for it, and up to this point the indications are that the need is twice or even more than the facilities that will be provided with the loans we have under consideration.

Senator MECHEM. What test do you have to apply to determine whether an area is a rural area or not, therefore eligible?

Mr. POLK. Senator, we have, as you know, several loan programs that are operated by the agency that we have to make a distinction between rural and urban areas. Our definition of rural areas is as follows: Places having populations of less than 2,500 people, open country, and farms. In other words, we would not consider a place or town with a population of above 2,500 to be a rural area.

Senator MECHEM. Would urban individuals be eligible if they moved to the country or would they be qualified?

Mr. POLK. Our position is that we don't finance rental housing for senior citizens who reside in urban areas. We have to make a finding that there is sufficient—and usually it is more than sufficient—

need for housing by the rural residents or farmers before we would make the loan.

We would not consider, Senator, an occupant as eligible if he intended to move from a larger town than 2,500 to occupy this housing, or if he had recently moved from some such larger town.

We assume if he has moved from an urban to a rural area and had been residing in that area for some time, we would consider him a rural resident.

Senator MECHEM. How about the individual living in the town of 2,500 or less?

Mr. POLK. Yes, he would be eligible.

Senator MECHEM. For housing within the community?

Mr. POLK. Yes, sir.

Senator MECHEM. Shall I go back to Mr. Spector now?

Senator MOSS. Well, I thought probably we would keep it on this area and then go to Mr. Spector, although we do not have any hard and fast lines. I did want to ask what the policy of the Farmers Home Administration is on founder's fee projects.

Mr. POLK. Yes, sir. I don't know whether it is correct to say we don't have a policy. None of our guidelines or policy statements or procedures make reference to it.

We, being new in the rental field haven't gotten into the question of founders fees very deeply, but our position at the moment is that the founder's fee would not be considered in our processing and developing of loans.

In the first place, we feel that we have these limitations of $100,000 in one instance and $200,000 on the other on the size of the project.

In the second instance, it seems to us that a founder's fee requirement would certainly be somewhat of a barrier to eligible senior citizens in rural areas because the limited assets and incomes of such eligible people would not be sufficient to permit many of them to pay the founder's fee. And then we have gotten into the question of the legal complications or the implications of the founder's fee as to whether the Government as the lender or the insurer would become involved to the extent of having some liability or risk or commitments on founder's fees beyond what we might be able to live up to.

So we are not into it at all.

Senator MOSS. You are not into it, and you are not inclined to go into it?

Mr. POLK. That is right, we seriously question the use of founder's fees at this time.

Senator MOSS. I see. To what extent do you include facilities for nursing care in the housing that you finance?

Mr. POLK. We would only include a space for a clinic for examinations. We would not include rooms for continued care. Examinations, and that sort of thing; yes, but not for nursing facilities, as such.

Senator MOSS. Well, we had better get back to Mr. Spector and his associates. We have been out on the farm here for a while and now we will get back to the city.

Incidentally, in the questioning, you staff people here are expected to ask questions whenever you see points that we should have developed in our record.

Mr. MILLER. Thank you, Mr. Chairman.

Senator MOSS. The first question I wanted to ask is in the public housing field. To what extent is public housing for the elderly now being planned for scattered sites?

Mr. SPECTOR. Mr. Chairman, I think it might be good to hear from Mr. Burstein, who is the General Counsel of the Public Housing Administration, and would have something interesting to say on that point.

Senator MOSS. Fine.

Mr. BURSTEIN. Well, I don't think scattered site public housing with respect to the elderly has become a problem because, generally, these facilities are built as one facility rather than with the idea of scattering it about the city.

There is an attempt to keep the size of the facility down but I think the problem of scattered sites arises more in the instance of family housing, ordinary public housing rather than housing for the elderly, because of the need to have a congregate type of facility for the elderly.

Mr. SPECTOR. I think in the field of housing for the elderly, one of the great benefits of the housing concept we have is the fact that a group of older persons can live together in a regular neighborhood. They can have the benefit of forming new friendships, and having the kind of services that older persons need in their later years.

There have been ideas proposed suggesting the dispersal of aged persons throughout the community and many older persons like to do that. But based on research and the best thought available to us is the idea of a clustered arrangement of older persons in a facility that is in a regular neighborhood near all of the regular community services. One of the great problems in aging, of course, especially for the widowed, is the matter of isolation and loss of friendships. Friends and family die off, and the idea of new opportunities for friendship patterns is a most important one in the elderly field.

Senator MOSS. Is it your experience that it is more desirable to bring the older people together to form what amounts to new friendships than to leave them scattered out in areas where they have been living before they passed into this older person category?

Mr. SPECTOR. I think what occurs—with your permission it might be feasible to take a few minutes to indicate why housing for elderly is a special problem. I think it relates to the question that you bring up.

There are 18 million people over the age of 65 in this country now, and they increase at the rate of about 300,000 every year. We have even gotten to the stage where one out of every five persons who is eligible to vote is over the age of 60, and the dimensions go up.

Added to this is the fact that in the later years there is a number of developments that make this a unique problem. For example, most of the people over 65, 80 percent of those over 65, are fully unemployed and out of the labor market completely. Some have interesting and important things to do, many more do not; and at age 65, they have an average of something like 14 more years of life. We can then think of very large numbers of people living on, either productively or not.

In addition to the fact that most of them are retired, most of them have health problems of one sort or another. Eight out of ten have a chronic illness. They constitute about 9 percent of the population. But about 55 percent of all the chronic limitations in the total population.

In addition to retirement and health, they have very low incomes generally. The median income of a couple in a city is about $3,000. So that is about $250 a month as a median income for a couple, and half have less, half have more. But the single people are the ones who are in the most desperate economic condition, especially the widows. Now the median income of a single older person is about $1,100, and half have less than that. That is why the element of public housing is of such importance here.

Thus, they have these elements of health, retirement, low incomes, and then another crucial element is that so many of them are widows. I believe that of the 18 million over 65, more than 9 million are women, and of those 9 million women, I think two-thirds are widows. The largest single group among the aged are widowed women so that we have this great factor. No other age group has anything like that.

In addition, then, to all these elements, they have housing problems of a serious sort. So many of them are living in homes which were efficient and useful for raising a family, but then as the retirement years come, the children leave home. Many of these places are too large, or too unsafe, or too difficult to maintain and many are too expensive. Close to 3 million of them are in what might be called a deficient condition. That is, they are either deteriorating or dilapidated, or they are considered as sound but they don't have certain major facilities.

So all of these problems converge in these later years and make this a special problem and, for this reason, there has been this trend among the elderly themselves, before there were even any Federal programs, to get together and have the benefit of being among their age groups instead of in constant competition with the young. And the Federal programs do not direct anyone to move into any area at all, they open opportunities for people to decide what they would like to do themselves. This is what is involved in this range of programs.

Senator Moss. To what extent have you been adapting existing buildings in constructing public housing for the elderly?

Mr. Spector. I think Mr. Burstein might discuss that.

Mr. Burstein. Well, there have been some conversions, but relatively few. There have been some conversions of old hotels; one in Scranton, I believe. I don't recall the other. But there have been very few cases so far. We hope to get into a larger program of use of existing housing and rehabilitation in the future.

Senator Moss. But, again, the use of conversion would conform with your general policy of grouping older people together rather than dispersal?

Mr. Burstein. Yes; well I would like to clarify that.

I think the local authorities recognize that the older people do not want to be disrupted from their neighborhoods and their churches and friends, and, as a result, in many cities and recently, for example, in Chicago, a number of sites in maybe a half dozen or a dozen neighborhoods were approved for elderly housing.

I would say this constitutes the scattered concept, perhaps, that you have in mind in connection with the elderly, that is, to situate them in different parts of the city so as not to disrupt them from their neighborhoods as much as possible.

Senator Moss. I see.

Mr. Spector. I think that is an important point, Mr. Chairman, this matter of scattered sites. The point here is that it isn't generally desirable to build a tremendous enclave of elderly in one place in the city but rather to have smaller numbers clustered in different areas of a city in their regular neighborhoods to every extent possible.

Mr. Miller. Mr. Chairman, might I pursue a point on that?

Senator Moss. Yes, you certainly may.

Mr. Miller. You referred to the Chicago instances that perhaps would serve as an example. What type of facilities were these? Were these high rise, or how many units are in a facility, say, in your Chicago development?

Mr. Burstein. Well, in Chicago they would undoubtedly be high-rise. As to the number of units in each structure, I don't know. My knowledge of the proposal has only to do at this point with the selection of sites. I don't recall the number of units.

Mr. Miller. The reason for my question, getting more specifically to the point as relates to the Chicago situation, Mr. Chairman, is the question in my mind as to whether, if there are a sufficiently large number of units, and if it is sufficiently covered as to service facilities, and so forth, whether even though technically, geographically it is in the same neighborhood, whether in fact there has not actually been created within the high rise structure or whatever it might be a new neighborhood, to which for various reasons—in other words, what I am driving at is the matter that although physically, geographically, technically, it is in their old neighborhood, actually a new neighborhood has been created.

Is there any investigation or looking into this that has been done?

Mr. Burstein. Well, I think Chicago generally has a policy of allowing applicants to choose the location in which they prefer to be situated, and I think the general, gerontological assumption, is that the older people prefer to stay in the neighborhood that they have been living in, so that those who live in the neighborhood of a particular project will tend to apply for that project in their own neighborhood. Under such a system there would be a minimum disruption of the situation by just a natural selection process.

Mr. Miller. Of course, my question is related to something that might be looked into as to the tendency of this to, while technically meeting the thought of keeping them in the neighborhood, where actually, by the very nature of the structures, creating a new neighborhood, thus tending to defeat the gerontological philosophic reasoning to which you refer.

Mr. SPECTOR. Mr. Chairman, I think Mr. Miller has a good point there. You do create, another neighborhood, but what you actually try to create is a new community. The community benefit of the people living there is the thing that is so important in this clustered arrangement. Thus older persons are in their old neighborhoods but, in addition, they have the feeling of a new community.

Mr. NYE. Mr. Burstein, if I may. You have very stringent requirements relating to these reconverted public housing projects as respects fire hazards, prevention of fire? Do you require fireproofing assurance?

Mr. BURSTEIN. Oh, I am certain that all the requirements are met as far as meeting all the building codes and everything else connected with housing for the elderly.

Mr. NYE. Well, FHA has stringent requirements in reconversion cases, so stringent, in fact, that mighty few conversions have been made possible with respect to old hotels.

I expect you are equally zealous about that security, are you not?

Mr. BURSTEIN. Yes, I am quite sure that more old hotels have been rejected than have been accepted, for partly that reason, and also the reason that there is a lot of excess space that requires additional heating and additional maintenance that makes it unfeasible to convert.

Senator MOSS. Senator Mechem, do you have some questions?

Senator MECHEM. Yes, sir.

Mr. Spector, what are your costs per unit under your various programs?

Mr. SPECTOR. Senator, the chairman sent a letter to the Housing Agency with a series of questions on costs per unit and so on.

We undertook a study then of our construction starts in fiscal year 1963, attempting to make a comparable analysis of the construction costs per unit in all our programs. That study is in the stage of refinement and, with the chairman's permission, what I would like to do, if the Senator agrees, is as soon as the figures are refined and ready, to put them into the record of the hearings in response to your letter, Mr. Chairman.

It is very difficult to take account of all the variables involved in construction costs in order to get comparable figures on them.

Now, in the direct loan program, as Mr. Woolner can explain, we try to keep the unit construction costs to $10,000 or less, if possible.

In the FHA, I think the mortgage insurance amount and the law regulate the cost of construction; in public housing, there are similar maximums that are employed.

But I think for a specific response with regard to square foot costs and structure costs, with the chairman's permission, I would like to put that into the record.

Senator MOSS. Yes, that may be furnished for the record as soon as it has been prepared. I have made that request and I am sure that is underway and it will be put into the record.

(The information referred to follows:)

Estimated cost data for construction starts in fiscal 1963 housing specially designed for senior citizens—Housing and Home Finance Agency

	Number of units involved	Number of projects involved	Construction cost per unit, median project [1]
Public housing (PHA):			
All projects	3,011	49	$9,179
Elevator	1,546	14	10,668
Nonelevator	1,465	35	8,940
Direct loan (CFA): [2]			
All projects	2,099	22	9,988
Elevator [3]	1,106	7	9,758
Nonelevator	993	15	10,217
Mortgage insurance (FHA): [4]			
All projects	9,459	48	10,562
Nonprofit:			
Elevator	2,474	15	10,810
Nonelevator	3,335	16	8,778
Profit motivated:			
Elevator	2,817	12	11,946
Nonelevator [3]	833	5	9,235

[1] The medians are each derived from a separate array of data; each median is for a different project, and they are not additive or otherwise related to each other.
[2] For CFA direct loan projects, costs include sponsors' contributions for facilities otherwise eligible for Federal loans.
[3] The small number of elevator projects contained in this sample make the data not statistically significant.
[4] For projects with FHA mortgage insurance, costs are FHA-estimated replacement costs.

Senator MECHEM. Will this show the difference in the requirements in comparison with those that the Farmers Home Administration has, as far as construction is concerned, type of construction, community facilities, and things of that general nature?

Mr. SPECTOR. Yes, sir, we can put that in. We can put in a description of our standards, and the items included in these construction costs.[1]

Senator MECHEM. Part of the reason I inquired is because the Subcommittee on Housing of the Senate Banking and Currency Committee, June 15, 1962, made these following findings of cost per unit under each program:

Public housing cost per unit was $13,400.

FHA mortgage insurance cost was $12,200.

CFA direct loan cost was $10,600.

I wonder if your study is going to reveal anything that is markedly different from these figures.

Mr. SPECTOR. I think the figures would still be just about in that range, Senator. I think the generalization that we seem to have come to with respect to construction costs—so far as we have looked into it—is that for similar types of buildings with similar facilities, construction costs are about the same. Some variance is achieved in that in some facilities, a greater number of square feet per unit may be included. This will alter, then, the construction cost per unit. In some facilities, a health unit may be put in; in others there will not. In still another facility, a dining room may be included; in another, there will not be a dining room.

[1] The material referred to is held in the files of the subcommittee.

The same thing is true with craft rooms and activity rooms. The construction cost thus will be determined in large measure by what the sponsoring group and its clientele would like to have in the way of a facility to live in the retirement years, within the maximums that the programs can allow.

Senator MECHEM. Have you been able to make a study of the difference between your standards and section 202 construction costs and these shown by Farmers Home Administration?

Mr. SPECTOR. Construction standards?

Senator MECHEM. Yes.

Mr. SPECTOR. No, I have not made such a study.

Mr. WOOLNER. Senator, if I may, let me add just one note here: that we face this problem of cost in other programs, too, principally in the college housing loan program that we administer, and certainly the best advice that we have been able to get is that the real breakthrough in this area is certainly not going to come in terms of cheaper materials, but has to come in terms of space utilization, in better design, more imaginative design and better utilization of space—getting rid of space that is really lost space—if we can. And, of course, that gets back to the fact that Mr. Spector is talking about, the extent to which you necessarily have a large percentage of space devoted to common areas which, although in a given project they may be essential, still when you relate them to a unit cost, of necessity, they will raise the unit cost in the project.

But the utilization of space is the real key to the cost per unit.

Senator MECHEM. Will your building costs have some effect on this, too?

Mr. WOOLNER. Surely, and, of course, building costs vary tremendously around the country.

Senator MECHEM. And will they be discussed in this cost per unit study that you are making?

Mr. WOOLNER. I would think if we can we would want to point out to you the areas from which these figures are drawn, because in our own case, for instance, with a program that is just starting out, our sample may be rather small, so that it could be skewed in terms of the geographic areas, and we would want to point that out.

Mr. SPECTOR. Perhaps we might hear on construction costs from some of the other agencies, Senator, if you wish us to go into it.

Senator MECHEM. That would be fine with me.

Mr. NYE. Mr. Chairman, may we stay with this point for just a moment?

Senator MOSS. Yes.

Mr. NYE. The Farmers Home Administration, in its administration of the direct loan and the mortgage-insured program for elderly housing, are laboring under the same identical financial arrangement that is true of the FHA mortgage insurance program, and the CFA section 202 program, are they not?

Mr. WOOLNER. Generally, I think that is true.

Mr. POLK. I think that is true; yes, sir.

Mr. NYE. The same funds are available at the same rate of interest, direct loan, at 3⅝ percent and mortgage insurance, at 5¾?

Mr. POLK. Yes, sir.

Mr. NYE. A little startling is the fact that over on the mortgage insurance program front, where the Farmers Home Agency have had experience, with the Farmers Home Administration, you are building at a unit cost of $5,700, approximately. The rate in FHA, the cost under the FHA mortgage insurance program is between $10,000 and $11,000.

If your construction costs were on a direct loan base rather than a mortgage insurance base, it would make a material difference in the rental charge, would it not?

Mr. POLK. Yes, sir.

Mr. NYE. It would. About 2 percent difference in financing requirements. I can't understand how come you folks are building under the same standards and requirements, meeting the same purpose and mission, for about half of what is the cost under the existing direct loan and the existing mortgage insurance programs.

Mr. POLK. I point this out: that in both our insured and our direct programs, the statute itself directs that this construction be modest in cost and design, and, of course, we do make a special effort to make sure that the design and cost is in the modest category.

With respect to our minimum standards, I will quickly acknowledge here that we hadn't had a great deal of experience in this field, as you know, so we have drawn rather heavily on information Housing and Home Finance has developed in connection with setting forth some of our standards, and recognizing, I think, that we will likely not be financing the high-rise type housing. Most of our housing we anticipate will be the one-floor type. It will be a little unusual, when we get into even a second story in our type housing, and being in rural areas, land costs are cheaper. Builders usually are the builders in the rural area, and I don't know that the materials are cheaper but I think it would be natural, to assume that costs would be somewhat cheaper in rural areas for the same type construction, taking land and everything into consideration, than it would be in a city like Chicago for the same facility.

Mr. NYE. Mr. Chairman, I hope you would concur in the thought that this is worthy of some study and a report to the committee, and that maybe Mr. Spector could supervise such a study and give the committee a portrayal of why this great variance in construction costs.

Mr. SPECTOR. I think this would be a very interesting thing to do, Mr. Chairman, if you desire.

Senator MOSS. Yes, we would appreciate seeing such a study whenever you can get it to us.

Mr. WOOLNER. Mr. Chairman, there are certain basic differences that come to light immediately, because by the very nature of things, the direct loan program under CFA undoubtedly has more high-rise structures than Farmers Home would have, partly because of the cost of land, so that, in order to make the comparison, you have to know the type of buildings that you are comparing.

Mr. NYE. Mr. Woolner, that makes a difference of $450, does it, allowable for high-rise as against——

Mr. DANIELS. That is the mortgage limitation.

Mr. NYE. The mortgage limitation.

Mr. DANIELS. But I would like to point out that under the FHA program, where we build for the market, we find a wide range of demand, and our costs range from about $6,000 a unit up to about $20,000, depending on demand, the nature of the facility, and the amenities that are put into the project, and I do think that under the FHA program, given a comparable type of project and unit, of the modest type that the Farmers Home talked about, the cost would be comparable. However, many of our projects are high-rise elevator structures containing such things as lounges, recreation, air conditioning, chapels, and things of that nature which we build for the demand, and, as I say, there is a wide range of demand in the housing for the elderly market.

Mr. SPECTOR. I think that is true in public housing similarly, isn't it?

Mr. BURSTEIN. Yes. I have some figures here on public housing with respect to projects started during fiscal 1963. If we are talking just about construction and equipment costs for a total of 49 projects, that cost was $9,179. That is the median cost.

But there is quite a variation, for example, as between elevator-type structures and nonelevator type. For the 14 elevator-type structures, the median cost was $10,668, whereas for the nonelevator structures the median cost was $8,940.

So public housing has the same experience. Whatever comparative cost basis you use, I think we all come out about the same. It really depends on analyzing the space and the amenities, the location—everything else has to be brought into the analysis.

Mr. WOOLNER. In addition to that, I think one of the important factors is the labor rate that you will be paying for construction in the city versus the rate that you will be paying in the rural area.

Senator MOSS. Well, we would like as complete an analysis as we can get of these comparisons, so that the committee may study them.[2]

Before we leave the subject of public housing, Mr. Burstein, could you tell me the present status of your authorization for public housing for the elderly?

Mr. BURSTEIN. Well, the present status is that we are scraping the very, very bottom of the barrel right now. We are still receiving applications, we are still allocating units, but it will not be very long before we will have run out of our authority to make reservations for units.

Senator MOSS. Perhaps you could tell me, Mr. Spector, your estimates of the unmet need for public housing for the elderly at this time.

Mr. SPECTOR. Well, I might comment on that. Maybe Mr. Burstein would help out.

In my own view, just from the statistics and the studies that were done by the Bureau of the Census, in response to an appropriation by the Congress, on housing for the elderly in the 1960 census figures, the demand for public housing for low-income elderly is very, very large, and perhaps unfillable in the immediate future.

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[2] The study requested is in progress, but was not complete at the time of printing of this record.

If we take the almost 3 million households which are headed by people 65 and over, and living in dwellings which are either deteriorated or dilapidated or are sound but have certain facilities missing, about 70 percent of all of those in that deficient category are in the low-income group.

There are about 2 million people who are over the age of 65 living with children or relatives. Many of them desire to do so, but I think the evidence indicates that a very large number of them live with their children because they have to; that is, their incomes are so desperately low. They have about the lowest incomes, and they have health problems. What we ordinarily find is that grandparents; that is, the elderly, would like to live near their children, so that they can visit them regularly, but they would like to live independently of them if they can, either in an efficiency or a one-bedroom unit. Families become more intimate and admire one another more when there is this amount of independence than when they are forced to live under the same roof in a dependent situation.

So we have these very large numbers of persons who need good housing for their retirement years but whose income automatically excludes them from the regular market.

Do you want to add to that?

Mr. BURSTEIN. Well, I think, generally speaking, as I understand the figures, about half of the elderly population is eligible for public housing. Our median income for single person families in public housing is $1,100, roughly. Median income for two or more person families is roughly $1,900. The median rent, including all utilities, is $32.

This attempt, this public housing program, in other words, is meeting the need of a tremendous number of the elderly. But the demand is almost insatiable.

I had an opportunity yesterday to speak to the executive director from Providence, where they have just built a project, of around 400 units. They immediately had applications for 400 more. They have felt it necessary to cut off the receipt of applications, because it is just heartless, it seems to them, to permit people to apply when they can't fill the demand for the foreseeable future.

There was another executive director from Saginaw, Mich., who was in yesterday, and I asked him about that. He said:

> The minute we announced that we were going to build this project, the following day we received 50 applications in the mail.

So it just seems that the demand can't be met in the foreseeable future as far as the low-income population is concerned with respect to the elderly.

Mr. MILLER. Mr. Chairman.

Senator Moss. Yes.

Mr. MILLER. In your statement you just completed, Mr. Burstein, you commented on the median income of the occupants of these projects dividing the single person family and the couples, and if I understood you correctly, you then referred to median rent.

Do you have a breakdown as to the median rent for these two types of family units, the single and the couple?

Mr. BURSTEIN. I don't have it with me, sir, but I will be glad to supply it.

Mr. MILLER. Don't you think we should have that, Mr. Chairman?

Senator MOSS. Yes, I wish you would supply that for the record, Mr. Burstein.

Mr. BURSTEIN. Yes, sir.

(The information referred to follows:)

The median gross rent, including utilities, for single elderly persons in low-rent public housing in 1963 was $30 per month; for elderly families it was $36 per month; and for elderly families with minors still living in the household, $39 per month.

Senator MOSS. Maybe we could take up two or three questions that I have on this direct loan program?

Could you tell me what kinds of organizations are applying to you to sponsor direct loan housing for the elderly?

Mr. WOOLNER. Well, first of all, Senator, under the law this is restricted to nonprofit organizations, to cooperatives and public bodies, and, actually, better than 95 percent of our applications are coming from nonprofit groups. Some 50 percent of these are church-related sponsors, and the balance are largely from labor organizations, fraternal organizations, civic clubs, groups of that kind.

When it comes to sponsorship, of course what we are looking for primarily are sponsors who are broadly based in the community, that have long-term interest in the community, that have long-term interests in the elderly, and that are competent to carry through on both the construction and the management of the property.

Senator MOSS. About how long is required to process an application for a group of this sort?

Mr. WOOLNER. Well, this depends on several things.

First of all, certainly the average nonprofit applicant is pretty unsophisticated when it comes to this kind of an undertaking, so that the degree of sophistication would be quite important.

It depends partly on the extent to which the group has really formulated their plans before they come in to see us. They may come in on a preliminary visit and discussion, and go back home and we may never see them again for 6 months or a year while they formulate their own plans. So it depends on at what point do you really start the time moving.

Recently, an application came through from the date of filing, in one of our regional offices to the date of approval, in a hundred days. Now, one of the reasons for this was, first of all, the group was well organized, it was a well-conceived application, and it was complete when it came to us, because a good many of the delays are simply brought about because not all the facts are presented at one time. It may take considerably longer—6 months, 8 months, could take 10 months, 12 months, depending upon, again, completeness of the application, the readiness of the sponsor to move ahead, the sophistication of the sponsor.

Senator MOSS. To what extent do you require a market analysis, as it were, to prove the demand?

Mr. WOOLNER. We require a market analysis in each instance.

Senator MOSS. In each instance?

Mr. WOOLNER. Yes.

Senator MOSS. What are your policies on requiring the guarantee of funds to meet the debt service in the initial period before the project is filled?

Mr. WOOLNER. Well, we require that the applicants have available at the time of occupancy a minimum of 25 percent of the first year's maintenance and operating expense, so that they have funds to carry them along.

They must, of course, be able to finance whatever movable equipment is involved. This would be furnishings for any common rooms in the properties, things of that sort.

They must be able to finance their own organization expense. They must be able to carry their organization through to the point of approval.

Mr. SPECTOR. In addition, Senator, I might just add the obvious thing, and that is that the calculations with respect to rental income will have to be such as to meet the debt service and the operating costs, and this is the basic guarantee of the solvency of the project.

Mr. WOOLNER. Oh, yes, the income is pledged, the gross revenue is pledged, and we take, of course, a note in mortgage on the property as security.

Senator MOSS. But you require that they have 25 percent of the first years' expenses in cash?

Mr. WOOLNER. Twenty-five percent of the first year's maintenance and operating expenses must be on hand prior to occupancy.

Senator MOSS. I see.

Mr. FRANTZ. Does the operating expense include the payments that must be made on the mortgage?

Mr. WOOLNER. No. We permit the capitalization of the first 6 months of interest in the loan.

Mr. NYE. Mr. Chairman.

Senator MOSS. Yes.

Mr. NYE. Mr. Woolner, what determines the eligibility for residents of a section 202 project?

Mr. WOOLNER. Well, first, they must be 62 years of age or older, if a single person; or, if a two-person family, one person must be 62 years of age or older.

There is no discrimination permitted in the project for race, religion, creed, or color. In other words, the projects are open to all, so that there would be no membership requirement of any kind.

Mr. NYE. I was asking more particularly about the financial status of an applicant for residence.

Mr. WOOLNER. Oh, there is a maximum income limit, and the national maximum is $4,000 for single persons, and $4,800 per year for couples. This is based on annual income, not based on an analysis of assets.

Mr. NYE. Not on what?

Mr. WOOLNER. Not on an analysis of assets, but is based on annual income, and this is required so that we can make sure that the direct loan projects are serving the lower middle-income groups within the elderly population that presumably the Congress wanted us to serve.

Mr. NYE. Why was that ability to pay fixed at between $4,000 and $5,000? How did you get to the determination that that one with an income of less than $5,000 should be eligible for this direct loan housing?

Mr. WOOLNER. Well, it is related largely to the median income figures available, and we relate it in each community to a factor we derive from the formula on section 221(d)(3), which is directed toward middle-income populations generally throughout the citizenry.

We could have cut it off, presumably, at a slightly lower figure. It is an element of judgment.

Mr. SPECTOR. I think along that line I might just add this, Mr. Chairman. The Congress had passed in 1961 authorization for a program of housing for people of moderate incomes of all ages, under the FHA program, at a below-market rate of interest. After extensive studies, income limits were set for different cities for this moderate income program in the FHA. Taking the two-person household under the FHA study and increasing by about 25 percent the amount that older persons could pay as a proportion of their incomes, was primarily the basis for arriving at these income levels. It made for a fairly consistent application of the moderate income idea.

Senator MOSS. I did want to turn to some questions on FHA and since I had hoped we could finish by noon, we had better get into it right away. We can return to some of these other matters as time permits, but let me ask now about the effects of the regulations which were issued by FHA about 3 months ago.

Will you explain the present policy of FHA on the so-called subsidy differential? This has been raised a number of times.

Mr. SPECTOR. I would like to ask Mr. Daniels to discuss that, Mr. Chairman.

Senator MOSS. All right.

Mr. DANIELS. We have, Mr. Senator, among the FHA projects, some that we consider as subsidized projects. This occurs when our calculation of an economic mortgage, based on the rents that we think can be obtained, will result in an amount that is less than the maximum allowed under the statute. Very often this comes about because of the fact that there are increased amenities being put into the project.

In these cases, we will permit the 100 percent mortgage, provided that the sponsorship agrees to subsidize the difference.

Now, a subsidy, of course, means that the sponsoring organization each month has to meet any deficit in the operation of a project to make sure that the mortgage debt service is paid.

In the event of default, we now have a guarantee agreement, a legally enforcible document, which will provide that, in the event of a default on the mortgage, the difference between our economic mortgage as calculated on our estimates of net income and the mortgage we actually insured will become immediately due and payable by the sponsoring organization.

To illustrate it, if we calculated in a certain project that the net income would support a mortgage of $800,000 and the church organization or the sponsoring organization required and needed a million-dollar mortgage which was more than the statutory limitation, in order to build a project, we would obtain from them a legally enforcible guarantee that, in the event of default, they would pay to the mortgagee $200,000. This would mean, then, that the FHA would have under default and acquisition a project that would be presumed to be economic and could support an $800,000 mortgage.

Senator Moss. Well, the $200,000 differential would be applied, then, to other assets of the borrower and not guaranteed just by the property. Is that what you are saying?

Mr. Daniels. That is correct. That is exactly right.

Now, there need never be a call on this particular note, as long as the deficit is met. In this kind of an operation, it is ofttimes anticipated that during the life of the mortgage churches plan to put in some charity patients or they wanted extra amenities that could not be covered by an economic mortgage. In such cases the church agrees that they will meet whatever deficit operation occurs.

If they do not meet this deficit and the mortgage goes into default, then and only then does this guarantee requirement of the note come into effect.

Senator Moss. Now, how does this differ from your previous policy?

Mr. Daniels. It differs in this respect from our previous policy, in that we accepted more or less the moral commitment of the church to meet such operating deficits.

In reviewing all of our programs, and in one case in particular, it was felt by the Federal Housing Administration that this was not sufficient protection to the mortgage insurance fund, and therefore it was decided that where a sponsoring organization wished to subsidize a project, we should have as evidence of the good faith of that organization a legally enforcible document that we could sue on if necessary in the event of default.

There was no protection to the FHA in the event of default prior to the change.

Senator Moss. I see.

Mr. Spector. I was going to say, Mr. Chairman, that this doesn't occur in all of the applications. In most of them, the amount of income from the project will meet the cost of paying off the mortgage and the operating costs without any subsidy.

It is only in those instances where the sponsoring organization wishes a mortgage larger than the rent will bring in that this deficit situation will occur. That is, you foresee a deficit, and then some guarantee has to be made with respect to what is going to happen to it.

Mr. Daniels. That affects only a very small number of the FHA projects.

Senator Moss. This would occur where a group came in and applied for mortgage insurance, and you said "We can insure $800,000 on this," and they said, "Well, we have got to have a million"?

Mr. Daniels. That is right.

Senator Moss. Then you would make the counterproposal that if they would guarantee out of other assets or other income, whatever they had, this $200,000 differential, you would insure the entire million-dollar loan?

Mr. Daniels. That is exactly right. This $200,000, let me point out again, may never be called upon as long as any operating deficits and the debt service on the million-dollar mortgage is met.

Senator Moss. Only in case of trouble and foreclosure, yes.

Mr. Nye. May I follow through directly on the point?

Senator Moss. Yes.

Mr. NYE. Mr. Daniels, isn't the difficulty, about which churches complain under this new regulation, simply a difficulty confronting the church groups—denominational groups, particularly—growing out of the fact that a sponsor such as a church or group of churches, or a conference of churches, can't afford a legally enforcible guarantee of that kind?

Mr. DANIELS. This is exactly right, sir. We have run into some loosely knit church organizations that do not have the power within their organizational setup to execute this kind of an obligation.

Mr. NYE. Take the Methodist Church, for example. It has its district conferences. The conference itself may become the sponsor of a project, but it creates a mortgagor corporation.

Mr. DANIELS. Correct.

Mr. NYE. To deal with FHA. In that case, the conference, however many churches might be parties to the conference, could not, under their charters, afford a legally enforcible guarantee; could they?

Mr. DANIELS. That could be true, yes.

Mr. NYE. That is where the point of trouble is.

Mr. DANIELS. But in that kind of a case, we feel that they have two choices: Either to cut down the cost of the project, or else deposit at the time of endorsement of the note the $200,000 as equity.

Mr. NYE. Which is pretty tough for churches, to find that kind of money.

Mr. DANIELS. It might be.

Mr. NYE. Well, that's the rub, Mr. Chairman.

Senator MOSS. Yes, but we now have the explanation of the policy.

Mr. Daniels, would you also describe for me the change in your policy on founder's fees?

Mr. DANIELS. When the program first started, churches were among the first applicants. Founder's fees, historically, had a place in housing for the elderly, even before the FHA program, and we therefore accepted the concept of founder's fees.

Up until the recent change, the founder's fees were collected by the mortgagor corporation, which is a corporation formed by the sponsoring organization. Under many of the agreements, the mortgagor corporation itself assumed the responsibility under the founder's fee agreement. Sometimes this was life care. Sometimes it was health care. Sometimes it provided for absolute occupancy in this particular project during the life of the occupant.

Again, during an examination of our policies, we felt that perhaps this was an undue hazard running to the FHA in the event this type of a project were acquired by the Federal Housing Administration under foreclosure.

Under our agreements, in the event of foreclosure, all of the rights of these people who paid in these founder's fees would be wiped out. But, nevertheless, we were aware of the fact that perhaps the Federal Housing Administration might have a moral obligation to take care of these elderly people.

The change that we made is a simple one. We feel that the responsibility under these life care or founder fee contracts should run to the sponsoring organization itself rather than to a mortgagor corporation that has been formed by them, so that, in the event of default and foreclosure on the mortgage, the sponsoring organization itself, the church, or others would then have the responsibility under the contract to provide for the life care or the continued occupancy of a particular person, rather than the Federal Housing Administration, or rather than a defunct mortgagor corporation, where under the action of foreclosure, all of the rights of the occupant of the project would be wiped out.

We feel that this change is very much more in the interest of the participant, and it certainly seems to be in the better interests of the Federal Housing Administration.

Senator Moss. Well, you have not taken a position against founder's fees, as such.

Mr. Daniels. Not at all, sir.

Senator Moss. But simply the placing of the obligation to fulfill the founder's fee arrangement.

Mr. Daniels. Correct, sir.

Senator Moss. Placing that back with the original person with whom——

Mr. Daniels. The sponsoring organization, and let me say that it is not a person, it is an organization, a church, for instance.

Senator Moss. An organization.

Mr. Daniels. We have no founder's fee projects, for instance, in our profit-motivated program at all. We only permit them in the case of well-established churches, church organizations, and so forth.

Senator Moss. And, as Mr. Nye was saying earlier, where several churches come together and form a mortgagor corporation for the purpose of planning a project, they could not assign over to that body the founder's fee obligation.

Mr. Daniels. That is right.

Senator Moss. But must retain it themselves.

Mr. Daniels. Must retain that responsibility to the occupant itself.

Mr. Nye. Mr. Daniels, a sponsor proposes a project calling for $2 million of mortgage insurance. Yet they contemplate, by reason of the availability of gifts or anticipated founder's fees, ability to build a building that is going to cost, we will say, $3 million—$1 million more than they can cover with mortgage insurance. Is the mortgagor privileged and will FHA honor in the financing of that particular project the anticipated receipts from founder's fees?

Mr. Daniels. From the sponsoring organization to the mortgagor?

Mr. Nye. From the sponsoring organization?

Mr. Daniels. The mortgagor corporation in that case can collect its equity from anyone except one who is going to profit or gain from the development of this project.

This means he can get this equity from the sponsoring organization, who in turn gets it from founder's fees, or contributions or donations made by individuals of the church or other nonprofit organization.

Mr. Nye. That anticipated income from founder's fees, then, can be used by the mortgagor?

Mr. Daniels. As equity?

Mr. Nye. As equity.

Mr. Daniels. Yes; it can.

Mr. Spector. This is just primarily an added protection for the individual who is putting down this founder's fee or this admission fee, to come into the housing. In case of any difficulty with the project, he always has a sponsor organization which has made a commitment to him to look toward, instead of possibly having his entire investment wiped out.

Mr. DANIELS. The use of the founder's fee for this purpose would have to be consistent, of course, with the founder's fee agreement that was executed between the individual and the sponsoring organization.

Senator MOSS. Is this working a hardship on organizations that have applications in process?

Mr. DANIELS. We have found in four cases, Senator, where mortgagor corporations have been proceeding on the old basis. In all of those cases we have listened to their plea and made waivers of the new requirement.

We are putting this into effect wherever it can be put in, but we certainly are not working any hardship in any case that was under consideration by the Federal Housing Administration before the change.

Senator MOSS. Those four have then complained that they would not be able to continue if the new policy were applied to them?

Mr. DANIELS. That is right. And we made appropriate waivers for them to continue under the old basis.

Senator MOSS. Have there been some rather widespread complaints against this change of policy?

Mr. DANIELS. There was before it was fully understood, but whenever we had the opportunity to explain the principle behind it, we find that there is a ready acceptance of this change on the part of responsible sponsoring organizations.

Senator MOSS. You think acceptance is growing, then, of the change of policy?

Mr. DANIELS. Yes, indeed.

Senator MOSS. Do you anticipate, then, there will be any decrease in the use of 231 as a result of these present requirements?

Mr. DANIELS. I would not think so. It is interesting to note that at the present time, founder's fees are in effect in about one-third of the projects that have been sponsored by religious organizations, or about 15 percent of the total cases under section 231. So I do not believe that any change in the founder's fee will have any serious effect on the program itself.

Mr. SPECTOR. And even where founder's fees are employed in a particular project, Mr. Chairman, they are not absolute in the sense that every individual coming in has to pay that fee.

Usually every sponsoring group will make some arrangements for someone to come in, even without paying the founder's fee.

Mr. NYE. Make exceptions.

Mr. SPECTOR. That is right.

Senator MOSS. Now, I have here a clipping from the Wall Street Journal of the 5th of December on housing for the elderly. The main point of this article seems to be the elderly want to live—the number who want to live in retirement villages and special projects and can afford to do so are a fairly small and specialized market, and that this market may be approaching saturation.

Now, what is your observation on that?

Mr. SPECTOR. Well, I think, that available research evidence indicates that most people, most elderly, want to live in their own communities and do not want to migrate. That is, they do not want to leave the communities where their children are living and move somewhere else. As housing for the elderly becomes more available in the communities where people have always been living, I think that they will express this feeling in occupancy.

At the same time, a small proportion—relatively small proportion—do want to go to places that have a more resort atmosphere, they want to live in a retirement community even in the North.

And when we talk about 18 million people over the age of 65, even a small percentage, even 10 percent, becomes then a very large number, so that the market for retirement housing is still, I think, a sizable one—that is, for retirement villages. The objective of a Federal program is to open opportunities for people to do what they desire.

If people want to live in a retirement village, we ought to provide the financing arrangement to assist in satisfying that need.

If they want to live in the cities or in the communities or in the rural areas, this is part of the Federal financing scheme.

So I think what is needed is continuing examination of what older people want. And for each project we should make an analysis in that given area of the demand for that particular project, for the numbers who would like to live there at the income levels that are required to meet the economic test.

Senator MOSS. Do you think we are overbuilt in any of these retirement village areas now?

Mr. SPECTOR. It is difficult to say, Mr. Chairman. I think we just don't know what will take place in the next several years. There are certain areas in the country that do have retirement communities on a fairly large scale.

There is no way of knowing if the dynamic nature of the economy of those areas will afford a larger market or not at the present time. However, in those areas where there are large numbers of older persons living in retirement communities, we are extremely careful in the market analyses that we make for any new applications.

Do you want to add anything on that, Frank?

Mr. DANIELS. Nothing except this: That in certain areas today the Federal Housing Administration is taking a very close look at new housing applications. These are areas such as the Phoenix and Tucson area. In the southern California area, we are taking a very close and hard look, and in certain areas of Florida. These were the areas that sprang into being when the program first came on the books.

Whether there is an overbuilding in these areas we do not know yet, but we are making sure that we don't contribute to it. We are analyzing it very, very carefully.

Incidentally, for whatever it is worth, we took a recent study of people in projects that have already been built. We found that 71 percent of the people came from an area within a radius of 50 miles of the project, and 29 percent of the occupants came from outside that 50-mile radius. I don't know whether that is significant or not.

Mr. SPECTOR. We can't tell from the survey, at what time they may have moved to that area, so the data are not conclusive.

Mr. FRANTZ. This was a resort area?

Mr. DANIELS. These were all the projects that we have in occupancy at the present time.

Mr. NYE. Mr. Chairman.

Senator MOSS. Yes.

Mr. NYE. Mr. Daniels, are there studies available respecting the percentage of occupancy enjoyed by projects which have been, say, in operation for 2 years or more?

Mr. SPECTOR. May I respond to that?

This is also contained as a question in the letter sent to us by the chairman.

Mr. NYE. That will be forthcoming, will it?

Mr. SPECTOR. And we will have that in response to the chairman's letter which, if you wish, can go into the record. I think in general, those projects that have been occupied more than 2 years, that is built more than 2 years ago, are generally occupied fully.

Mr. NYE. And supporting themselves?

Mr. SPECTOR. Yes, I think the general response is that they are.

Mr. NYE. That is the answer in part to the question, "Are we overbuilding?"

(The information referred to follows:)

Percentage of occupancy in housing projects specially designed for senior citizens

	Number of years since initial occupancy			
	Less than 1 year	1 to 2 years	2 years or more	Total
Public housing (PHA): [1]				
Number of projects	51	29	23	103
Number of units	3,520	2,272	1,530	7,322
Number of units occupied	3,330	2,262	1,524	7,116
Percent occupied (rounded)	95	100	100	97
Direct loan (CFA): [2]				
Number of projects	16	4	1	21
Number of units	1,229	181	30	1,440
Number of units occupied	1,032	168	30	1,230
Percent occupied (rounded)	84	93	100	85
Mortgage insurance (FHA): [3]				
Nonprofit: [4]				
Number of projects	53	21	37	111
Number of units	6,673	2,892	3,394	12,959
Number of units occupied	2,132	2,655	3,078	7,865
Percent occupied (rounded)	32	92	90	61
Profit-motivated: [5]				
Number of projects	19	7		26
Number of units	3,779	831		4,610
Number of units occupied	1,086	563		1,649
Percent occupied (rounded)	29	68		36
Total profit and nonprofit:				
Number of projects	72	28	37	137
Number of units	10,452	3,723	3,394	17,569
Number of units occupied	3,218	3,218	3,078	9,514
Percent occupied (rounded)	31	86	90	54

[1] Public Housing data exclude three projects in which only some of the units were completed as of Sept. 30, 1963. Of the 163 units which were completed and available in those three projects, 157 or 96 percent were occupied as of Sept. 30, 1963.

[2] Direct loan data include only the 21 projects completed and occupied as of Sept. 30, 1963.

[3] Mortgage insurance data are based on 137 projects with 17,569 units for which data were available from survey questionnaires sent to and returned by 157 of the 176 projects which as of June 1, 1963, had at least received initial endorsements or on which construction had started (including sec. 207 projects). In addition to these 137 projects, 20 projects with 2,761 units did not provide enough detail to determine how long a period had elapsed since initial occupancy and are not included in the table. Within these 20 projects, 231 or 12 percent of the 2,761 units were occupied.

[4] Data do not include 14 projects with 1,955 units, of which 116 or 6 percent were occupied but period since initial occupancy is not available.

[5] Data do not include 6 projects with 806 units of which 115 or 14 percent were occupied but period since initial occupancy is not available.

Senator Moss. I want to ask Mr. Daniels: Are any of your 231 projects now in default or serious trouble?

Mr. Daniels. We have some that are in various stages of default. We have several that are under foreclosure. The first one that comes to mind is the Baptist Golden Age Home in Hot Springs, Ark. It is a small project of 74 units. It went into default, and is now in the process of foreclosure.

Perhaps the curious thing about this project is that this was an in-town location, and, it went into default because of the fact that there seemed to be resistance on the part of the people to live in an in-town location.

Mr. Nye. Was that one of new construction, or a reconversion property?

Mr. Daniels. Tony, do you remember?

That was existing construction. It was conversion.

Mr. Nye. Conversion.

Mr. Daniels. That is right. We have another small project out in Pasadena, Calif., lacking the amenities that seem to be demanded by the elderly people, and this one is in difficulty. It is only 50 units.

We, of course, have a large one out in California, the Portals Senior Citizens, sponsored by the California Institute of Social Welfare. This is in difficulty principally because of the fact that there arose a dispute during construction between the contractor and the mortgagor corporation that has resulted in a series of lawsuits.

At the present moment, the project is completed.

We expect assignment of the mortgage and, after assignment of the mortgage, we expect to be able to work things out with the mortgagor corporation and make it a healthy project.

There is a small one, too, up in Oregon that is in a little bit of difficulty. Seventy percent of the units are occupied now. We anticipate that we will be able to work that one out.

I would like to say that the elderly housing program itself, I think it has been one of our remarkably successful ones.

There have been some serious problems, however, not the least of which is the Christian Homes project in the Fort Worth area. I am sure that perhaps all of the members of the committee have heard about this one.

This project was very severely criticized by the newspapers. It was branded a failure even before it was completed. The sponsors are five Baptist churches in the Fort Worth area. They feel that the adverse publicity has just eliminated any chance of success of the project, and we anticipate acquiring the project through default and foreclosure.

The project is also in the hands of the Department of Justice for investigation of alleged irregularities which has contributed to the difficulties.

A companion project is the Arlington Villa project. However, this one, while it is in the Department of Justice for investigation, now has about 80-percent occupancy, and we anticipate that it will be a successful project.

We have a project in Pascagoula, Miss. This is a project that was sponsored by local 693 of the International Brotherhood of Boiler Makers, Iron Ship Builders, Blacksmiths, Forgers, & Helpers.

It was completed, and then nothing happened. We have been in constant touch with the international to see what is going to be done about the project, but apparently they feel that they have no financial resources to invest in the project in order to get it underway.

This is one of the newer problems that we have come up with, and what the solution to that is going to be, I don't know at the moment, but we are actively working with the international union to have them enter into the project and assume the operation and management of it.

Mr. NYE. Had the international body made any guarantees with respect to that?

Mr. DANIELS. We have a letter from the international body in which a resolution was passed pledging their support of the project—if the local failed to support the project, pledging their support.

That support has not been forthcoming as yet, but we are consistently working with them to see what can be done.

Senator MOSS. These all seem to be nonprofit sponsors.

What is the breakdown between the profit-motivated and nonprofit projects?

Mr. DANIELS. Out of 278 projects that we have underway, there are 69 of them that were profit motivated. The rest are nonprofit.

Among those, the religious organizations are by far the most numerous of the sponsors.

For instance, out of 204 nonprofit projects, religious organizations account for 143 of them.

Unions, fraternal organizations, and teachers' organizations account pretty largely for the rest.

Mr. SPECTOR. I think it is the recitation of some of these cases that might give some additional background as to the need for this guarantee of potential deficits. Thus if difficulty develops along this line, as has happened with some of these, there would be a source to insure the solvency of the project.

Senator MOSS. I noticed you were reading from some little summaries before you. Could those be put in the record so that we could study them? Those were, I think, 231's that were in some difficulties.

Mr. DANIELS. That is right, yes, we can provide this information.

Senator MOSS. If that could be provided, I think it would be helpful to the committee.

FHA SECTION 231 HOUSING FOR THE ELDERLY PROJECTS IN DEFAULT

PROJECTS WITH ADMISSION FEES

Riverview Lutheran Home, Spokane, Wash. (a nonprofit project with 212 units): Early in 1960, the mortgage went into default because of insufficient occupancy to make mortgage payments. On August 3, 1960, the mortgagee assigned the mortgage to FHA. The FHA has cooperated with the mortgagor by deferring principal payments to permit the opportunity to increase the number of residents. Occupancy has reached a self-sustaining level and as a result the mortgage payments are now current. The project is operating very successfully and it is anticipated that no loss to the FHA will ever occur.

Pasadena Lutheran Home, Pasadena, Calif. (a nonprofit project with 50 units): The mortgage on this project was assigned to the Federal Housing Administration because the level of occupancy was not sufficient to pay all operating expenses and mortgage payments. As of September 30, 1963, it was in process of foreclosure by the FHA. Foreclosure could occur unless the mortgagor is able to present an acceptable plan to reinstate the mortgage before foreclosure action is completed. The extent of loss, if any, cannot be determined until and if acquisition takes place and the project is resold by FHA.

PROJECTS WITHOUT ADMISSION FEES

Tarleton Park Development Corp., Tucson, Ariz. (a profit-motivated project with 183 units) : As of September 30, 1963, the mortgage had been assigned to the FHA and was in the process of foreclosure by FHA because the level of occupancy was not sufficient to pay all operating expenses and mortgage payments. Since it appeared that occupancy would not reach a self-sustaining level within a reasonable period of time, the mortgagor elected to give FHA the deed to the project. The offer was accepted since it saved FHA the costs of foreclosure. The extent of loss, if any, will not be known until resold by FHA.

Autumn Leaves, Inc., Dallas, Tex. (a profit-motivated project with 172 units) : This project was completed in January 1963 and the mortgage finally endorsed in March 1963. As of September 30, 1963, this project was in default of its mortgage payments because of insufficient occupancy and was in the process of foreclosure by the mortgagee. Subsequently, a foreclosure sale was held on January 7, 1964, at which time the mortgagee acquired title to the project. While the mortgagee has notified the FHA of its intention to tender title to the project to the FHA, the mortgagee has been approached by several religious organizations, as has the FHA, which are interested in purchasing the project for operation as a nonprofit housing-for-the-elderly project. If a sale is accomplished by the mortgagee, the FHA will suffer no loss.

Forest Glen Senior Residence, Canyonville, Oreg. (a nonprofit project with 109 units) : Mortgage payments as of September 30, 1963, were in default because occupancy had temporarily fallen below a self-sustaining level. The mortgagee expects the mortgagor to bring the mortgage payments current and the default cured.

Baptist Golden Age Home, Hot Springs, Ark. (a nonprofit project with 74 units) : The mortgage on this project was assigned to the FHA because the level of occupancy was not sufficient to pay all operating expenses and mortgage payments. As of September 30, 1963, it was in process of foreclosure by the FHA. Foreclosure could occur unless the mortgagor is able to present an acceptable plan to reinstate the mortgage before foreclosure action is completed. The extent of loss, if any, cannot be determined until and if acquisition takes place and the project is resold by FHA.

Carlsbad Village, Inc., Carlsbad, Calif. (a nonprofit project with 98 units) : The mortgage on this project was assigned to the FHA because the level of occupancy was not sufficient to pay all operating expenses and mortgage payments. As of September 30, 1963, it was in process of foreclosure by the FHA. Foreclosure could occur unless the mortgagor is able to present an acceptable plan to reinstate the mortgage before foreclosure action is completed. The extent of loss, if any, cannot be determined until and if acquisition takes place and the project is resold by FHA.

Portals Senior Citizens Village, Inc., Antelope Valley, Calif. (a nonprofit project with 557 units) : The sponsor of this project is the California Institute of Social Welfare, now the California League of Senior Citizens. Because of a controversy between the mortgagor corporation and the contractor late in 1962, construction was halted and the mortgage went into default. The mortgagee elected to foreclose and started foreclosure proceedings late in 1963 and also exercised its rights under the contractual documents to proceed with construction as attorney in fact for the mortgagor. However, the mortgagor forestalled foreclosure proceedings by filing an action under chapter XI of the Bankruptcy Act. On December 5, 1963, officials of the FHA met with the attorneys for the mortgagor, mortgagee, contractor and bonding company to discuss completion of the project and a change in the mortgagee's election from foreclosure to assignment. At that meeting, the FHA agreed that upon assignment of the mortgage, it would work with the mortgagor in an attempt to put the project on a sustaining basis. The project is now completed except for landscaping and permission from the county government is being awaited to open for occupancy. The loss to FHA, if any, cannot be determined until and if acquisition takes place by FHA and the project is resold by FHA.

Brownmoor Estates, Inc., Scottsdale, Ariz. (a profit-motivated project with 200 units) : Mortgage payments were in default because of a delay in the completion of construction and because liens had been placed against the project by some subcontractors. The FHA has been cooperating with the mortgagor and the general contractor to try to work out solutions to these problems in order to reinstate the mortgage. The project was already completed and partially occupied as of September 30, 1963.

Senator MOSS. This has been a very helpful hearing. I hate to wind it up, but the leadership has requested that we close our hearings and that all Senators be on the floor at 12 o'clock noon today, and that does not give us too much time.

Let me thank you for your coming here today. You have provided us with a great deal of information in this hearing, and it certainly has been a good start for hearings that we are going to conduct in the field.

We will look forward to getting the additional information that we have requested that is going to be supplied for the record.

Is there any quick question that anyone has?

Mr. NYE. Mr. Chairman, I have one, if I might, of Mr. Daniels.

Senator MOSS. All right.

Mr. NYE. Mr. Daniels, can you supply, within a reasonable time, a portrayal of the extent of acquaintance FHA has with the income of the residents of section 231 projects?

Mr. DANIELS. I don't know whether that would be possible, sir. We have asked for that information from a great many projects. It is a little bit difficult to get. We are providing housing for a wide range of income people, and there is a reluctance—this is not a requirement for occupancy in one of our projects—and there is a reluctance, apparently, to give that information.

Mr. NYE. But you have had some return?

Mr. DANIELS. We have had some return, and we are analyzing it now to see whether or not it is of any value whatsoever.

Mr. NYE. And you will advise the committee of the result of that finding?

Mr. DANIELS. Yes, sir.

(The following statement was subsequently submitted:)

As part of a 1963 survey of FHA 231 projects, questions on incomes of residents of those projects were included. However, most respondents did not reply to these questions. Those who did reply sent incomplete or conflicting data which are not statistically significant. Of 174 projects surveyed, 63 included some information on income of residents. Without more elaborate followup we cannot tell which income ranges were thus omitted from the overall picture, or to what extent the reports were understated or overstated. With all these qualifications in mind, the median income reported for these 63 FHA 231 projects was $2,575.

Mr. NYE. One more question, Mr. Chairman.

Senator MOSS. All right, sir.

Mr. NYE. Is it true that none but well-to-do people are residents in 231 projects?

Mr. DANIELS. Definitely not. Thank you.

Senator MOSS. Thank you very much.

Mr. SPECTOR. Senator, it was a pleasure to be here.

Senator MOSS. The committee is in recess.

(Whereupon, at 11:55 a.m., the subcommittee recessed subject to the call of the Chair.)

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