1052

OUTLOOK FOR HOUSING IN THE DALLAS-FORT WORTH REGION

HEARING

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GOALS AND INTERGOVERNMENTAL POLICY

OF THE

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OUTLOOK FOR HOUSING IN THE DALLAS-FORT WORTH REGION

THURSDAY, APRIL 16, 1981

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON ECONOMIC GOALS
AND INTERGOVERNMENTAL POLICY
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to notice, at 8:40 a.m., in the Chambers Lecture Hall, Loew's Anatole Hotel, Dallas, Tex., Hon. Lloyd Bentsen (vice chairman of the subcommittee) presiding.

Present: Senator Bentsen.

Also present: Deborah Matz and Billy R. Maddox, professional staff members.

OPENING STATEMENT OF SENATOR BENTSEN, VICE CHAIRMAN

Senator BENTSEN. Ladies and gentlemen, we'll start the hearing if the persons who are on the panel will please come forward. [Pause.]

Good morning. It is certainly a pleasure to welcome such a distinguished group of panelists this morning to discuss some of the housing problems of the Nation. Unfortunately, these housing problems seem to get worse month by month. Our Nation's mortgage lenders are paying out more money than they are taking in. Our homebuilders are faced with a growing inventory of unsold houses across the Nation and many young families can no longer afford to purchase a home.

Owning a home where a family can grow and be secure has always been the center of the American dream for generations. The West was settled by people from crowded cities and crowded lands who saw a chance to build their own lives and their own homes. The promise of our Nation has always been that the family that worked and saved would be rewarded. Part of that reward was owning a home. Today, though, we see inflation and taxes eroding incomes so quickly that young families may never be able to afford the down payment. Even those fortunate enough to make that down payment may become slaves to their monthly payments. That's quite a tragedy when the American dream turns into an American nightmare, when homes are beyond the reach of a majority of American households. Or, worse perhaps, when the cost of homeownership becomes an unbearable burden.

For too many people that kind of a nightmare has become a reality. Here in the Dallas-Fort Worth area housing starts in 1980 were down almost 30 percent from a year ago, interest rates were over 13 percent, while new home costs in this area were averaging $73,000. You begin to wonder when you hear that a Dallas family needs an income of $42,000 a year to qualify for a mortgage on a home. It's essential that we come to grips with high interest rates and the accelerating housing costs which are causing that kind of havoc for our young families, our housing industry, and our thrift institutions.

I believe an important step to promote the inflow of savings to those institutions would be to give a tax exemption on the interest earned on savings accounts that are received from those savings that are dedicated to housing. I believe that that would result in a substantial increase in employment in this country and an increase in housing starts, and provide an availability of long-term money that's essential if we are going to be able to bring interest rates and monthly payments down and make owning a home affordable again for American families. However, that may not be enough. That's one of the reasons we are having this series of hearings—to try to get input from witnesses like those before us this morning. We are asking you to give us your suggestions on how we can confront this problem and what we might be able to do from the legislative standpoint in trying to help.

I'd like to start off with Robert H. Boykin. He's the president of the Federal Reserve Bank of Dallas. Mr. Boykin.

STATEMENT OF ROBERT H. BOYKIN, PRESIDENT, FEDERAL RESERVE BANK OF DALLAS, DALLAS, TEX.

Mr. BOYKIN. Senator Bentsen, I'm pleased to appear before you this morning to talk about the construction and housing activity in the 11th Federal Reserve District. In the prepared statement we discussed mortgage interest rates and savings and loan association construction activity in this district. We included a few comments on nonresidential construction in addition to single-family and multifamily construction simply to round out the total construction picture.

The statement first gives an overview of the district as a whole in Texas and finally the Dallas, Fort Worth, and Houston metroplex areas. We thought that the best approach would be to provide information for the 1973–75 period, and the 1978–80 periods since these were the periods most severely affected by inflation and the resultant high interest rates. Finally, we attached a table showing some of the key indexes reflecting in the overall economy of the 11th Federal Reserve District for the period 1970 through 1980.

As previously mentioned, inflation and the resultant high interest rates have severely affected residential construction activity in the Southwest twice in the last decade, with the worst slump occurring during the 1973–75 recession when high interest rates and disintermediation discouraged home purchases and dried up loanable funds at area savings and loan associations.

Similar forces have been evident in the past 2 years, but the overall effect on residential construction in the most recent period appeared to be less severe than in the earlier period. Mortgage interest rates in Dallas, Fort Worth, and Houston—the areas which currently account for fully three-fifths of all homebuilding in Texas—rose sharply at the beginning of the 1973–75 recession, and since 1976.

For example, the effective rate, which takes into account fees associated with the mortgage loan as well as the interest rate, rose from 7.85 percent in January 1973 to a peak of 9.64 percent in November 1974. The rate then decreased as the economy contracted and bottomed at 8.87 percent in June 1975. As the economy recovered and expanded, interest rates increased steadily. The rate reached 10.19 percent in January 1979, and climbed to 13.27 percent in January 1981. Therefore, the rate rose about 2 points in 1973–74 and 3 percentage points in the past 2 years.

Fluctuations in interest rates affected savings and loan associations in the Southwest in both the 1973–75 period and the 1978–80 period. The rise in rates in 1973 and 1974 triggered a round of disintermediation. In both years net savings declined more than 20 percent as withdrawals outpaced the inflow of new savings.

In 1975 as interest rates fell, net savings more than doubled with a large influx of new savings. Disintermediation also occurred from 1976 to 1979 when withdrawals quickened and new savings slowed.

Net savings declined 6 percent in 1977, 16 percent in 1978, and 34 percent in 1979. Last year net savings increased 70 percent when the rise in new savings outpaced the rate of withdrawal. However, the dollar volume of net savings was the smallest for any year since 1974, except for 1978 and 1979.

Mortgage commitments outstanding at Texas savings and loans reflected the change in net savings. Commitments fell 28 percent in 1973, and 5 percent in 1974, but rebounded 69 percent in 1975. Similarly, in 1978 and 1979 they fell 10 and 22 percent respectively. Last year they rose 28 percent. Residential construction contracted sharply in the four States, all or a part of which are in the 11th Federal Reserve District, during the 1973–75 recession. For the past 2 years homebuilding has held up a bit better than during the midseventies with Texas doing somewhat better during this period than the rest of the district.

Looking at the Dallas-Fort Worth area, residential construction fared worse in 1973–75 than in the last 3 years. Following the recovery in 1975, the number of housing starts doubled in Dallas-Fort Worth from 1975 through 1977, although another decline in construction activity began in 1978. During the last 3 years the number of starts declined 3, 2, and 17 percent.

So far in 1981 it appears that construction in the 11th district is heading down from 1980 year-end levels. For example, the number of residential projects for the four States fell more than 5 percent from December 1980 to February 1981, according to seasonally unadjusted F. W. Dodge statistics. Moreover, square footage decreased 8 percent and the value of residential contracts was down nearly 4 percent. The statistics for Texas followed suit. Project numbers declined 5 percent, square footage shrank 7 percent and contract valuation decreased 4 percent. The situation in Dallas, Fort Worth, and Houston is somewhat mixed. The number of projects was down 33 percent in Dallas-Fort Worth although square footage slipped only 14 percent and the value of contracts was up 9 percent. In Houston the number of projects edged down 3 percent. However, square footage dipped 10 percent and valuation declined 15 percent.

Insofar as the outlook for the housing industry is concerned, this is ultimately going to depend on whether or not we're able to bring inflation under control. It is inflation that has pushed housing prices and mortgage interest rates beyond the reach of most people.

It is inflation that is putting pressure on the savings and loan industry. Were inflation to be eliminated or substantially reduced, this process would be reversed. Interest rates would fall sharply and savings and loan associations would find themselves with a portfolio of relatively high-yielding mortgages and a falling cost of funds.

The resultant increase in the availability of mortgage funds at low interest rates would do much to revitalize the homebuilding industry in this country.

Thank you, Senator.

[The prepared statement of Mr. Boykin follows:]

Prepared Statement of Robert H. Boykin

I am pleased to appear before you this morning to discuss construction activity in the Eleventh Federal Reserve District, Texas, and the metropolitan areas of Dallas-Fort Worth and Houston. At the end of this statement, I have also provided a table with statistics on the overall economy in these areas since 1970, to the extent they were available, as background information.

Inflation and the resultant high interest rates have affected residential construction activity in the Southwest twice in the last decade. The worst slump was during the 1973–75 recession when high interest rates and disintermediation discouraged home purchases and dried up loanable funds at area savings and loan associations. Similar forces have been evident in the past two years, but the overall effect on residential construction in the most recent period appeared to be less severe than in the earlier period.

MORTGAGE INTEREST RATES

Mortgage interest rates in Dallas-Fort Worth and Houston, the areas which currently account for fully three-fifths of all homebuilding in Texas, rose sharply at the beginning of the 1973–75 recession and since 1976. For example, the effective mortgage rate—which takes into account fees associated with a mortgage loan as well as the interest rate—rose from 7.85 percent in January 1973 to a peak of 9.64 percent in November 1974. The rate then decreased as the economy contracted and bottomed at 8.87 percent in June 1975. As the economy recovered and expanded, interest rates increased steadily. The rate reached 10.19 percent in January 1979 and climbed to 13.27 percent in January 1981. Therefore, the rate rose about two percentage points in 1973–74 and three percentage points in the past two years. A chart at the back of this statement plots the effective mortgage interest rates in Dallas-Fort Worth and the Nation since 1965.

SAVINGS AND LOAN ASSOCIATION ACTIVITY

Fluctuations in interest rates affected savings and loan associations in the Southwest in both the 1973–75 and 1978–80 periods. The rise in rates in 1973 and 1974 triggered a round of disintermediation. In both years net saving declined more than 20 percent as withdrawals outpaced the inflow of new savings. In 1975 as interest rates fell, net savings more than doubled with a large influx of new savings.

Disintermediation also occurred from 1976 to 1979 as withdrawals quickened and new savings slowed. Net savings declined 6 percent in 1977, 16 percent in 1978, and 34 percent in 1979. Last year net savings increased 70 percent when the rise in new savings outpaced the rate of withdrawals. However, the dollar volume of net savings was the smallest for any year since 1974 except for 1978 and 1979. (The pattern of net savings in the United States was the same as in Texas in both the 1973–75 and 1978–80 periods.)

Mortgage commitments outstanding at Texas S & Ls reflected the changes in net savings. Commitments fell 28 percent in 1973 and 5 percent in 1974, but rebounded 69 percent in 1975. Similarly in 1978 and 1979, they fell 10 and 22 percent, respectively. Last year they rose 28 percent.

CONSTRUCTION ACTIVITY IN THE 11TH DISTRICT

Residential construction contracted sharply in the four states of the Eleventh District (Texas, Oklahoma, New Mexico, and Louisiana) during the 1973–75 recession. The number of residential units fell 21, 30, and 12 percent, respectively in 1973, 1974, and 1975, according to F. W. Dodge statistics. In addition, the square footage of all dwellings built declined 17, 29, and 7 percent, respectively in those years. The value of residential contracts fared slightly better, decreasing 9 and 17 percent in 1973 and 1974, respectively and increasing 0.2 percent in 1975. The slim gain reflected, in part, the inflationary pressures in construction since the value of the average dwelling unit rose from $24,800 in 1974 to $28,300 in 1975.

Homebuilding held up a bit better in the past two years than it did in the 1973–75 recession. The number of starts more than doubled from 1975 to 1978. But in 1979 and 1980, the number of new dwelling units declined 15 and 18 percent, respectively. Moreover, square footage fell more sharply—dropping 17 and 19 percent. Although the value of all dwelling units slipped 8 percent in 1979 and 4 percent in 1980, the value of an average unit rose from $40,400 to $47,200.

The pattern of single- and multi-family housing permits in the four-state area was somewhat different in the 1973–75 period than during the past three years, according to the Bureau of the Census. Single-family permits fell 29 percent in 1973, 18 percent in 1974 and recovered 15 percent in 1975. Multi-family housing permits declined all three years—22, 51, and 38 percent.

In contrast, the number of single-family permits rose 27 percent in 1978 but declined 18 percent in 1979 and 22 percent in 1980. Multi-family permits increased 8 percent in 1978 but decreased 3 percent in 1979 and 27 percent last year.

Nonresidential construction activity in the four states of the Eleventh District was stronger in both the 1973–75 and 1978–80 periods than residential construction, according to F. W. Dodge. The only year of significant weakness in the 1973–75 recession was 1974 when the number of projects declined 5 percent. The number of projects increased 2 percent in 1975. However, square footage declined 14 and 20 percent for the two years. The value of nonresidential contracts declined in only one year—12 percent in 1975.

In the past two years, behavior of nonresidential construction has been somewhat mixed. The number of new projects fell 15 percent in 1979 but rebounded 4 percent last year. However, total square footage was off 3 percent last year, following a 13-percent gain in 1979. The value of new nonresidential contracts fell 10 percent in 1979 but rose by the same percentage last year.

CONSTRUCTION ACTIVITY IN TEXAS

Residential construction in Texas closely mirrored the activity in the District since this State accounts for so much of the overall housing market. The number of dwelling units fell 20, 29, and 11 percent in 1973, 1974, and 1975, respectively. Similarly, total square footage slipped 16, 30, and 4 percent. The value of residential building contracts declined 8 percent in 1973 and 19 percent in 1974. The trough in residential contracts was $139 million in February 1975, which coincided with the bottom of the recession. But with the fast recovery, residential contracts rose 5 percent in value overall in 1975. Moreover, the value of the average dwelling increased from $23,300 in 1974 to $27,500 in 1975.

Residential construction in Texas has not been quite as weak in the past two years as in the four-state area of the District. The number of dwelling units increased 0.3 percent in 1978, but then declined 12 percent in 1979 and 17 percent in 1980. Square footage followed the same pattern—up a robust 18 percent in 1978 before dropping 15 and 18 percent, respectively, in the past two years. The value of residential construction, reflecting inflationary pressures rose 24 percent in 1978 but decreased only 6 and 2 percent in 1979 and 1980. The decline in residential contracts hit a low in April 1980, which again coincided with the trough in overall economic activity, but these contracts rebounded sharply to a peak

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last December. The value of the average residence rose from $39,600 in 1979 to $46,600 last year.

The trends in single- and multi-family permits in Texas were the same as for the four-state area. Single-family permits fell 25 percent in 1973, 18 percent in 1974 and rose 15 percent in 1975, according to the Bureau of the Census. Multi-family permits dropped each year—15, 45, and 67 percent.

After increasing 37 percent in 1978, single-family permits in Texas decreased 19 and 18 percent in 1978 but declined 3 percent in 1979 and 30 percent last year.

The pattern of nonresidential construction in Texas in the 1973–75 and 1978–80 periods was practically the same as for the District states. The number of projects rose 3 percent in 1975 after a 9-percent decline in 1974. Square footage was off 14 and 20 percent, respectively, each year, and contracts were off 16 percent in 1975 following a 26-percent increase in 1974.

The number of nonresidential projects in Texas rose 7 percent last year following a 17-percent decline in 1979. However, square footage was off only 0.5 percent in 1980, compared to a 15-percent gain a year earlier. The value of nonresidential contracts was up 15 percent last year, after declining 8 percent a year earlier.

CONSTRUCTION ACTIVITY IN DALLAS-FORT WORTH

On balance, residential construction in the Dallas-Fort Worth SMSA fared worse in the 1973–75 period than in the last three years, according to F. W. Dodge statistics. The number of residential units built fell 27, 7, and 23 percent in 1973, 1974, and 1975, respectively. On a square footage basis, the statistics were off just about as much, declining 22, 19, and 14 percent. Finally, the value of residential construction in the Metroplex fell at a decreasing rate—16, 10, and 3 percent, respectively. The decreasing rate of decline reflected, in part, the inflated value of the average new dwelling unit, which rose from $22,800 in 1973 to $27,500 in 1975.

From 1975 to 1977, the number of housing starts doubled in Dallas-Fort Worth. However, another decline in construction activity began in 1978, although not as severe as in the 1973–75 period. In the last three years the number of starts declined 3, 2, and 17 percent, respectively. Total square footage of new housing increased 22 percent in 1978, but fell 3 and 24 percent in 1979 and 1980. The value of residential construction increased 32 percent in 1978 and 7 percent in 1979, but fell 7 percent last year. As in the 1973–75 period, inflation appears to have pushed up the value of the average new dwelling rapidly—from $29,700 in 1977 to $49,500 in 1980.

The number of single-family housing permits in Dallas-Fort Worth declined by 33 percent in 1973, 17 percent in 1974, and rose a slim 2 percent in 1975. Multi-family permits decreased all three years—15, 1, and 61 percent, respectively.

The number of single-family permits in Dallas-Fort Worth more than doubled from 1975 to 1978, but then declined 11 and 23 percent in 1979 and 1980. Multi-family permits rose by a factor of five from 1975 to 1978, and then slipped 1 percent in 1979 and 23 percent last year.

Nonresidential construction activity in the Dallas-Fort Worth area during the 1973–75 recession sagged more than in Houston, Texas, or the four-state area of the Eleventh District. The number of projects in this area declined 11 percent in 1974 and 7 percent in 1975. The square footage of those projects shrank 20 and 31 percent in the two years, respectively. Moreover, the value of nonresidential construction was down 4 percent in 1973, 4 percent in 1974, and 26 percent in 1975.

In contrast to the 1973–75 period, nonresidential construction has been somewhat stronger in the Dallas-Fort Worth area in the past three years than in Houston. The number of projects decreased 1.3 percent in 1978 and 15 percent in 1979 but rose 16 percent last year. Activity was stronger when measured on a square-footage basis. Square footage increased 37 percent in 1978 and 28 percent in 1979 but slipped 0.1 percent last year. But the value of those projects has continued to grow strongly—increasing 58, 43, and 30 percent, respectively, in each of the last three years.

CONSTRUCTION ACTIVITY IN HOUSTON

The pattern of residential construction in Houston was different from the trend in Dallas-Ft. Worth. Total starts fell 29 and 52 percent in 1973 and 1974, respectively. However, they increased 22 percent in 1975. Sharp declines in square footage and value were also evident in 1973 and 1974, while substantial recoveries were made in 1975.

Housing starts more than tripled in Houston from 1975 to 1977. But since then the number of starts has declined at an accelerating rate—falling 6 percent in 1978, 14 percent in 1979, and 26 percent in 1980. Square footage and value of residential construction turned down in 1978 at fast rates. Square footage fell 17 percent in 1979 and 24 percent last year, while housing contracts fell 6 and 5 percent. Again, the value of the average dwelling unit has moved up sharply in the recent years—from $27,900 in 1977 to $47,800 in 1980.

The number of single-family permits in Houston fell 25 percent in 1973 and 27 percent in 1974 before recovering by 41 percent in 1975. Similarly, multi-family permits dropped 41 percent in 1973 and 58 percent in 1974 and increased 43 percent in 1975.

The number of single-family permits in Houston rose sixfold from 1975 to 1978. In 1979, they fell 26 percent but rebounded by 39 percent last year. The number of multi-family permits rose 3.5 times from 1975 to 1978. However, in the last two years they declined 3 and 38 percent.

Houston escaped severe setbacks in nonresidential construction in both the 1973–75 and 1978–80 periods. The number of new projects in the Houston area declined 3 percent in 1974 and climbed 10 percent in 1975. However, the square footage of those projects declined both years, 9 and 4 percent, respectively. But the value of the projects rose strongly—22 percent in 1974 and 18 percent in 1975.

In 1979, the number of nonresidential projects in Houston fell 29 percent but rose 12 percent last year. Square footage slipped 3 percent in 1979 and rebounded 6 percent in 1980. The value of the projects plummeted 42 percent in 1979 but rose 11 percent last year.

CONSTRUCTION ACTIVITY IN 1981

Construction in the Eleventh District states appears to be headed down from 1980 year-end levels. For example, the number of residential projects for the four states fell more than 5 percent from December 1980 to February 1981, according to seasonally unadjusted F. W. Dodge statistics. Moreover, square footage decreased 8 percent and the value of residential contracts was down nearly 4 percent. The statistics for Texas followed suit. Project numbers declined 5 percent, square footage shrank 7 percent, and contract valuation decreased 4 percent. The situation in Dallas-Fort Worth and Houston is somewhat mixed. The number of projects was down 33 percent in Dallas-Fort Worth, although square footage slipped only 14 percent and the value of contracts was up 9 percent. In Houston, the number of projects edged down 3 percent. However, square footage dipped 10 percent and valuation declined 15 percent.

Nonresidential construction has deteriorated more than residential construction. The number of projects in the four District states decreased 25 percent from December 1980 to February 1981. Square footage declined 17 percent, while the value of that construction has dropped 21 percent. Things were worse in Texas where projects numbers plummeted 32 percent, square footage slipped 23 percent, and the value of contracts contracted 33 percent. Much of the decline was in Dallas-Fort Worth where the number of projects dropped 54 percent, square footage declined 47 percent, and contract valuation fell 64 percent. Nonresidential construction in Houston held up relatively well from December to February. Although the number of projects decreased 25 percent in that area, square footage actually climbed 14 percent while the value of contracts was down 8 percent.

PRODUCTION IN CONSTRUCTION-RELATED BUILDING MATERIALS INDUSTRIES

Output in the major building materials industries in Texas has generally followed the ups and downs in construction activity. For example, production of lumber and wood products peaked in March 1974 and dropped 35 percent to a trough in November 1974. Output in the industry then rebounded 50 percent by the end of 1975.

Lumber production reached another peak in October 1979 and then declined 16 percent to a bottom last July. By the end of the year, lumber output was up 15 percent from the July level.

Production of stone, clay and glass products peaked in May 1974 and decreased 11 percent to a low in March 1975. Output in the industry reached another peak in January 1980. Production then decreased 11 percent to a trough last June. Output then increased 8 percent to another apparent peak last November.

Another industry that has followed the fluctuations in construction is primary metals. A large portion of that industry produces concrete reinforcing bars and structural shapes. Primary metals peaked in June 1974 and said 28 percent to a trough in October 1975. Output of primary metals also peaked in November 1979 and fell 13 percent to a low last July. Primary metals production had recovered 6 percent by year end.

OUTLOOK

The viability of the housing industry in this country is ultimately going to depend on whether or not we are able to bring inflation under control. It is inflation that has pushed housing prices and mortgage interest rates beyond the reach of most people. It is inflation that is putting pressure on the savings and loan industry.

Were inflation to be eliminated, or substantially reduced, this process would be reversed. Interest rates would fall sharply, and savings and loan associations would find themselves with a portfolio of relatively high yielding mortgages and a falling cost of funds. The resultant increase in the availability of mortgage funds at low interest rates would do much to revitalize the home building industry in this country.

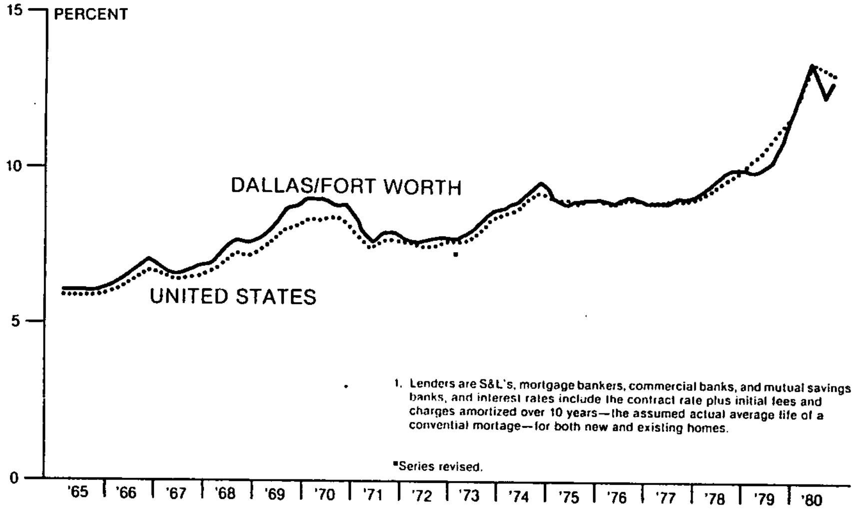
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Industrial production (December to December, percent change):											
United States	-3.6	4.8	12.0	4.4	-9.1	4.3	6.9	5.0	8.7	0.5	-1.1
Texas	-0.9	-1.0	6.6	5.5	-0.6	3.7	3.6	4.5	5.5	1.7	1.8
Saving and Loan net savings flows (annual average, percent change):											
United States	170.1	153.9	16.8	-38.0	-20.6	166.4	18.2	0.8	-12.1	-12.4	5.5
Texas	111.1	151.4	22.4	-21.3	-20.3	117.9	4.4	-6.2	-15.7	-33.9	70.4
Mortgage loans outstanding (December to December, percent change):											
United States	7.2	15.9	18.3	12.4	7.6	11.7	15.9	18.0	13.5	9.9	5.7
Texas	8.0	16.6	20.6	9.5	10.4	16.9	20.5	22.9	15.6	10.7	9.8
Dallas	10.0	18.5	20.6	40.0	7.9	15.3	16.3	22.5	-1.9	21.3	7.0
Houston	7.6	19.4	20.1	10.6	10.1	22.0	23.2	25.5	51.2	20.3	14.4
Saving and loan mortgage commitments (December to December, percent change):											
United States	57.5	64.6	57.1	-17.3	-21.7	43.2	38.9	34.1	-4.8	-15.4	1.1
Texas	35.5	91.9	48.8	-27.6	-4.9	68.9	45.7	53.2	-9.6	-21.6	28.3
Unemployment rate (annual average):											
United States	4.9	5.9	5.6	4.9	5.6	8.5	7.7	7.0	6.0	5.8	7.1
Texas	4.4	5.0	4.5	3.9	4.3	5.6	5.7	5.3	4.8	4.2	5.3
Dallas-Fort Worth					4.1	6.0	5.4	4.7	4.0	3.5	4.4
El Paso					6.9	8.7	11.2	11.4	9.2	7.9	9.2
Houston					3.5	4.0	4.5	4.4	3.9	3.3	4.2
San Antonio					5.4	7.3	7.4	6.9	6.3	5.6	6.5
Housing permits (in thousands, annual totals):											
Single family:											
United States	646.8	906.1	1,033.1	882.1	643.8	675.5	893.6	1,126.1	1,182.6	981.5	704.0
Texas	36.8	53.6	55.7	41.6	34.1	39.1	52.1	68.4	94.0	76.6	66.7
Total:											
United States	1,351.5	1,924.6	2,218.9	1,819.5	1,074.4	939.2	1,296.2	1,690.0	1,800.5	1,551.8	1,170.9
Texas	93.5	123.7	129.4	104.6	68.7	62.3	97.1	136.2	169.7	150.0	126.4

See footnotes at end of table.

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Industrial vacancy index (annual average):											
United States								[1] 3.8	2.8	3.0	3.5
Dallas								[1] 4.6	4.5	3.5	5.0
Houston								[1] 1.8	2.4	3.4	4.9
Office vacancy index (annual average):											
United States									[1] 6.2	4.4	3.7
Dallas									[1] 7.4	6.0	3.7
Houston									[1] 2.6	1.7	1.4
Consumer prices (percent change):											
United States (December to December)	5.5	3.4	3.4	8.8	12.2	7.0	4.8	6.8	9.0	13.3	12.4
Dallas (November to November) [2]	[3] 3.9	2.9	2.7	7.9	11.6	7.3	5.7	7.0	[4] 9.7	16.1	15.1
Houston (October to October)	[3] 3.9	3.8	3.3	7.8	13.4	9.3	7.9	5.9	11.5	13.6	11.5
Banking (United States) (December to December, percent change):											
All commercial banks:											
Bank credit					10.2	4.3	8.0	10.8	13.8	11.7	9.0
Loans					12.9	−0.6	7.3	13.9	18.4	13.2	7.4
Member banks:											
Total deposits	11.7	12.2	11.5	10.1	9.9	3.6	4.6	7.4	8.5	4.6	8.9
Time and savings	19.0	17.8	14.7	15.7	15.3	4.4	4.8	9.0	11.2	5.2	11.7
Demand	3.6	5.1	7.3	1.6	0.6	2.1	4.4	4.2	2.9	3.2	2.4
Banking (District) (monthly average of Wednesday data):											
Member banks:											
Bank credit					7.9	9.8	14.2	13.3	14.1	15.6	14.6
Loans					7.8	5.3	15.7	15.4	17.1	19.3	15.7
Total deposits					8.8	12.1	12.6	11.7	10.9	12.6	15.0
Time savings					15.6	12.3	15.7	14.4	14.7	14.4	17.3
Demand					1.8	11.8	9.0	8.5	6.0	10.2	11.7
Personal income (4th quarter to 4th quarter, percent change):											
United States	6.4	7.7	11.7	11.5	8.8	9.0	9.4	11.5	12.8	12.3	11.2
Texas	7.5	6.5	11.4	18.2	9.8	16.3	16.3	13.6	15.0	15.6	(5)

[1] 3-quarter average.
[2] For 1978–80 rate is calculated December to December.
[3] Calculated under old base, Dallas 1963-100 and Houston 1957–59=100.
[4] November to December. Based on an interpolated December 1977 figure, rate is 9.1 percent.
[5] Not available.

Mortgage Interest Rates on Conventional Home Loans Made by All Major Types of Lenders—U.S. and Dallas-Fort Worth, 1965-1980.[1]



Source: Federal Home Loan Bank Board.

Senator BENTSEN. Thank you, Mr. Boykin. We'll hold the questions until we complete the statements of the witnesses.

Mr. Cassidy, we are very pleased to have you here with your long experience in this field. I know you'll make a major contribution with your statement.

STATEMENT OF CLIFFORD W. CASSIDY, JR., CHAIRMAN OF THE BOARD, RICHARDSON SAVINGS & LOAN ASSOCIATION, RICHARDSON, TEX.

Mr. CASSIDY. Thank you, Senator.

My name is Cliff Cassidy and I am chairman of the board of Richardson Savings and Loan Association, Richardson, Tex. Richardson Savings is a $275 million savings and loan association with 18 offices principally in Dallas County, Tex. I also serve on the Legislative Policy Committee of the United States Savings League. I welcome this opportunity to testify before the subcommittee hearing on housing.

First, I would like to comment on the general economic conditions as they affect housing and then be more specific as to recommendations and the problems—particular problems—of the savings and loan industry.

Housing depends on the availability of capital at affordable rates. The availability of capital in turn depends on the volume of savings. I, for one, am particularly pleased, as the industry is, that Senator Bentsen is taking special interest in introducing legislation designed to stimulate the flow of savings because this is of fundamental importance for the housing sector of our economy as well as the economy as a whole.

Also more savings are needed to provide funds for improving the capital equipment of our industries and making them more competitive than industries abroad.

Senator Bentsen's interest in this area is exemplified by the introduction of S. 142 which would exclude from gross income $1,000, or $2,000 in case of joint returns, of interest and dividend income and would make this exclusion permanent. S. 486, also introduced by Senator Bentsen, would permit individuals covered by private retirement plans to establish separate individual retirement accounts or to deduct a separate contribution to the plan. Similarly, S. 638 would allow individuals to compute the amount of the deduction for payments into retirement savings on the basis of the compensation of their spouses.

In addition to these bills, Senator Bentsen has also introduced S. 701, which is of special interest to me and those in the savings and loan field because it would exclude from taxation all interest and dividends earned on deposits which are used for residential mortgage lending purposes. The enactment of this legislation would be greatly beneficial to the home financing and housing industries.

As is now widely recognized, the thrift industry is experiencing great difficulty in operating successfully in an inflationary environment and under recently passed legislation and regulations. Under reasonably stable conditions short-term interest rates typically are lower than long-term rates. Thus it is possible to make short-term savings and use them to extend longer term credit to those who need mortgage financing. Under inflationary condition short-term rates may equal or actually exceed long-term rates, which make operations of thrift institutions more difficult, particularly with ever shortening maturities on savings liabilities.

Inflationary conditions and deregulation result in high interest rates. Institutions with a portfolio of mortgages made over a period of years will have a vast majority of their loans with relatively low interest rates, which will not produce sufficient income to make it economically possible to pay for funds when interest rates are high. Also it is important to note that such mortgages were initially funded with deposits originally attracted at much lower rates. These deposits have been rolled over into the new regulated higher savings rates instruments which have been created since 1978.

Reduced Federal expenditures will relieve pressure on the money markets. Incentives to invest, such as tax incentives for savings and rapid depreciation allowances for fixed investments, will also encourage economic expansion and increased productivity.

The problems of the thrift industry have been compounded recently by new competition from the money market funds. These funds are now siphoning off savings from thrift institutions with the result that the thrift industry not only faces reduced earnings and, in a majority of cases, losses from current operations, but also disintermediation. I believe it is essential that money market funds be brought under the direction of the Federal Reserve and that those reserve requirements, and whatever other appropriate regulations that may be needed, be put into use.

The Depository Institutions Deregulation and Monetary Control Act of 1980 imposed reserve requirements on all regulated depository institutions, and it would appear that the money market funds now representing over $115 billion in assets with a growth rate of 55 percent in the little over 3 months since January the first, and which will grow to over $135 billion in assets by June 30, 1981 if left uncontrolled, should become a part of this regulatory process for the purpose of controlling monetary policy. I include a table summarizing these money market funds through the middle of March this year, and also showing savings flows at savings and loan associations for each week of the year up to March 25. It is apparent that funds have been moving away from housing financing and into commercial paper, the Eurodollar and other similar investments through these money market funds.

Thus, the immediate outlook for savings and loan associations and mutual savings banks is fraught with danger, and this in turn creates serious problems for the housing and homebuilding industries. From 1977 to 1979, the percentage of first-time homebuyers dropped from 36 percent to 18 percent of all home buyers.

In 1979 nearly 46 percent of the home buyers spent more than one-quarter of their income on housing in comparison to 38 percent in 1977. These statistics are from a biennial study of the U.S. League's nationwide survey of home buying habits. While this data was published in July of last year, they indicate the direction in which we have been moving, and nothing in the interim period suggests any improvement.

Despite these discouraging developments, more people are entering their home buying years than ever before. The age group 25 to 44 accounts for nearly 70 percent of all home buyers and will represent 32 percent of our total population in 1990. It is estimated that 42 million people will reach the age of 30 during this decade, approximately 10 million more than in the 1970's.

A recent study of the National Association of Home Builders forecasts total housing requirements over the 1980's to be in the 20 to 23 million unit range. Other projections reach even higher. Thus it appears we are approaching a period when the need for new housing units will be very great, but where the cost of land and building, as well as cost of financing, will make it virtually impossible for all but the highly affluent or the families with two or more high incomes to be able to enter the housing market.

The ever increasing cost of money brought on by Government policy and inflation place the savings and loan industry and housing in an intolerable position for the next 5 years. Savings and loans will not lend money for housing until new mortgage instruments are developed, the average maturity of loans and savings is brought into line, and the cost of new savings is decreased. Thus single family housing, which is principally financed by the savings and loan industry, will continue to limp along at the present 800,000 units per year, or will drop even lower.

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The current dire situation in housing and the savings and loan industry was brought on by Government regulation and legislation and can be cured by regulation and legislation. While I do not quarrel with the creation of money market certificates in 1978 and the Deregulation Act of 1980, I do say only one side of the economy, the savers, was taken care of. The other half, home borrowers and the savings and loan industry, were left to die, from an injection of too quick, too soon. Now the second half needs to be injected quickly with regulation and legislation to complete a sound continuing economic viability.

If I may depart for a few moments, let me give a small analogy in baseball terms of what has been done to the savings and loan industry.

Can you imagine what one small rule change in baseball could do by moving the homeplate behind the batter, a mere 3 feet or so, with all other rules remaining the same? The pitcher would be pitching behind the batter, the batter would be facing the wrong way, few or no runs would be scored, the spectators would stop coming to the game. Baseball would fold as America's national sport.

It is important to understand the savings and loan industry is a product of regulation and the legislative process just as baseball is a product of the rules process. The guidelines and parameters of the operation of this business, both in savings and lending have been prescribed by the Federal Home Loan Bank for years. The discretion of savings and loan management has been restricted to their prescribed boundaries.

The long-term, fixed-rate mortgage to home buyers was a function of Federal regulation. Savers were given a variety of possible accounts with fixed terms and rates prescribed by Federal regulation. These Federal regulations were conceived to permit financial institutions accepting deposits from the general public and lending funds to purchase homes, to operate within a reasonable profit level. Abruptly, and in midstream, the rug was pulled out from under the savings and loan industry. The terms and conditions on the savings side were changed without corresponding changes in the lending side. The years of buildup of 30-year fixed-rate mortgages secured by the homes of America were ignored. As a result the savings and loan industry has been placed in an economically untenable position with the average cost of savings deposits above the average yield on outstanding loans.

With inflation continuing the industry cannot function under today's rules. In fact, as of today, the average return on assets nationally and in each and every one of the 50 States, is negative. Two-thirds of the savings and loans nationally lost money in the first quarter of 1981. The earnings loss will be between $2 billion and $4 billion the first half of this year. Senator, this is not bad management, it is bad rulemaking.

The savings and loan industry is an integral part of the financial structure of this country and is perceived by the public as such. Over the years, various facets of the financial structure of this country have been integrated to meet certain needs of our society. The thrift industry has satisfied the American dream of thrift and homeownership. Its asset base consists of loans on approximately 65 percent of all the houses of this Nation. A house is viewed by the average citizen as his most significant asset. To undermine or destroy the stability of the thrift industry is to raise the question of public confidence in the whole financial structure, indeed, in the Government itself.

I think this is the magnitude of the problem facing Congress today.

The gist of the cures I would suggest are as follows:

Sensible unregulated flex-rate mortgage instruments need to be approved immediately by the Federal Home Loan Bank Board. If savings rates are to fluctuate weekly, the mortgage rates must fluctuate on a short-term basis.

Second, Congress should provide that interest on savings in financial institutions that basically use the funds for lending on housing and real estate construction be excluded from gross income for tax purposes. This would allow housing to recover; the savings and loan industry to survive the next 5 years until the industry could restructure its loan assets in order to compete under the new rules; would increase tax revenue rather than costing the Treasury; and would also follow successful savings accumulation programs of Germany, Japan, and the United Kingdom where the savings rate is presently several times greater than our own.

Third, by regulation the Federal Home Loan Bank Board should allow, for regulatory purposes, the financial loss from the sale of low yielding loans by savings and loan associations to be spread over the remaining term of these loans.

These three steps, along with legislation placing money market funds under the Fed with reserve requirements and limiting checking ability, would stabilize housing over the next 5 years; increase savings and loan accumulation by the American public; allow those who want to put their families in a new home to do so at an affordable borrowing rate; increase the productivity of this country; and prevent the wholesale closings of financial institutions.

Senator, I thank you for your time spent in today's hearing and I am confident you will legislate resurrection rather than demise. Give us the tools and the time to adjust, and through your actions you will give a new vitality to our sections of the national economy.

[The tables referred to by Mr. Cassidy follow:]

TABLE 1.—SAVINGS AND LOAN FLOWS AND MONEY MARKET FUNDS

[Dollar amounts in thousands]

Week	Net new savings at savings and loans	Change in money market fund assets
Jan. 1 to 7	+$228	+$1,285
Jan. 8 to 14	−1,258	+2,860
Jan. 15 to 21	+612	+2,976
Jan. 22 to 28	+659	+2,145
Jan. 29 to Feb. 4	+340	+2,883
Feb. 5 to 11	−18	+2,726
Feb. 12 to 18	−85	+2,558
Feb. 19 to 25	+883	+3,431
Feb. 26 to Mar. 4	−260	+2,352
Mar. 5 to 11	−519	+3,360
Mar. 12 to 18	−882	+3,343
Mar. 19 to 25	−2,098	+4,000
Total	−2,398	+33,819

Source: Donoghue Report and Research Department, U.S. League of Savings Associations.

TABLE 2.—MONEY MARKET MUTUAL FUND INVESTMENTS AS OF MAR. 18, 1981

[In percent]

	General purpose	Stockbroker/ general purpose	Institution only	All funds
U.S. Treasury	3.80	14.03	9.25	10.24
U.S. other	4.47	2.77	15.79	5.75
Repos	8.72	1.47	14.41	5.99
Certificates of deposit	16.20	26.26	13.60	21.01
Broker's acceptances	10.29	8.33	9.78	9.16
Commercial paper	31.77	35.89	32.88	34.15
Eurodollar	16.23	9.04	3.17	9.93
Yankeedollar [1]	7.37	1.07	0	2.64
Other	1.15	1.13	1.12	1.13

[1] Deposits in foreign branches of giant U.S. banks.

Senator BENTSEN. Mr. Cassidy, that's very interesting and I need your forceful testimony. I knew you would have some ideas and some good recommendations. We'll get back to you.

I'm very pleased to have Mr. Herman Smith who's president of the National Association of Home Builders with us this morning. Mr. Smith, if you'd proceed, sir.

STATEMENT OF HERMAN J. SMITH, PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. SMITH. Thank you, Senator Bentsen. Let me say we certainly appreciate the opportunity to appear before you and especially appreciate the fact that you have brought your hearings to the grassroots where our people down home have an opportunity to have some input into your thoughts and some of the programs that are now being developed on the Hill.

At the outset, let me say that we have long shared the views of this committee, especially the last couple of years as the JEC has looked at several of the programs. Of course, I realize at times we are preaching to the preacher when we talk about some of these programs that Mr. Cassidy has just mentioned.

I would be pleased to submit my prepared statement for the record and just make some brief comments if it's all right.

Senator BENTSEN. We would be delighted to have it that way. Could I interrupt just for a moment. I understand Ms. Kovisars is here. Would you come forward and be seated here?

Mr. SMITH. But we do have several pages that have covered some of the subjects that Mr. Cassidy has covered and I might say concur with his comments wholeheartedly.

As a representative of the industry of which has been at the cutting edge of each of the seven recessions within the last 35 years, we enthusiastically endorse the principal message in your annual report of the JEC last year when it stated, "America does not have to fight inflation during the 1980's by periodically pulling up the drawbridge with recessions that doom millions of Americans to unemployment." And, may I add, that will deny millions of moderate income and even middle income Americans the opportunity of a decent, affordable shelter and the dream of owning a home of their own.

I know that in 1979 you urged enactment of a supply stimulus for business and individuals to encourage savings, improve productivity, and enhance economic growth.

Let's look for a moment, if we can, at the outlook for housing on a nationwide basis.

I think, by the way, we're very fortunate to be from the Dallas, Fort Worth metropolitan area which will probably lead the Nation this year in housing starts.

The second most serious housing slump since World War II has been in 1980, with production dropping by 55 percent from the peak of the housing cycle in November 1978. Which, by the way, was only close to meeting the demographic needs of the country.

Total housing production for 1980 was down 29 percent from 1979. Total negative impact to the economy from 1978 to 1980 was $88 billion.

You mentioned earlier an inventory of homes. We now have nationwide an inventory of unsold homes standing at 338,000 units, as of the end of last month. Let me add, this inventory does not have the age in our part of the country as it has in other parts of the country, especially in areas of the auto belt and the steel unemployment.

Net inflow of loanable funds into thrift institutions continues to be low, as you heard in previous testimony. And let me add here that we know this in the building industry. First we need a healthy thrift industry. Debt helps a healthy building industry that equates to help the economy because our industry, since World War II, has led the country either into or out of each recession that we've had.

The outlook for Texas—while Texas is not immune to the problems afflicting the housing market nationwide, the most significant factor here is continuing population growth and the migration of new industries and high-technology business to the State. A course of which we are all proud.

During the 1970's the population of Texas grew 2.7 percent annually, adding close to 3 million people during the decade. The cost of living has run about 12 percent below the national average. The unemployment rates have remained between 4 and 6 percent even during the worst of this recession.

The huge demand for new housing in Texas has kept housing production at a moderate pace during this recession. Starts in the Houston metro area and the Dallas-Fort Worth area, will be down about 22 percent from 1979 based on the latest figures.

Statewide during 1980 we started about 153,000 units. A 14-percent decline from the more than 177,000 units we started in 1979. During 1981 we should start a recovery statewide of about 161,800 new units, up only about 6 percent. However, Senator, I must add here, this is based on certain assumptions and we certainly did not 2 weeks ago assume that the interest rates were going back up, as they have in the last few days. And we are now trying to analyze this on a nationwide level and find out what has happened to the money market, especially in the combination of short- and long-term upward movement in the last 2 weeks.

In 1981 the Dallas-Fort Worth metropolitan area should become the top housing market in the country with approximately 39,000 units started. New home prices in major Texas cities now rank at the high end of the market, according to Federal Home Loan Bank survey of the average purchase prices for mortgage loans in 1980.

And I think I should add something here pertaining to the average purchase price. We read so many times where house prices, for example in a Dallas area or another section of the country, has jumped up over the previous year. And I think we certainly need to understand the word average because, as we see this tight money, or as we see the high interest rates at 14-, 15-, 15½-percent yield, we are first pricing out the moderate and lower income family because they cannot qualify for the loan.

And the wealthier end up buying houses, so the cost of the average house has increased accordingly. So when we see that the average price of a house in the Dallas area has increased sizably, we should be careful that we do not compare that back to the cost per square foot. Because we find that the house increase per square foot is not increasing any faster in this area than it is in the rest of the country.

So we want to be careful that we don't get undue publicity on the basis of the average—there's an old adage about the little boy that had one bare foot on a red hot stove and the other bare foot on a block of ice, and on the average he was feeling just right. So we find ourself in that problem sometimes when we compare averages.

I would like to briefly describe the demographic changes in our population that will shape housing demand in Texas during the next 10 years.

The Census Bureau projects that the State's population will increase about 15 percent between 1980 and 1990, compared to a national increase of 9.6.

Second, we can expect an increasing demand for smaller, more affordable homes from two segments of our population. Our population in the 25- to 34-year-old age bracket, will be most likely looking for their first home, will increase faster than the balance of the population. In fact, this would increase, we anticipate, by about 17.3 percent. Reflecting the national trend, those 65 and older who are looking for smaller homes, now that their families have grown up, will increase 23 percent.

It was also interesting to note that Texas, Florida, and California, just these three States, now account for over one-third of the housing starts in our country today.

Then we can talk about the availability of mortgage finance, as Mr. Cassidy mentioned earlier. While this area could be the basis for an entirely different set of hearings, I feel that the recent trends in mortgage finance are relevant to a discussion of the mortgage market in the whole decade of the 1980's.

The tremendous shift of funds from passbook savings to a higher rate, short-term money market certificates, has all but eliminated the long-term savings needed to make standard long-term mortgages. And, of course, the siphoning off of over $115 billion worth of potential deposits to unregulated money market funds which do not normally invest in residential mortgages, will continue to restrict the availability of mortgage credit, even at higher interest rates.

Then we come to a potential solution or two and the tax incentives for savings. I know this is an old story to you because ever since you have been in the U.S. Senate you have been talking about increasing the capital base in this country and savings habits and looking at programs pertaining to tax incentives on savings.

In the absence of a simple solution, we believe that the tax free interest on deposits used for residential mortgages in your bill, S. 701, represents a strong, positive step toward the solution of the present housing crisis. And I might add, Senator, in talking to other Members of Congress it is interesting to note what trends are developing pertaining to the money market funds. We hope, as Mr. Cassidy mentioned, to see certain reserve requirements. We certainly believe that the thrift institutions should be playing on the same level playing field that the Merrill Lynches play in.

Now, of course, in the absence of your S. 701, the tax exemption on savings, allows a movement of funds into the thrift institutions that certainly would give them some competition to the money funds in the meanwhile.

And even if the correct restrictions were put on the money funds, without the positive steps called for in this type of legislation, we have great concerns about meeting the housing demand in Texas as well as the rest of the country. Such legislation could help to encourage savings and growth and productivity, which is beneficial to the national economy and to the homebuilding sector of our country.

One of the most important benefits of S. 701 is the fact that it will encourage people to channel funds into savings which can be used for production purposes such as housing and business capital formation. And we also, Senator, in moving on to another point, we are cognizant of the Congress passing the Mortgage Subsidy Bond Act last year, and our people have been very concerned that, as of this time, the Department of Treasury has not come up with the regulations concerning the issuance of these bonds. As of today, not a single bond has been issued under the law of last year.

Then, under depreciation reform, there are various reasons why new multifamily rental projects are not being built despite the low vacancy rates and the substantial need for housing. The most important factor is that it is simply not economically feasible to build multifamily rental housing, especially at today's interest rates.

Various depreciation reform proposals have been made as a means to stimulate capital investment and increase productivity in U.S. business. The National Association of Home Builders believes that if depreciation reform is to be included as part of a tax cut proposal, multifamily rental housing should have parity with industrial and commercial property. Especially, we believe that if we are looking at a comparison of buildings, we should be looking at the same opportunity for those that live in the buildings as those that work in the buildings.

NAHB's economists estimate that there would be 100,000 new apartment units built in the next year if we were looking at a 10–8 proposal pertaining to the depreciation schedule.

Another subject that has been of concern to us is the current deduction of construction period interest and taxes. We urge that section 189 of the Internal Revenue Code be repealed and that construction period interest and taxes be allowed as deductions in the year in which the payments were made. Section 189 has been a major impediment to the development of rental housing. Real estate should not be penalized while others are not subject to this restraint. Construction interest is attributable to a construction loan which exists only during the 12 to 24 months when a multifamily housing project is under construction.

When construction is complete, the construction loan is paid off, a new permanent loan is issued and a new, recurring interest charge begins. Construction period interest is clearly an expense of a short construction term and should be allowed as a deduction during that period.

We might add, Senator, we feel, according to our econometric model, that if section 189, construction period interest, was repealed that this would be good for about 35,000 additional starts during the year 1981. It's hard to pay 20-percent-interest rates this year, out-of-pocket, to your local bank.

Senator BENTSEN. And then have to capitalize it.

Mr. SMITH. And then have to capitalize over a period of 10 years. It's not only hard to do, it's foolish.

Then, in a final point, we have been concerned about the Consumer Price Index. Especially as it relates to housing. I noted a few years ago, as I was traveling throughout the country, the CPI, while stating that the cost of housing was increasing, went down faster than the builders were putting up houses. So we started analyzing this and we found that the housing component of the CPI overstates the actual increase in housing expense for the overwhelming majority of households.

The weighting in the current index is a major cause of the problem under a revised CPI formula proposed by the previous administration. By the way, the last few days of their office, the CPI would have registered a 10.9 increase for the year ending last November, instead of 12.6. That change would have more accurately reflected the change in the cost of living and reduced the Federal deficit by $4 billion.

People just simply do not buy a new house every month. And I think that the Department of Labor should recognize that they should, through regulation, change the CPI as it relates to their heavily weighted housing aspect. It should only reflect the facts, not hearsay or supposition.

We appreciate the opportunity to appear before you today, Senator Bentsen, and we would be pleased to answer any questions you might have.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF HERMAN J. SMITH

Mr. Chairman and members of the subcommittee; my name is Herman J. Smith and I am a homebuilder from Fort Worth, Texas. I am testifying today on behalf of the more than 120,000 members of the National Association of Home Builders (NAHB), who employ over 3 million workers. NAHB is a trade association of the nation's homebuilding industry, of which I am President.

Mr. Chairman, I am very pleased to appear before your distinguished Committee today to discuss the short-term outlook for housing and to examine the existing and emerging problems for the housing industry—and the housing consumer.

At the outset, let me say that we have long shared the views of this Committee on inflation and economic recovery. Your basic premise reflects simple logic—inflation and unemployment require long-term solutions to promote "greater and more efficient production." As the representative of the industry which has been at the "cutting edge" of each of the seven recessions within the last 35 years, we enthusiastically endorse the principal message in your annual report—"America does not have to fight inflation during the 1980's by periodically pulling up the drawbridge with recessions that doom millions of Americans to unemployment." And, may I add, that will deny millions of low-income, moderate-income, and even middle-income Americans the opportunity of a decent, affordable shelter and the dream of owning a home of their own.

Mr. Chairman, I am aware that it is not very productive to engage in a lengthy recitation of "I told you so's" as the economy begins on the slow path to recovery. But I feel constrained to briefly sympathize with this Committee. I know that in June 1979, Chairman Bentsen urged enactment of a supply stimulus for businesses and individuals to encourage savings, improve productivity, and and enhance economic growth.

My personal view is that if the Administration and the Congress had reacted to our industry's warnings of October 1979, and enacted a program to promote housing production as was done in 1947–75, along with the general savings and productivity measures urged by this Committee.

OUTLOOK FOR HOUSING

Mr. Chairman, record high interest rates and uncertainty in the mortgage markets have plunged this industry, the nation's second largest, into a severe slump.

The facts are:

The year 1980 has been the second most serious housing slump since World War II, with production dropping by 55 percent from the peak of the housing cycle in November 1978.

Total negative impact to the economy of the housing downturn from 1978 to 1980 was $88 billion.

Total housing production for 1980 was down 26 percent from 1979—with 1,292,200 units actually started or over 452,900 units less than the 1,745,100, started in 1979.

Housing production plunged 25 percent in February to an annual rate of 1.2 million starts.

Housing production under government programs is comprising a larger segment of total starts. In 1980, the number of units under government programs totalled 36.3 percent of total starts, compared to 30.4 percent in 1979 and 21.9 percent in 1976.

Our Builders Economic Council survey shows a substantial decline in sales and "traffic". For March, only 3 percent of the single-family builders surveyed reported sales to be "good to excellent". Regarding traffic of prospective buyers, only 2.8 percent of the respondents in March told us that traffic was "high to very high."

The inventory of unsold homes stands at 338,000 units.

The failure rate in construction is up sharply. For the first 11 months of 1980, there was a 130 percent increase in the dollar volume of business failure for building contractors and a 228 percent increase for subcontractors.

Net inflow of loanable funds into thrift institutions continues to be low. For 1980, the thrifts only received $5.8 billion in net new money, down 28 percent from 1979 and down 74 percent from 1978.

The unemployment rate in the construction industry in February reached 14.7 percent—twice the national unemployment rate for all workers. According to government statistics, there were 738,000 construction workers out of work in February.

What about 1981? The latest projections of the NAHB Econometric Model forecast only a 7 percent increase in housing starts over the depressed starts rate of 1980—about 1.39 million units. Although a gradual decline in interest rates is assumed in the projection, we still believe that mortgage rates will remain high—probably in the 13 percent range this year. Our industry faces at least another six months of dismal performance, with a slight improvement by the second half of the year.

OUTLOOK FOR TEXAS

While Texas is not immune to the problems afflicting the housing market nationwide, the most significant factor here is continuing population growth and the migration of new industries and high-technology businesses in the state.

During the 1970's, the population of Texas grew 2.7 percent annually, adding close to 3 million people during the decade. During those 10 years, Texas's total housing units jumped 45 percent to more than 5½ million. Two hundred companies

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relocated in the Houston area, bringing with them nearly 600,000 in new jobs. During the first 6 months of 1980, when entire industries were shutting down—especially in the north central region—we started building 165 new manufacturing plants in Texas. That's a 94 percent increase over the same period of 1979.

No state income tax, low local taxes, abundant land, and sources of energy and an accommodating attitude toward new business are some of the reasons for the boom that has driven and will continue to drive the Texas economy. The effects of business growth here have had a healthy effect upon the consumer, putting him in a relatively good position to buy a new home.

The cost of living has run about 12 percent below the national average. The unemployment rate has remained between 4 percent and 6 percent even during the worst of this recession.

The huge demand for new housing in Texas has kept housing production at a moderate pace during this recession.

In 1981, Houston will start about 34,000 new units—more than in all but a handful of states. Starts in the Houston Metro area and Dallas/Fort Worth area will be down about 22 percent from 1979. During 1980, building permits were up 11.7 percent in Austin and down 12.1 percent in San Antonio from the pace of a year earlier. Statewide, during 1980, we should start about 153,000 new housing units—a 14.0 percent decline from the more than 177,000 units we started during 1979. That's compared with a 26 percent decline in 1980 housing starts for the nation as a whole. Housing production in Texas has fared significantly better during this recession than in the previous one. During 1974, we started 93,500 units, and in 1975, 85,900 units.

However, we do not expect as dramatic a recovery from this recession as from the previous one, when in 1976, the starts rate jumped 53 percent.

During 1981, we should stage a recovery statewide of about 161,800 new housing units—a modest 6.0 percent improvement. That's close to 9 percent off from the 177,000 units we started in 1979 and more than 23 percent off from the 209,000 units we started in 1978. During 1981, the Dallas/Fort Worth area should become the top housing market in the country, with 39,150 new housing starts. That's an 18 percent improvement from 1980, though 14 percent below the 1979 pace. Starts in the Houston area will drop 8.6 percent from 1980 to 34,000 new housing starts. That's 29 percent below the pace set in 1979, and in the national ratings puts Houston second behind Dallas/Fort Worth.

The average cost of a new home in Texas last year was $65,653, compared with a $66,634 price-tag nationally and $85,847 in Southern California.

Land costs are largely responsible for the difference. Land costs average only 20 percent to 30 percent of total costs of a Texas home. In Southern California, a lot three-quarters the size of an average lot in Texas can cost as much as 50 percent of the total cost of a new home. Also, Texas is a growth oriented state that has encouraged new home building and has generally stayed away from the environmental restraints and growth controls that have pushed up costs rapidly in other urban areas across the country.

While on a statewide basis new housing prices are relatively low, increasing demand is boosting prices in heavily developed metropolitan areas.

New home prices in major Texas cities now rank at the higher end of the market, according to a Federal Home Loan Bank Board survey of the average purchase prices for mortgage loans closed in 1980. Prices in the Dallas/Fort Worth area came in seventh among 31 cities in the continental United States—behind San Francisco, Los Angeles, Washington, D.C., San Diego, Phoenix, and New York. The average purchase price of a new home in the Dallas/Fort Worth area increased 20 percent in 1980—to $88,000 from $73,300 in 1979. New home prices in the Houston/Galveston area increased almost 19 percent—from $72,000 last year to $85,400 this year. The major cause of increasing prices in these areas is that supply has not kept up with demand. In Houston, for example, sales are down, the inventory of new homes is depleted, and a strong demand for new homes is showing up in rapidly escalating rental costs. New high density development is now restricted in the Montrose and Binz areas of the city until the capacity of the sewer system, originally designed to meet the needs of low-density, single-family residences, can be upgraded. Austin provides another example. The city reports a relatively tight lot situation, especially for smaller builders. Markets demand for new housing is strongest west and southwest of the city, across the river where trees and hills are abundant—the terrain that has sold best in Austin. But for environmental reasons, the city wants growth north and south.

A combination of rising prices and high mortgage rates will have a serious impact upon new home sales in tne period immediately ahead.

Last year we sold an average priced home of $73,000 with a 10½ percent mortgage. Assuming a 20 percent downpayment and a 30-year loan, monthly payments, including insurance, taxes and utilities amounted to $734, requiring a $35,000 income. Now we are selling an $85,000 home on the average that even with a 13 percent mortgage after a 20 percent downpayment will equal monthly payments of almost $1,000, requiring an income of almost $50,000. Housing prices are prohibitive for a majority of families living in Texas and will dampen sales until rates come down. We do not expect sales to gain momentum unitl the end of the second quarter in 1981.

I would like to briefly describe the demographic changes in our population that will shape housing demand in Texas during the next 10 years.

The Census Bureau projects that the state's population will increase about 15 percent between 1980 and 1990, compared to a national increase of 9.6 percent. Second we can expect an increasing demand for smaller, more affordable homes from two segments of our population. Our population in the 25–34 year old age bracket, those most likely to be looking for their first home, will increase faster than the population on the whole—17.3 percent. Reflecting a national trend, those 65 and older looking for smaller homes now that their families have grown up, will increase 23 percent. These two groups will make up between one-quarter and one-third of our total population, and will increase significantly faster in Texas than on the national average. And third, as in the rest of the nation, we can expect a growing demand for greater diversity in our housing stock. As the family structure of our society continues to change, we expect to see more single-person and non-traditional household formations, more families with working wives and more households without children.

Texas, Florida and California now account for a third of our nation's housing production. We are indeed fortunate to have a housing market that is very much alive today, with the potential for tremendous growth once we emerge from the current economic downturn. Working out a lasting solution to the economic problems before the nation will not be easy, but I am confident that once we do begin to recover, Texas will be in the vanguard—leading the way for renewed growth opportunity and prosperity.

AVAILABILITY OF MORTGAGE FINANCE

While this area could be the basis for an entirely different set of hearings, I feel that the recent trends in mortgage finance are relevant to a discussion of meeting the housing demands for the 1980's. Obviously, major changes are occurring in the cost and availability of mortgage finance. Many of these changes were precipitated by the Depository Institutions Deregulation and Monetary Control Act of 1980. The act phases out Regulation Q and the interest rate differential for thrifts. Within six years, there will no longer be any maximum ceilings on the interest rates which banks and thrifts can pay their depositors. While this is unquestionably important to the depositors, it will certainly mean a higher cost of funds to the financial institutions which will be translated into much higher mortgage interest rates for housing consumers.

New powers granted to thrift institutions regarding checking accounts and continuation of savings and loans as primary residential mortgage lender. The tremendous shift of funds from passbook savings to higher-rate short-term money market certificates has all but eliminated the long-term savings needed to make standard long-term mortgages. As of December, 1980, over one-third of the savings funds in thrift institutions are in money market certificates. These short-term funds are not likely to be used to make long-term mortgages. Therefore, we have witnessed the growth of variable and adjustable rate mortgages which are intended to compensate for inflation and the shift of available funds to short-term deposits.

Finally, the "siphoning-off" of over $100 billion of potential deposits to unregulated money market funds which do not invest in residential mortgages will continue to restrict the availability of mortgage credit, even at higher interest rates.

Tax incentives for savings.—What this country needs, Mr. Chairman, is a return to the old 8½, 30-year fixed-rate mortgage.

In the absence of that simple solution, I believe that the legislative proposal which provides for tax-free interest on deposits used for residential mortgages, your bill S. 701, represents a strong positive step toward the solution of the present housing crisis. This legislation would generate sufficient funds for residential mortgages, at reasonable interest rates, which would allow the housing industry to meet housing demand in the 1980's. Without the positive steps called for in this type of legislation, we have grave concerns about meeting the housing demand in Texas as well as the rest of the country. Such legislation would help to encourage savings and growth in productivity which is beneficial to the national economy and to the homebuilding sector of the economy.

Mr. Chairman, let me add that I share your deep concern about the low rate of savings in the United States today. As you have said many times, our country currently has the lowest personal savings rate of all of the major industrial nations. Our savings rate as a percent of disposable income has declined steadily from a level of 8.6 percent in 1975 to 4 percent today. One of the major reasons for the decline in productivity growth has been due to the fact that Americans tend to consume—rather than save—too large a portion of their income. One of the most important benefits of S. 701 is that they will encourage people to channel funds into savings—which can then be used for productive purposes such as housing production and business capital formation.

Our Association has strongly endorsed the concept of legislation which would give tax-free treatment to all interest earned on savings deposits which are used for residential mortgages. We believe that S. 701 would create no net negative revenue impact. The NAHB Econometric Model forecasts that the funds generated by this bill would produce 600,000 additional housing units and create 860,000 man-years of work. This in turn would create $72.1 billion in total economic impact. This could result in over $8.0 billion in Federal tax revenues. It would also produce an additional positive revenue impact of $3.6 billion from other employment and business tax and reduced federal outlays for unemployment and related benefits. There would also be a positive revenue impact of at least $2 billion by substituting private sector mortgage funds for tax exempt revenue bond mortgage funds. These conservative figures would totally offset the $13.6 billion revenue loss to the Treasury as a result of the interest exclusion.

Tax-exempt revenue bonds.—In the climate facing our industry, the availability of tax exempt revenue bond financing for single family and multifamily housing is crucial.

The issuance of tax exempt revenue bonds is essential to the survival of many builders and represents probably the only short-term solution to the lack of adequate mortgage funds at reasonable interest rates for the homebuyer and renter.

Last year the Congress passed the Mortgage Subsidy Bond Act that contains a number of unclear and probably unworkable limitations which seriously jeopardize the ability of state and local housing financing agencies to use tax exempt revenue bonds to finance housing. These include: a 1% arbitrage rule, bond certification, an inflexible first-time homebuyer requirement, "targeted area" provisions and questions regarding assumption of FHA/VA mortgages.

As of today, the Department of Treasury has not promulgated the regulations governing the issuance of tax exempt revenue bonds under the Act. And as of today, not a single bond had been issued under the new law due to the inability to comply with the law in the absence of clarifying regulations.

We urge the introduction and enactment of legislation which will make needed technical corrections and revise the unworkable provisions of the Act which cannot be resolved by regulation, such as the 1 percent arbitrage rule. We would also hope that Members of this Committee will contact the Secretary of the Treasury to urge expedited issuance of these regulations. We believe that many questions raised by the Act would be resolved through reasonable interpretation properly drafted regulations.

The situation is critical. The ability to use tax exempt revenue bond financing will mean the difference between meeting or not meeting the current demand for housing. Likewise, it could mean the difference between survival or bankruptcy for thousands in the home-building industry.

DEPRECIATION REFORM

Apartment vacancy rates in many parts of the country are at very low levels. According to figures gathered by the National Association of Realtors from selected HUD area offices, vacancy rates in most cities are at a critical level. For example, in Chicago the vacancy rate is 1.0 percent.

There are various reasons why new multifamily rental projects are not being built despite the low vacancy rates and the substantial need for housing. The most important factor is that it is simply not economically feasible to build multifamily rental housing. Rents have not kept pace with rapidly escalating construction costs. Present depreciation schedules do not encourage multifamily construction and are no longer sufficient to eliminate the gap. In addition, several provisions added to the 1976 Tax Reform Act are major disincentives to the development of new multifamily rental housing.

A increasing percentage of the new multifamily units which are being produced are being constructed under the federal subsidy programs. This is a trend which should be reversed. It is, therefore, extremely important to revise the current depreciation schedule to encourage multifamily production.

More Americans will rely upon rental housing to provide shelter because high interest rates prohibit their purchasing a home.

In order to provide flexibility and choice to American families and to provide units with lower rental charges than monthly mortgage payments, incentives must be given to encourage the development of multifamily housing.

Accelerated depreciation for business is at the top of many lists for necessary tax reform. Various depreciation reform proposals have been made as a means to stimulate capital investment and increase productivity in U.S. business.

However, we are very concerned that many of these proposals overlook the housing industry. The Administration's proposal, for example, is actually detrimental to the housing sector of the economy. Multifamily housing is allowed 18-year straight line and 15-year straight line for low income. Thus, the effect of passage of the present 10-year accelerated proposal for commercial/industrial would be a further shift of capital investment away from housing and into other sectors of the economy. The result would be an even greater reduction in the number of apartments being built and a lower vacancy rate. We cannot ignore the fact that this would occur at a time housing assistance programs are being substantially reduced by the Administration.

NAHB believes that if depreciation reform is to be included as part of a tax cut proposal, multifamily rental housing should achieve parity with industrial and commercial property. We strongly support the concept of an audit proof useful life for depreciable real property, as proposed by the Administration. However, we believe that 10-year straight line depreciation for all Section 1250 property (with 8-year straight line depreciation for low-income housing as proposed in Rep. Gonzalez's bill H.R. 752) provides the type of incentive necessary to stimulate the development of rental housing.

The adoption of the 10-year/8-year proposal would greatly simplify the computation of depreciation. All existing accelerated depreciation formulas would be eliminated with respect to Section 1250 property. There would be a certainty in the useful lives of depreciable real property which would benefit both the businessman and the IRS auditor. The frequent audits of apartment properties and the inconsistency in useful lives prescribed by various I.R.S. auditors discourage builders from becoming involved in the development of multifamily housing.

NAHB's economists estimate that the 10-year/8-year depreciation provision will increase multifamily starts by 100,000 units. This in turn would generate over $1.4 billion in wages, and $352 million in additional federal personal and corporate tax.

CURRENT DEDUCTION OF CONSTRUCTION PERIOD INTEREST AND TAXES

NAHB urges that Section 189 of the Internal Revenue Code be repealed, and that construction period interest and taxes be allowed as deductions in the year in which the payments were made. Section 189 has been a major impediment to development of rental housing.

We can see no justification for capitalizing construction period interest and taxes. Real estate should not be penalized while others are not subject to this restraint. These items are akin to current expenses. So long as there is no attempt to avoid legitimate taxes by prepaying interest attributable to other periods, interest and tax deductions should be allowed in the year in which payments are made.

Construction interest is attributable to a construction loan which exists only during the 12-to 24-month period when a multifamily housing project is under construction. When construction is complete, the construction loan is paid off, a new permanent take-out loan is issued and a new, recurring interest charge begins. Construction period interest is clearly an expense of the short construction term, and should be allowed as a deduction during that period.

ECONOMIC IMPACT OF CURRENT EXPENSING OF CONSTRUCTION PERIOD INTEREST

The current expensing of construction period interest as compared to the current practice of 10 year amortization period would most affect the multifamily rental construction sector. In 1981 it is anticipated that there will be about 157,000 rental apartment units constructed, without the proposed tax change, which will require about $1.0 billion in construction interest. If allowed to deduct all the construction interest during this year it would reduce revenues to the Treasury by about $480 million but this will be offset by a net of at least $123 million in increased federal tax revenues produced by 35,000 additional units directly.

In addition, multiplier effects throughout the economy will produce additional revenues that could at least double the federal income taxes, both personal and corporate.

In succeeding years there will be a positive net impact on the federal Treasury, given that the construction financing will be expensed in the first year. Thus, after a small net cost to the Treasury in the first year, the overall tax impact will be positive. In addition, private construction will be spurred, thus increasing the return to the Treasury.

RESTRUCTURE THE CONSUMER PRICE INDEX

The incomes of over 46 million Americans are tied to the cost of living index directly through bargaining agreements or Congressionally mandated adjustments in special security benefits and retired federal employee pension programs. The overstatement of inflation in the CPI adds to the problem of inflation by raising incomes of some Americans above their real increase in expenses.

The housing component of the CPI overstates the actual increase in housing expenses for the overwhelming majority of households. The weighting in the current index is a major cause of the problem. Given the CPI's importance in measuring inflation, it must be restructured to more accurately reflect the actual changes in housing cost to most Americans, particularly the elderly who generally are not buying new homes.

Under a revised CPI formula proposed by the previous Administration, the CPI would have registered a 10.9 percent increase for the year ending last November instead of the 12.6 percent. That change would have more accurately reflected the change in the cost of living and reduced the federal deficit by $4 billion.

We appreciate the opportunity to appear before you today to present our views, and look forward to the opportunity to respond to any questions you may have.

Senator BENTSEN. Thank you very much; that's quite helpful. You really came up with some interesting statistics and proposals.

Our next witness is Mr. Vance Miller, a distinguished businessman in Dallas. He and his family have had long experience in the real estate business and real estate market here. He is chairman of the executive committee for the Henry S. Miller Co. We are delighted to have you.

STATEMENT OF VANCE C. MILLER, CHAIRMAN OF THE EXECUTIVE COMMITTEE, HENRY S. MILLER CO., DALLAS, TEX.

Mr. MILLER. Thank you, sir.

Senator, today, the new home purchaser is effectively priced out of the market at today's interest rates. At the true cost of mortgage funds of over 15 percent, few homeowners are able to sell their homes at the present time, and new or existing home purchasers are either unwilling or unable to qualify for the limited mortgage funds that are available.

The February 1981 statistics for the Greater Dallas Board of Realtors' Multiple Listing Service, show that, at the end of February

1981, there were 10,011 unsold homes in that system. That's a 25-percent increase over February of last year. At the same time, transactions pending decreased 11 percent from January to February and there is a 28-percent decrease in the February 1981 numbers over February 1980.

In other words, more homes are on the market today and they are taking longer to sell and these trends are increasing. This is the largest number of unsold homes at any point in history of the Dallas Board of Realtors' MLS activity.

Now realtors are coping with these high interest rates by utilizing a number of pretty fancy financing techniques. Notably, second mortgages and assumptions rather than having the purchaser commit for a costly interest rate for new mortgage funds.

There would be no funds available for housing mortgages at all in this State if it were not for the Federal usury override of the existing State laws.

In regard to new construction, the recent first quarter increases in new home construction were fueled by the downturn in interest rates 1 year ago when rates dropped to 12 percent, or below, levels.

Builders at that time purchased a number of commitments and are now building the homes with the mortgage funds obtained from the lower rates of the second and third quarters of last year. I expect a significant decline in new single family starts for the remainder of 1981.

One of the dramatic developments in the Dallas area has been the advent of condominiums for the first time homeowner. The first time purchaser strongly feels that he or she must start on an ownership investment if they ever are going to be able to own a larger home in the future. Many young couples find a condominium or townhome to be much more within their means as opposed to a single family home with upkeep and an extra bedroom or two which is not presently needed.

Furthermore, they have difficulty qualifying for the larger three or four bedroom homes. Therefore, they are purchasing one and two bedroom condominiums and townhomes with the hope that upon the start of their family expansion, they will have increased equity in which to purchase a larger home. Most of the condominium developments which have started in recent months are being financed with long-term financing made available in mid-1980 when rates declined.

In regard to multifamily rental housing, no long-term financing is presently available at interest rates which justify construction. There are a few starts which are utilizing bank financing and very large equity contributions. An interesting phenomenon is that comparable multifamily housing rents are considerably below that which the mortgage payment would be for comparable condominiums.

Therefore, we anticipate substantial competition for the available rental housing units in the remainder of 1981 and 1982. We anticipate that rental housing rates will increase substantially during that period of time.

Utilization of Department of Housing and Urban Development type financing is not a material part of the market in the Dallas area, principally because of problems with the Davis-Bacon Act and the length of processing time and in some cases lack of community acceptance has also precluded utilization of HUD programs by developers.

Today the principal problem for housing developers is the lack of mortgage capital at rates at which the purchaser is willing or is able to pay. This problem has been created by excessive Federal spending and continual budget deficits.

Jack Carlson, chief economist of the National Association of Realtors, estimates Federal spending at over 23 percent of gross national product. When combined with another 10 percent of government spending at the State and municipal level, this aggregates to almost one-third of the gross national product going to the public sector and in nonproductive areas.

It is my belief that Federal spending must be brought to below 20 percent of gross national product and that the Federal Government be required by law to balance its budget every fiscal year.

While productivity can be increased by reduction in oppressive Federal income taxes, particularly in areas which encourage capital formation and savings, I urge Congress not to enact an across-the-board tax cut in the areas which encourage consumption and which would exacerbate inflation. Such across-the-board cuts would preclude any funds from being available for capital and mortgage markets.

This past Sunday, Congressman Jones, chairman of the House Budget Committee, stated that 76 percent of the Federal budget was uncontrollable. I strongly suggest that the administration and Congress act quickly and bilaterally to obtain control of Federal expenditures particularly in the areas of indexed programs.

There is considerable general public awareness that the Consumer Price Index presently used by the administration greatly exaggerates the true effect of inflation for recipients of transfer payments and social security programs. I strongly urge the President to act immediately to change the use of that index.

Since the United States left the gold standard a number of years ago, there has been no self-discipline to government spending. Apparently today, the Federal Reserve System and the American voters now stand together in insisting upon a reduction of inflationary Federal programs.

If the Congress and the administration will act immediately to gain control of Federal spending in its indexed programs and to direct tax relief to encourage savings and investments, then and only then, will there be an opportunity to encourage the Federal Reserve System to change policies to allow for enough growth in the money supply to mitigate a pending disaster in housing.

It would be inappropriate and imprudent for the Federal Reserve System to accommodate the budget deficits anticipated in 1981 and 1982 without a much stronger course of action, either from the President or the Congress, than has thus far been addressed.

There are several specific recommendations relating to housing that I would like to suggest to the subcommittee. I strongly favor an exemption from taxation for at least $500 in savings for individuals and $1,000 for couples effective immediately to be increased to $1,000 and $2,000 in the next 4 years, as well as to increase the amount that could be set aside for individual retirement accounts from $1,500 annually to $7,500 annually during the next few years. This would effectively stimulate savings.

Additional problems—the most recent proposals to encourage investment in housing through the so-called 15 or 18 10–5–3 plan actually will hurt rental housing at a time when help is most needed. I strongly concur with Mr. Smith's additional comments regarding the construction period interest, because it has absolutely been a disaster for myself and most of my builder friends building apartment rental units during this period of time when we haven't capitalized those charges.

At this point in time, the public does not need a wide variety of variable rate mortgage instruments. What is needed is a standard variable rate mortgage instrument that is accepted by all mortgage-backed pools. The purchaser today needs a level payment for 5 to 6 years. During that time his income is likely to increase and the value of his home purchase is likely to increase.

The purchaser doesn't really need a 30-year fixed-rate mortgage. He probably will sell it in 5 to 7 years. Certainly, no lender today wants to commit at a fixed rate for that period of time without charging additional excessive interest charges.

Therefore, I would recommend a system of a 3- to 5-year fixed rate with a specified monthly payment for at least the first 5 to 6 years.

Federal overrides would be required in some States such as Texas to make this program effective where accrued but unpaid interest could be added to the mortgage amount. Provided, however, specific underwriting requirements must be met, that is, the mortgage payment must continue to stay within the limits of the purchaser's income and not to exceed the specified percentage of value of his or her home.

The subcommittee may wish to consider an innovative plan of reestablishing authority for tax exemption from municipal service corporations which may authorize housing bond issues.

While I am philosophically opposed to the utilization of tax-exempt municipal financing for use in privately owned housing, a provision could be added that mortgage interest paid by the homeowners on any mortgage under this plan would not be tax deductible to the individual homeowners. This type of financing might be effective on a temporary basis in the expected hiatus of the next 3 years.

I would also urge the subcommittee to carefully study the impact on housing of the money market mutual funds as well as the implied safety for persons investing in those instruments. A recent study by the American Bankers Association indicated that some 56 percent of the individuals who own money market funds took the initial funds from deposit instruments. I am sure we will hear from other speakers on this subject.

I would like to enclose in the record a statement made by Jack Carlson, chief economist of the National Association of Realtors to the House Budget Committee, dated February 24, 1981, which backs many of the statements which I have made, Senator, and also I would like to submit a preliminary report of March 22, 1981, into the record as well which is the tenative report of the Realtors Multi-family Housing Task Force, which is trying to come to grips with how to meet this Nation's housing needs on a private basis.

Senator BENTSEN. We would be pleased to have it for the record.
Mr. MILLER. Thanks, sir. It's been a pleasure.
[The prepared statement of Mr. Miller, together with the attachments referred to, follows:]

PREPARED STATEMENT OF VANCE C. MILLER

I am Vance C. Miller, Chairman of the Executive Committee of Henry S. Miller Company, with offices and corporate headquarters in Dallas and with additional offices in Houston, Fort Worth, Austin, and San Antonio. I am also a Realtor, and a Director of the National Association of Realtors and I am extremely active in their legislative and policy affairs. Henry S. Miller Company is the largest Texas-based real estate service and development firm and in calendar year 1980 they participated in the arrangement of real estate transactions totalling $750,000,000.

The new home purchaser is effectively priced out of the market at today's interest rates. At the true cost of mortgage funds of over 15 percent, few home owners are able to sell their homes, and new or existing home purchasers are either unwilling or unable to qualify for the limited mortgage funds that are available. To give you the February 1981 statistics for the Greater Dallas Board of Realtors' Multiple Listing Service, at the end of February of 1981 there were 10,011 unsold homes in the system; a 25 percent increase over February of 1980. At the same time, there was an 11 percent decrease in the number of transactions pending which is a 28 percent decrease in February 1981 from February 1980. Furthermore, these trends are increasing. There is the largest number of unsold homes on the market today than in any point in the history of Dallas. Realtors are coping with the high mortgage rates by utilizing a number of creative financing techniques, notably second mortgages and assumptions rather than having the purchaser commit for a costly interest rate on a new mortgage. There would be no funds available for housing mortgages at all in this state were it not for the Federal usury override.

In regard to new construction, the recent first quarter increases in new home construction was fueled by the downturn in interest rates one year ago when rates dropped to 12 percent levels. Builders at that time purchased a number of commitments and are now building the homes with mortgages available from the lower rates of the second and third quarters of last year. I expect a significant decline in new single family starts for the remainder of 1981. One of the dramatic developments in the Dallas area has been the advent of condominiums for the first time home owner. The first time purchaser strongly feels he or she must start on an ownership "investment" if they are ever going to be able to own a larger home in the future. Many young couples find a condominium or townhome to be much more within their means as opposed to a single family home with upkeep and an extra bedroom or two which is not presently needed. Further, they have difficulty qualifying for the larger 3 or 4 bedroom homes. Therefore, they are purchasing 1 and 2 bedroom condominiums and townhomes with the hopes that upon the start of their family formation, they will have increased equity in which to purchase a larger home. Most of the condominium developments which have started in recent months are being financed with long-term financing made available in mid-1980 when interest rates declined.

In regard to multifamily rental housing, no long-term financing is presently available at interest rates which justify construction. However, there are a few starts which are utilizing bank financing and large equity contributions. An interesting phenomenon is that comparable multifamily housing rents are considerably below what the mortgage payment would be for comparable condominiums. Therefore, we anticipate substantial competition for the available rental housing units in the remainder of 1981 and 1982. We anticipate the rental housing rates will increase substantially during that period of time. Utilization of HUD type financing is not a material part of the market in the Dallas area principally because of problems with the Davis-Bacon Act and the length of processing time and in some cases lack of community acceptance has precluded utilization of developers' interest in the HUD programs.

CURRENT STATUS

Housing developers principal problem in the Dallas area is lack of mortgage capital at rates which the purchaser is willing to pay. This problem has been created by excessive Federal spending and continual budget deficits. Jack Carslon, Chief Economist of the National Association of Realtors, estimates Federal spending at over 23 percent of gross national product, or in other words, people's income. When combined with another 10 percent of government spending at the state and municipal level, this adds to approximately ⅓ of the gross national product going to the public sector and in mostly unproductive areas. It is my belief that Federal spending must be brought to below 20 percent of gross national product and that the Federal government be required by law to balance its budget every fiscal year.

While productivity can be increased by reduction in oppressive Federal income taxes, particularly in areas which encourage capital formation and savings, I urge Congress not to enact an across-the-board tax cut in the areas which encourage consumption and which would exacerbate inflation. Such across-the-board cuts would preclude any funds being available for capital and mortgage markets. This past Sunday, Congressman Jones, Chairman of the Budget Committee, stated 76 percent of the Federal budget was uncontrollable. I strongly suggest that the administration and Congress act quickly and bilaterally to obtain control of Federal expenditures particularly in the areas of indexed programs. There is considerable general public awareness that the consumer price index presently used by the administration treatly exaggerates the true effect of inflation for recipients of transfer payments and social security programs. I strongly urge the President to act immediately to change in the use of that kind of index.

Since the United States left the gold standard a number of years ago, there has been no self-discipline to government spending. Apparently, the Federal Reserve System and the American voters now stand together in insisting upon a reduction of inflationary Federal programs. If the Congress and the administration will act immediately to gain control of Federal spending in its indexed programs and to direct tax relief to encourage savings and investments, then and only then there may be an opportunity to encourage the Federal Reserve System for a change in policies to allow for enough growth in the money supply to mitigate a pending disaster in housing.

It would be inappropriate and imprudent for the Federal Reserve System to accommodate the budget deficits anticipated in 1981 and 1982 without a much stronger course of action, either from the President or the Congress, than has thus far been addressed.

There are several specific recommendations relating to housing that I would like to suggest to the committee. I strongly favor an exemption from tax for at least $500 for individuals and $1,000 for couples effective immediately to be increased to $1,000 and $2,000 in the next four years, as well as to increase the amount that could be set aside for Individual Retirement Accounts from $1,500 per year to $7,500 per year during the next few years, which would effectively stimulate savings.

PROBLEMS

The most recent proposals to encourage investment in housing through the so called 15–10–5–3 Plan actually will hurt rental housing at a time when help is most needed. At this point in time, the public does not need a wide variety of variable rate mortgage instruments. What is needed is a standard variable rate mortgage instrument that is is accepted by FNMA and FHLMC mortgage bank pools. The purchaser today needs a level payment for five to six years during which time his income is likely to increase and the value of his home purchase is likely to increase. The purchaser doesn't need a 30 year fixed-rate mortgage. Certainly, no lender today wants to commit at a fixed rate for that period of time without excessive interest charges. Therefore, I would recommend a 3 to 5 year fixed rate with a specified monthly payment during the first 5 or 6 years. A Federal homestead override would be required to make this program effective in Texas where accrued but unpaid interest could be added to the mortgage amount provided, however, that specific underwriting requirements are met; i.e., must be within certain limits of the purchaser's income and not to exceed a specified percentage value of the home.

The committee may wish to consider re-establishing authority for municipal service corporations which may authorize housing bond issues. While I am philosophically opposed to utilization of tax exempt municipal financing for use in privately owned housing, a provision could be added that mortgage interest paid by the home owners on any mortgage under this plan would not be tax deductible to the individual home owners and this type of financing might be effective on a temporary basis in the expected hiatus of the next three years.

I would urge the committee to carefully study the impact on housing of the money market mutual funds as well as the implied safety for persons investing in these instruments. A recent study by the American Bankers Association indicated that some 56 percent of the individuals who own money market fund shares took the initial funds from deposit instruments. I am sure you will hear from other speakers on this subject.

I would also like to add to my remarks a statement of the National Association of Realtors to the Housing Committee on the Budget on February 24, 1981, prepared by Jack Carlson, Chief Economist of the National Association of Realtors. Secondly, I would like to submit a preliminary report dated March 22, 1981 prepared by the National Association of Realtor's Multi Family Housing Development Task Force, of which I am a member.

MILLER CONDOMINIUM CORP.,
Dallas, Tex., April 7, 1981.

Mr. VANCE C. MILLER,
Henry S. Miller Co.,
Dallas, Tex.

DEAR VANCE: After obtaining information from various sources on a alternative mortgage plan, my suggestions would be some type of instrument that would allow the P&I to remain the same for 5 to 7 years (comments will follow).

As you know the 30-year mortgages are no longer being offered by the lenders, because they feel there is to much exposure on fixed rate financing in today's economy.

The current financing that is being offered is not the answer, because it will place a tremendous financial burden on the Owner. What I am referring to is the RRM (Renegotiable Rate Mtg.). This plan is offered to the public by the developer at 11⅞ percent of 12⅞ percent, which is what the lender is using to qualify. However, what is not always known is that when it is renegotiated (which is in 3 years) the rate is not adjusted from the 11⅞ percent or 12⅞ percent it is adjusted from the rate which the developer bought down from at time of closing which today would be 14 percent or 15 percent. This plan could be a nightmare in 3 years when the Owner finds out the payments could increase $300 or $400 per month. So as you can see this plan is not the answer.

My comments would be as follows:

(1) Offer a 30 year amortized loan renegotiated every 5 to 7 years.

(2) Structure this plan where the developer can still buy down, however there would be no increase in the P&I payments (except as noted below) during the term of the loan to the purchaser.

(3) Have a maximum of 20 percent that the P&I could increase during any 5 to 7 years renewal (this would allow some offset to the next comment).

(4) Have the plan where there is an allowable weighted yield adjustment over the 5 to 7 years, where the lender could adjust its cost of money without taking a loss on a longer term mortgage. After establishing the weighted yield the lender could adjust the mortgage payments, however after adjusting they would take the increase that they would normally tack on to the payment and put at the end of the note, however they would have to take into consideration the increase that is allowed above.

(5) In order to accomplish this there would have to be Federal Overrides on this State and Federal Chartered Savings & Loans, because at present the Homestead Act would prevent the add on to the existing loan, and the Federal Associations under the present charter can not make this type of loan.

These comments are not represented as being a complete plan, however I feel very strongly that we can not continue on the present course. Therefore, we must have some type of plan that will assist the public in buying a home without a substantial increase in monthly payments.

Sincerely,

LLOYD D. JONES

Enclosures.

THE MURRAY INVESTMENT CO.
Dallas, Tex., April 6, 1981.

MR. VANCE C. MILLER,
Vance Miller Interests,
Dallas, Tex.

DEAR MR. MILLER: After obtaining information from various sources on alternative mortgage instruments, my personal preference is the adjustable rate mortgage which was just recently approved by the Comptroller of the Currency, or some similar type of mortgage.

The details I have concerning this program are rather sketchy, but the main features of this adjustable rate mortgage are as follows:

(1) the increase of the interest rate is limited to a maximum of one percent every six months;

(2) there is no overall limit on the increase of the interest rate over the life of the loan; and

(3) there is a choice of three indexes to determine the interest rate increase or decrease—the monthly average for six month Treasury Bills, the monthly average yield on three year Treasury Notes, or the Federal Home Loan Bank Board's monthly index of mortgage rates.

I feel this instrument has the flexibility to be attractive to the investment community while protecting the consumer from excessive rate increases over a short time period.

Sincerely,

JAY D. OWENS,
Senior Vice President.

TEXAS STATE MORTGAGES, INC.,
Dallas, Tex., April 7, 1981.

Mr. LLOYD JONES,
President, Miller Condominium Co.
Dallas, Tex.

Re your request for a personal opinion concerning measures that would enhance and stimulate mortgage lending in Texas.

DEAR LLOYD: First, I want to take this opportunity to point up the basic fact that if there were a federal exemption from IRS taxes on interest derived from savings accounts deposited with institutions providing funds for home lending, we would see a tremendous increase in the supply of mortgage money.

But, regarding the State of Texas specifically, we have considerably more demand for mortgage money than can be supplied by the state itself. Therefore, it is an undeniable fact that the secondary market must be the major accommodation for this demand. And our needs are in perfect harmony with the rest of the country, where real estate is often depressed and slow-moving. Financial institutions across the country are eager to invest in the burgeoning Texas real estate market.

However, under recent (1980) passage of Texas legislation governing state-chartered savings and loans, lending is extremely liberal. In fact, it is so liberal that it is difficult, if not impossible, for federal-chartered and other state-chartered S & L's to purchase mortgage loans originated by state-chartered S & L's where the new, creative lending practices have been applied.

Further, the national banks have just passed lending guidelines that are even more flexible than the Texas state-chartered S & L's; and while national banks, at least in Texas, are not a major influence in the marketplace for mortgage lending, the new guidelines under which they may operate limit sale of their mortgages to other national banks only.

Then, government and quasi-government lending institutions often present programs that cannot be used in the State of Texas because of violation of the Texas Homestead Act. For example, FNMA's new program which allows a homeowner the privilege to refinance an old, low-interest FNMA loan at a higher (but still below market) interest rate cannot be adapted for use in Texas.

Thus, you have state-chartered S & L's who cannot merchandise loans made under the new guidelines; federal-chartered S & L's who (even with the new RRMs) do not have the flexibility needed to be viable in the marketplace; governmental or quasi-governmental agencies who cannot initiate certain programs in Texas.

We must, therefore, establish a mortgage program which employs a combination of the national banks and the Texas-chartered S & L's new guidelines, providing for standardized forms, documents, and criteria so that all loans can be moved freely within the secondary market. Such a procedure would allow flexibility, universality, and a common adjustment index accepted by all lending agencies. And it would take a Congressional Act to pre-empt existing state laws to provide for such overall conformity, but it is evident that the federal pre-emption of the state usury laws did much to enhance the housing and mortgage market in Texas.

These measures would allow the basic home lender the ability to turn and re-turn his portfolio in the secondary market and, specifically, give the Texas home lending industry an unlimited opportunity to seek its own level in the national marketplace.

Yours very truly,

ROBERT H. SANDLIN,
President.

STATEMENT OF JACK CARLSON, EXECUTIVE VICE PRESIDENT AND CHIEF ECONOMIST, NATIONAL ASSOCIATION OF REALTORS, BEFORE THE HOUSE BUDGET COMMITTEE, FEBRUARY 24, 1981

I am Jack Carlson, Executive Vice President and Chief Economist of the NATIONAL ASSOCIATION OF REALTORS®.

On behalf of the more than 750,000 members of the National Association, we greatly appreciate the opportunity to present our views on spending and taxing policies to assure improvements in food, clothing and shelter for all Americans in the future.

SUMMARY OF THE PRESIDENT'S PROGRAM

We find President Reagan's program for economic recovery appropriately comprehensive and a major improvement in economic policy. We endorse slowing the growth of spending, taxing and regulating and more appropriate money supply policies. We endorse a multi-year plan to achieve a more stable and faster growing economy where all Americans, rich and poor, young and old, and minorities can prosper.

However, we find weaknesses in the Administration's program:

(1) The program is potentially inflationary because tax reductions would overly stimulate consumer spending and could significantly exceed spending reductions, leading to inflationary expections. By 1984 consumer prices at best would be unaffected but most likely would be nearly one percent higher (see Attachment 1).

(2) The program is devoid of direct stimulation of savings to be available for investment in industry and housing, although some encouragement of savings would occur indirectly through the across-the-board reduction in personal income tax rates. The likely savings under the President's program would be inadequate to meet the needs of investment and to reduce consumption-based inflation.

(3) The program inadequately stimulates total investment, at a time when defense expenditures and related investment are rising sharply, when the potential workforce is growing rapidly and requiring modern work places, and energy and environmental costs are escalating. Only one out of five tax relief dollars would directly stimulate total investment, the lowest proportion in the last 20 years. Instead of the modest 12 percent increase of industrial investment likely to be achieved by the Administration's program between 1981 and 1984, investment increases should be nearly double that figure.

(4) The program would unwisely allocate credit by setting arbitrary depreciation lives, based not on the economic life of the structure, but based on who owns the structure, the occupant or investor, or the use of the structure, workspace or housing space.

(5) In particular, the tax relief program is anti-small business and would reduce competition because it lowers the cost of the same long-lived structure by means of a 10 year depreciation life for owner-occupied structures which are often big and established firms and by proposing a 15 year depreciation life for investor-provided

structures, which are often small, faster growing or newer firms. The effect of discriminatory depreciation lives would be to lower the cost of the same building by about 10 percent to the owner-occupied big business compared to the investor-provided small business (see Attachment 2).

(6) The program is anti-housing by establishing depreciation schedules more favorable for non-residential than for rental housing structures, which will result in funds being siphoned out of housing, particularly housing for the poor, the elderly and minorities. Thus a building made out of the same materials and having the same economic life could be at least 15 percent less costly for the commercial and industrial user than for individuals providing rental housing (see Attachment 2).

Also the program is likely to be anti-housing because it overstimulates consumption while inadequately stimulating housing which would cause both higher housing process and an inflationary increase in the Federal deficit which places a greater burden on the Federal Reserve Board to increase interest rates to fight inflationary expectations. This would discourage investment in longer life assets, thus offsetting tax relief intended to encourage investment in structures.

The President's program during the next 4 years would likely cause 164,000 fewer homes to be built and prevent 350,000 families from upgrading their housing to meet their needs for schools, work, growing or contracting family.

The modestly favorable impact of the President's program on household income, employment and unfavorable impact on housing occurs in each state (see Attachment 3).

RECOMMENDATIONS FOR IMPROVEMENT

We recommend the following concerning the President's program:

(1) The Congress should accept the magnitude of the President's spending slowdown (which generally coincides with our own petitions to the Federal government during the last 13 months and published most recently in the newspapers on January 19, 1981, found in Attachment 4).

(2) The Congress should trim most programs, except those serving the truly needy. Equal sacrifice for a better future is appropriate for all Americans. We continue to offer to do our share by supporting cuts in budget proposals for programs affecting our industry (see Attachment 5). We have written to every major trade and professional association to recommend they do likewise (see Attachment 6).

(3) Slower spending and tax relief should be *tied* together so that the Federal deficit will trend downward each year towards balance by at least 1984. Because of the need for keeping spending reductions and tax relief linked, we recommend limiting across-the-board personal income tax relief to 5 percent annually, starting no sooner than July 1981. Five percent each year is large enough to offset higher personal income tax receipts caused solely by inflation. This recommendation was expressed in a letter to President Reagan 10 days ago and signed by several industry associations, including bankers, savings and loans, mutual savings banks, mortgage bankers, home builders, and REALTORS® (see Attachment 7).

(4) Tax relief should be provided to directly stimulate savings, such as raising interest and dividends excluded from taxable income from the current $200 for individuals and $400 for joint returns to $500/$1,000 effective July and expanding to $1,000/$2,000 during the next four years. Also raise the ceiling on Individual Retirement Accounts from $1,500 to $7,500 during the next four years and extend eligibility at half the ceiling to people with inadequate private pension plans. The larger interest/dividend exclusion would generally benefit lower income and elderly people; and the increase in the IRA ceiling and eligibility would benefit middle income people and help provide a retirement "safety net" for about one-half of workers who do not have private pension programs. Both would provide for more planned savings to match the need for expanded investment (see Attachments 8, 9, 10, and 11).

(5) Depreciation lives for similar long-lived structures should be the same: 15 years straight line depreciation for commercial, industrial and rental residential structures regardless of whether owner-occupied, investor-provided, work place, or home place. (The phase-in of a 5-year depreciation life for machinery and 3-year depreciation life for vehicles appears appropriate and will greatly stimulate investment and productivity.)

(6) The Congress should allow current expensing of interest and taxes incurred during construction and remove the $10,000 investment interest limitation on individuals which are not imposed on corporations (see Attachment 8).

RESULTS OF RECOMMENDATIONS

If these recommendations are accepted, the deficit will trend downward to balance by 1984, inflation will be lower, interest rates will be lower, investment in industry and housing will be higher and countries around the world will be better off. More jobs will be created and the average American will be ensured of more adequate food, clothing and shelter (see Attachments 1 and 12).

ATTACHMENT 1

CHANGES IN ECONOMIC OUTLOOK IN 1984, PRESIDENT'S PROGRAM PROPOSED AND LIKELY COMPARED WITH REALTORS' RECOMMENDATIONS

	President's proposal		
	Full spending cuts	Half spending cuts	Realtors' modifications
Real U.S. output (GNP) (percent)	0.5	2.1	3.2
Real consumption (percent)	1.1	2.6	2.0
Consumer inflation (CPI) (percent)		0.8	−1.8
Mortgage interest rates (percentage points)		0.5	−2.0
Real investment:			
Non-residential structures	11.1	14.0	19.0
Equipment	12.7	16.0	23.0
New housing:			
Starts (units)	27,000	−164,000	500,000
1981–84		−125,000	1,950,000
Net exports (percent)	−10.5	−17.9	−5.0
Jobs	200,000	800,000	1,200,000
Productivity (percent)	0.3	1.3	2.0
Average household income:			
Annual	$790	$1,360	$1,770
1981–84	$1,600	$3,000	$3,990

ATTACHMENT 2

ADVANTAGE OF SHORTER DEPRECIATION LIVES

[Straight line, $100,000 structures, 20 percent discount rate]

	1st Yr	Present value of all years	Percent of original cost
Depreciation life:			
18	$5,555	$26,734	27
15	6,667	31,170	31
12	8,333	36,992	37
10 [1]	10,000	41,924	42

[1] Accelerated depreciation schedules faster than straight line for plant and equipment would make the comparison even more favorable.

Note: The 10-yr life effectively lowers the cost of the building about 10 percent or $10,000 compared with a depreciation life of 15 yr and by about 15 percent or $15,000 compared with a depreciation life of 18 yr.

Attachment 3

COMPARISON OF THE ECONOMIC IMPACT OF THE REAGAN ADMINISTRATION'S ECONOMIC PROGRAM POLICIES AND OF THE REALTORS' MODIFICATIONS DURING THE NEXT 4 YEARS

State	Increase (+) or decrease (−) in employment after 4 yrs (thousands of jobs)		Increase (+) or decrease (−) in average household income		Increase (+) or decrease (−) in in housing starts (units)	
	Administration	Realtor	Administration	Realtor	Administration	Realtor
Alabama	11.8	17.7	$2,300	$3,100	−2,100	32,400
Alaska	1.6	2.4	4,100	5,300	−400	6,100
Arizona	9.2	13.8	2,900	3,700	−4,000	62,700
Arkansas	6.6	9.9	2,400	3,100	−1,700	26,900
California	88.4	132.5	3,400	4,500	−15,500	241,600
Colorado	11.5	17.3	3,100	4,100	−3,000	46,000
Connecticut	12.6	18.9	3,500	4,500	−1,000	15,900
Delaware	2.3	3.4	3,300	4,300	−300	4,100
Florida	31.8	47.7	3,000	3,900	−11,800	183,700
Georgia	19.0	28.5	2,600	3,400	−4,000	62,600
Hawaii	3.6	5.4	3,200	4,200	−600	9,500
Idaho	3.1	4.6	2,600	3,300	−900	13,900
Illinois	42.1	63.2	3,400	4,400	−3,200	49,500
Indiana	19.5	29.3	3,000	3,900	−2,100	32,900
Iowa	9.8	14.7	3,000	3,900	−1,600	24,900
Kansas	8.3	12.4	3,100	4,000	−1,200	19,100
Kentucky	10.8	16.2	2,500	3,200	−1,800	28,200
Louisiana	13.8	20.7	2,700	3,500	−2,700	42,000
Maine	3.7	5.5	2,400	3,200	−600	9,500
Maryland	14.2	21.4	3,100	4,100	−1,900	29,500
Massachusetts	23.8	35.6	3,100	4,100	−1,400	22,200
Michigan	30.0	45.0	3,000	4,000	−3,100	48,000
Minnesota	15.7	23.5	3,000	3,900	−2,400	36,800
Mississippi	7.3	11.0	2,100	2,800	−1,100	17,900
Missouri	17.5	26.2	2,800	3,700	−2,100	33,100
Montana	2.6	3.8	2,600	3,400	−400	6,200
Nebraska	5.5	8.3	2,800	3,700	−1,000	14,900
Nevada	3.9	5.9	3,400	4,400	−1,400	21,800
New Hampshire	3.4	5.1	2,800	3,700	−600	9,800
New Jersey	26.7	40.0	3,400	4,400	−1,900	29,700
New Mexico	4.4	6.7	2,500	3,300	−900	14,500
New York	60.7	91.0	3,100	4,100	−2,000	31,700
North Carolina	21.6	32.4	2,600	3,400	−4,300	67,100
North Dakota	2.2	3.3	2,800	3,600	−600	8,700
Ohio	38.6	57.9	3,000	3,900	−3,200	49,200
Oklahoma	10.3	15.5	2,900	3,800	−2,500	39,700
Oregon	9.2	13.8	3,000	3,900	−2,400	36,900
Pennsylvania	41.5	62.2	2,900	3,800	−3,000	46,900
Rhode Island	3.4	5.1	2,800	3,700	−300	5,200
South Carolina	10.6	15.9	2,500	3,200	−2,200	34,200
South Dakota	2.1	3.2	2,600	3,400	−500	8,300
Tennessee	15.7	23.6	2,500	3,300	−2,500	39,300
Texas	53.1	79.7	3,000	3,900	−12,500	195,500
Utah	5.2	7.7	2,400	3,100	−1,300	20,600
Vermont	1.8	2.7	2,500	3,300	−600	10,000
Virginia	18.9	28.3	3,000	3,900	−3,400	53,400
Washington	15.3	23.0	3,200	4,200	−3,800	59,200
West Virginia	5.6	8.3	2,600	3,300	−500	7,800
Wisconsin	17.7	26.5	2,900	3,800	−2,100	33,400
Wyoming	2.2	3.3	3,400	4,400	−500	7,300
United States	800.0	1,200.0	3,000	3,900	−125,000	1,950,000

Source: Modelling and assumptions by The National Association of Realtors and Policy Analysis Division Assn Federal spending growth slows proportionately across all States.

ATTACHMENT 4

Appeared on January 19, 1981 in: The Washington Post, The Wall Street Journal, The New York Times, The Washington Star, Christian Science Monitor, Los Angeles Times, REALTOR® News and Washington Report.

THE AMERICAN PEOPLE DEMAND ACTION TO ATTACK INFLATION AND HIGH INTEREST RATES. AND THEY WANT IT NOW!

That was the message the American people delivered on November 4, 1980. It was so persuasive that it elected 18 new Senators, 74 new Representatives and one new President—Ronald Reagan—and gave them a strong directive for immediate action.

To the new administration and Congress the American people said, "We need help! Reduce inflation and the burden of government by slowing deficit spending and providing tax relief."

There was no mistaking the message... or its urgency. The American people want evidence that policymakers heard their message and felt its urgency.

Restoring prosperity.

Inflation, recession and excessive government are the major problems each of us faces.

The price we pay for inflation is staggering. It has eaten away the life savings of millions of hard-working people.

Inflation, recession and slow growth have caused the living standards of the average worker to decline.

Inflation and bad government policies have skyrocketed interest rates to the point that many people cannot afford to purchase homes or cars.

Money for modern buildings and equipment has disappeared, thus shrinking jobs, productivity and income.

And the American people have said, "Enough!" The more than 700,000 individual members of the NATIONAL ASSOCIATION OF REALTORS® also have said, "Enough!"

The 2% Solution to a healthier economy.

We have proposed specific ways to fight inflation and help restore our standard of living.

Here is what the new President and Congress should do:

1. Slow federal spending by at least 2% in the current 1981 fiscal year from a likely $665 billion to $650 billion.
2. Slow federal spending in future years to a rate 2% less than the growth of people's income. Even then the government will spend as much as $715 billion in fiscal year 1982.
3. Insure that by 1984, the cost of federal government will shrink to less than 21% of people's income—a drop of more than two percentage points.
4. Direct one-half of any tax relief specifically to encourage savings and investment.
5. Stimulate savings by allowing $500 for individuals and $1,000 for couples of interest and dividends to be excluded from taxable income. Allow more funds to be set aside for Individual Retirement Accounts.
6. Through tax relief, encourage investment to overcome the rental housing shortage and to improve worker productivity.
7. Provide tax relief to offset the effect of inflation on personal income taxes.
8. Achieve a balanced budget at high employment by the end of fiscal year 1983.
9. Provide lower and more stable interest rates through Federal Reserve Board policies that mandate steadier growth of money supply and somewhat higher and more realistic money growth targets.
10. Reduce unnecessary and costly government regulations and repeal the President's authority to allocate credit.

How this platform will improve our lives.

If our government adopts these recommendations, here's what we can expect:

☐ **This Year**
Inflationary expectations and interest rates would drop and continue to decline during the next 12 months.

☐ **Within Two Years**
The rate of inflation and long-term interest rates would decrease two percentage points. This would lower the average homebuyer's monthly payment by $150—and allow two million additional families to afford their own homes.

☐ **Within the Next Four Years**
Home construction would accelerate, and the shortage in housing would be reduced by two million units. An additional four million families would upgrade their housing.

New plant and equipment investment would increase by 20%, increasing output by more than 2%.

One million more jobs would be created.

Inflation would decrease from 13.5% in 1980 to less than 8%, and the average family would have $4,000 more in spendable income.

Why we're speaking out.

The NATIONAL ASSOCIATION OF REALTORS® represents professionals involved in all phases of real estate. Obviously, we have an important stake in our nation's economic health—as do America's 55 million homeowners, several million would-be homeowners, 25 million renters, and owners of commercial, industrial and agricultural real estate. All have been hurt badly by the economic policies of the past few years.

As a result of these policies, people are required to work in out-of-date buildings with obsolete equipment, and live in less-than-adequate housing. Home construction declined 52% from the fall of 1979 to the spring of 1980 and has not recovered yet. Existing home sales dropped 41%. Mortgage commitments fell 33%. Rental housing shortages exist in most cities.

Little wonder that the American people, who spend one-third of their income on housing (businesses spend more than one-half of their income on improving workplaces and productivity)—voted for a change!

Americans will be watching for actions and results.

Americans expect new policies and new priorities. And their mandate is for action now.

They will back tough decisions and actions that must be initiated in the days immediately ahead by the new administration and Congress.

That is the message of November 4, 1980.

NATIONAL ASSOCIATION OF REALTORS®
Working for America's property owners.™

ATTACHMENT 5

REALTORS®' PROPOSALS FOR REDUCTIONS IN BUDGET PROPOSALS FOR PROGRAMS AFFECTING THEIR INDUSTRY

A program of slowing the growth of federal spending does not have to be synonymous with a program that impacts negatively on the needy. We have reviewed HMD's budget and have found that:

There are many areas in which the elimination of programs would not impact on the poor.

There are also several areas in which the program funds proposed by the Carter Administration could be reduced without any reduction in services.

Additionally, there are program funds which would be administered more efficiently resulting in the recapture and reprogramming of funds appropriated in prior years.

Finally, there is at least one program in the HUD budget which could be suspended for a time in order to rebuild the nation's economy—a goal which is more advantageous in the long run than the program itself.

The changes outlined below will impact significantly on HUD's budget but will not affect the services currently being provided to house the low-income families in our nation.

The Carter Administration has requested fiscal 1982 funding for its Community Development Block Grant programs in the amount of $3.997 billion in Outlays and $3.96 billion in Budget Authority. This is an increase of $60 million in Outlays and $266 million in Budget Authority over funding for fiscal year 1981. In this era of economic instability we would recommend that this increase be eliminated and that funding for this program remain at its current level.

Another program used to revitalize our nation's distressed cities is HUD's Urban Development Action Grant program. The Carter Administration recommended $610 million in Outlays and $675 million in Budget Authority for fiscal 1982. Again while this program has proven beneficial in many areas, we believe that the overall economy would experience greater benefits by less federal spending. As a result we recommend that a moratorium be placed on this program and that we should rely on Community Development Block Grants instead.

One very real possibility also exists for substantial savings—perhaps billions—by a change in HUD's procedures for renewing commitments. While we acknowledge the need to renew some commitments that have not yet been activated by project developers and sponsors, we also know that HUD, for many years, has continued to routinely renew unfulfilled commitments without regard to the reasons for renewal or timetable for realization of the commitments. This practice has imposed a costly burden on the federsl budget and should be reviewed. The action would involve commitments for Section 236, Section 235, Section 8, GNMA Tandem programs and others.

Public Housing Agencies Operating Subsidies were originally authorized to cover unexpected costs in expenses for Public Housing projects. These funds, however, have become a band-aid approach to mounting expenses and should be phased out with adequate emphasis on HUD's Comprehensive Modernization program for Public Housing. This action would cure many of the basic structural problems of public housing projects with less emphasis on continuing funds which provide only stop-gap remedies.

Another program which could be eliminated without significant impact is HUD's new Solar Energy and Energy Conservation Bank. The Carter Administration's budget for this program in fiscal year 1981 reflects $47 million in Outlays and $121.2 million in Budget Authority. For fiscal 1982 the budget request of the previous Administration was $134.25 million in Outlays and $125 million in Budget Authority. Again, we recommend no start-up for this program since the results of the program can be obtained through other means. The people served through the Solar Energy and Energy Conservation Bank are currently able to receive assistance through HUD's Community Development Block Grants funds or funds admininstered by other federal agencies.

On government-assisted housing programs, spending could be reduced by changing the ratio of New/Substantial Rehabilitation Section 8 units to Existing/Moderate Rehabilitation units. In its Section 8 requests, the Carter Administration requested $1.133 billion in Contract Authority and $21.158 billion in Budget Authority for fiscal 1982 with an equal mix between New/Substantial Rehabilitation units and Existing/Moderate Rehabilitation units. By placing greater emphasis on the Existing/Moderate Rehabilitation components of the program, greater use of the program funds could be realized. While we acknowledge that there currently exists a critically low vacancy rate in rental dwellings across the country, we also recognize that some 3 million units exist which could be put into use if HUD's Section 8 Moderate Rehabilitation funds were emphasized to a greater extent. This change in ratio is a possible alternative to decreasing the Carter Administration's request to subsidize 260,000 Section 8 and Public Housing units to 225,000 as requested by the Reagan Administration.

The Reagan Administration has committed that it will implement a currently/existing statute authorizing HUD to increase tenant contributions for rents in subsidized housing from 25 percent to 30 percent of their incomes. This is another action that could be taken to curtail the amount of subsidies that HUD must pay, and we would endorse this step taken by the new Administration. According to the Congressional Budget Office, implementation of this statute would save approximately $69 million in Outlays and $38 million in Budget Authority for fiscal year 1982. While this change in policy would affect low-income recipients of HUD's housing programs, it would not place a disproportionate burden on them in contrast to the more affluent segment of our population.

One obvious example of regulations and statutes that impose excessive costs that surpass the benefits to society is the requirement that Davis-Bacon labor standards be applied in all federal construction. The Congressional Budget Office estimates that the elimination of Davis-Bacon requirements would save $179 million in Outlays and $160 million in Budget Authority for fiscal year 1982.

The HUD Budget proposed by the Carter Administration called for fiscal 1982 spending of $9.8 million in Outlays and $10 million in Budget Authority for the Housing Counseling program. Funding for this program for fiscal year 1981 was set at $9.4 million in Outlays and $10 million in Budget Authority. Housing counseling for homebuyers and renters is a very important tool in terms of logical budget planning and proper care of property. The line item in HUD's budget, however, is one which could be eliminated because the funds, in many cases, duplicate the efforts of civic organizations and the efforts of managers in HUD-assisted projects. Additionally, in many cases, Community Development Block Grants funds are already being used for this purpose. Elimination of this program from the HUD budget would encourage greater participation of local entities but would *not* stifle the services provided.

Among the programs that could be eliminated is funding for the Community Housing Resource Boards. This program grew out of an agreement between the Department and the National Association of Realtors. It was never envisioned, however, that funding by HUD would be necessary since the talent and facilities of Realtors in local communities were to be used. The Carter Administration proposed fiscal 1982 Budget Authority and Outlays of $2.0 million.

Another program that may be eliminated because of its duplication with other federal funds is HUD's Neighborhood Self Help Development Program. In fiscal 1981 HUD has been allocated Outlays of $15.4 million and Budget Authority of $9.0 million. For fiscal 1982, HUD's budget request was for $8.8 million in Outlays and $9.0 million in Budget Authority. While, again, we do not argue with the intent of this program, its primary benefit was in encouraging the organization of community groups. After the first few years of this program, we see consortiums that have been established—but not always as the result of HUD's Neighborhood Self Help Development Program. New private non-profit groups have been founded and are active in their respective communities, and older, well-established non-profit groups have also been working toward the same goals of revitalization. Additionally, where the need still exists, Community Development Block Grant funds can be used to provide needed monies for technical assistance.

While we acknowledge the need for research by HUD we recognize that in previous years, the Department has frequently conducted research efforts with the goal of rationalizing a predetermined conclusion. One obvious example may be cited in the studies funded by HUD regarding the extent of discrimination practices in housing. The subjective tests used and the results of the study demonstrated preordained conclusions that were based on opinion rather than fact. With tighter administration of HUD's research programs and more oversight by Congress, we recommend a 10 percent cut in HUD's budget for fiscal 1982 as proposed by the Carter Administration. From a budget request of $48.6 million in Outlays and $50 million in Budget Authority this 10 percent budget reduction would save $4.86 million in Outlays and $5 million in Budget Authority.

The previous Administration's request for an increase in HUD staff of 315 slots should also be denied, which would lead to a savings of approximately $9 million in fiscal 1982. While we realize that many program areas are operating without adequate staffing, we are also aware that other offices have a surplus of employees. Human nature dictates and past experience has shown that because staffing is a symbol of status, program supervisors will not recommend staffing cuts, but do frequently recommend staff increases. It is possible, therefore, to review the overall staffing in HUD and transfer employees and slots from one program area to another. This is especially needed if the budget for fiscal 1982 includes the elimination of specific programs as envisioned by the Reagan Administration and as proposed by the National Association of Realtors.

Additionally, in terms of HUD's administrative costs, non-essential travel should be eliminated. Rather than curtailing spending for travel, the Carter Administration requested an increase in travel funds for fiscal year 1982 in the amount of $2.6 million. Eliminating non-essential travel would result in at least that amount.

President Reagan, in his Executive Order dated February 17, 1981, stated that: "Regulatory action shall not be undertaken unless the potential benefits to society for the regulation outweigh the potential costs to society . . ."

We envision that as a result of the actions outlined above, federal expenditures by the Department of Housing and Urban Development will be cut by at least 10 percent in terms of Outlays and Budget Authority.

ATTACHMENT 6

NATIONAL ASSOCIATION OF REALTORS,
Washington, D.C., January 21, 1981.

DEAR ASSOCIATION MEMBER: For more than 14 months now, the NATIONAL ASSOCIATION OF REALTORS, on behalf of its more than 750,000 members, has been stressing the effect of poor economic policies on the housing industry.

However, it is not just our industry that has suffered and continue to be damaged by high inflation. Virtually every area of our nation's economy is feeling the burden of the poor mix of fiscal and monetary policies.

On both January 16 and January 19 we offered recommendations to the new administration and Congress and we stressed that we are willing to sacrifice in areas that affect housing and other real estate because in the long run we are confident our industry will benefit.

I am taking this opportunity to ask you to join in this approach—sacrifice now for future economic strength—and have enclosed the advertisement we employed and some of our material. First, insist that our government slow overall spending, reduce the federal deficit, provide tax relief directly for encouraging savings and investment as proposed in the attached advertisement we placed in major newspapers January 19. Second, do your part by recommending programs that benefit your industry be trimmed, as we have.

If we can be helpful to you, please call me at 202/637-6891.

Together we can get our economy and our industries back on track. And now is the most appropriate time to begin.

Sincerely,

JACK CARLSON.

Enclosures.

ATTACHMENT 7

FEBRUARY 13, 1981.

The PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: We strongly support major reductions in federal spending. We feel that all Americans, including the members of our organizations, should join in sacrifices to reduce federal spending.

Tax relief should be provided only to the extent spending reductions are made to cause the federal deficit to decline toward balance each year. This would reduce pressures on interest rates and provide lower interest rates for productivity-increasing investment and adequate housing.

We feel it is important that the principal emphasis of tax relief should be directed toward stimulating savings and investment.

Respectfully,

LEE E. GUNDERSON,
President, *American Bankers Association.*
THOMAS H. SHEALY,
President, *Mortgage Bankers Association of America.*
HERMAN J. SMITH,
President, *National Association of Home Builders.*
ALBERT B. HOOKE,
Chairman, *National Association of Mutual Savings Banks.*
JOHN R. WOOD,
President, *National Association of Realtors.*
ROLLIN D. BARNARD,
President, *United States League of Savings Association.*

ATTACHMENT 8

REVENUE REDUCTION FROM REALTORS' TAX PACKAGE

[Dollar amounts in billions, fiscal years]

	1981	1982	1983	1984	1985
Business portion of package:					
15-yr straight-line writeoff on new residential and nonresidential structures	$0.8	$2.1	$3.6	$5.4	$7.6
5-yr write-off on new equipment (with phase-in)	3.8	14.5	26.5	35.0	38.9
Current expensing of construction period interest and taxes	.8	.9	1.0	.8	.8
Remove limitation on deductions of investment interest	.1	.1	.1	.1	.1
Individual portion of package:					
Reductions in personal income tax rates	3.7	20.4	41.1	61.7	70.8
Tax incentives for savers:					
Exclusion of $500/$1,000 in 1981 and 4-yr phase-in of $1,000/$2,000 of interest and dividends from Federal taxes	1.6	7.2	10.2	12.6	14.4
Expansion of contribution ceilings from $1,500 to $7,500 during 4 yr and expansion of eligibility on individual retirement accounts	.5	1.0	2.0	4.0	6.0
Totals:					
Gross tax reduction	11.3	46.2	84.5	119.6	138.6
Less offsetting increase in revenue from a stronger economy	1.0	5.0	14.2	19.3	25.5
Equals net tax reduction	10.3	41.2	70.3	100.3	113.1

ATTACHMENT 9

EFFECTS OF $500/$1,000 INTEREST AND DIVIDEND EXCLUSION BY INCOME GROUP

	Returns with interest income (millions)		Average interest payment per return		Tax reduction from $500/$1,000 at typical marginal tax rate [1]			
					Amount		As a percent of average taxable income	
	Joint	Individual	Joint	Individual	Joint	Individual	Joint	Individual
Gross adjusted income:								
Less than $6,000	2.13	6.59	$1,120	$680				
$6,000 to $11,999	4.13	5.08	1,130	1,100	$108	$54	1.7	0.7
$12,000 to $15,999	3.59	2.24	946	1,230	114	57	1.0	.5
$16,000 to $19,999	4.35	1.24	800	1,350	126	78	.9	.5
$20,000 to $24,999	4.94	.68	830	2,080	144	90	.8	.5
$25,000 to $29,999	3.19	.28	1,130	2,790	168	102	.7	.4
$30,000 to $49,999	3.91	.29	1,690	4,350	222	132	.7	.4
Over $50,000	1.24	.11	5,280	9,980	384	204	.5	.3

[1] Relative to current law including $200/$400 interest and dividend exclusion.

Source: Based on 1977 IRS data. Calculations by National Association of Realtors.

ATTACHMENT 10

IMPACT OF PROPOSED TAX INCENTIVES FOR SAVERS ON THE ECONOMY IN 1984

	Increased exclusion of interest and dividend income			Increased ceilings from $1,500 to $7,500 and increased participation in individual retirement accounts
	$500/$1,000	From $500/$1,000 to $1,000/$2,000	$1,000/$2,000	
Gross national product (percent difference in levels)	0.4	0.6	0.9	0.3
Consumer prices (percent)	−0.2	−0.3	−0.4	−0.1
Long-term interest rates (percentage points)	−0.4	−0.6	−0.9	−0.3
Average spendable income per household with interest income and/or IRA (1981 prices)	$230	$450	$670	$600
Employment (jobs)	100,000	150,000	220,000	100,000
New housing starts (units)	210,000	170,000	230,000	90,000
Non residential investment (percent difference in levels)	4.0	5.5	8.5	2.7
Productivity (percent difference in levels)	0.3	0.4	0.7	0.2
Gross revenue reductions	7.2	12.6	19.0	8.0
Net revenue reductions (including feedback effects of a stronger economy)	5.0	9.3	13.9	6.3

Source: National Association of Realtors, Forecasting and Policy Analysis Division.

ATTACHMENT 11

PERCENTAGE OF PEOPLE WHO ARE ELIGIBLE WHO HAVE INDIVIDUAL RETIREMENT ACCOUNTS BY INCOME CLASS 1977

	Percentage of people who are eligible	Contributors, 1978	
		Percent	Numbers (thousands)
Family adjusted gross income:			
0 to $5,000	85.0	1.5	36.9
$5,000 to $10,000	70.0	8.7	206.8
$10,000 to $15,000	60.0	12.8	305.0
$15,000 to $20,000	45.4	13.8	328.1
$20,000 to $50,000	24.9	52.3	1,245.8
over $50,000	28.6	10.9	260.1

Source: President's Commission on Pension Policy, 1979 Household Survey, Internal Revenue Service and National Association of Realtors' estimates.

ATTACHMENT 12

REVENUE REDUCTIONS: COMPARISON OF REALTORS' AND ADMINISTRATION'S TAX PACKAGES

[Dollar amounts in billions, fiscal years 1981 through 1984]

	Administration	Realtor
Business reductions	$60.8	$95.2
Specific tax incentives for savings		39.1
Reductions in individual income tax rates	250.1	126.9
Total, tax relief	310.9	261.2
As a percentage of receipts under current law	10.2	8.6

MULTIFAMILY HOUSING DEVELOPMENT TASK FORCE: TENTATIVE ISSUES AND STRATEGIES

MULTIFAMILY REAL ESTATE INVESTMENT CLIMATE

Goal

To have an economically viable investment climate for multifamily residential real estate whereby the nation's needs will be met and capital formation will be encouraged; modern, efficient facilities will be supplied and existing facilities will be maintained and/or rehabilitated as warranted.

All strategies are to be refined and/or altered and implemented on a continuing basis.

(1) Encourage the federal government to develop and implement a long term policy of fiscal restraint and monetary growth moderation that is conducive to economic stability via significantly reducing the budget deficit (with an eventual balancing being achieved), balance of payments and trade deficits, the inflation rate and interest rate fluctuations.

(2) Via the use of fiscal restraint and monetary growth moderation, markedly reduce the need to apply monetary policies involving high interest rates and high reserve requirements that have discriminatory impacts on the supply of housing, that postpone the demand for homes, and that contribute to housing inflation.

(3) Seek reduction in the number of excessively costly, economically unjustifiable government regulations that impede development at the national, state, and local levels; i.e. excessively stringent building codes, environmental regulations, zoning regulations, growth controls, energy conservation regulations and subdivision regulations.

(4) Seek a highly favorable environment for R&D efforts and the implementation of their successful findings so that structural designs and energy requirements of new and rehabilitated developments as well as energy efficient components will be able to fulfill future needs.

(5) Seek the adoption of a single permit issuance "package" whereby development could be markedly expedited and facilitated.

(6) Discourage disruptive entries into the money markets by the federal government to finance budgetary deficits.

(7) Encourage the construction and rehabilitation of rental housing by preventing the threat of and eliminating rent controls.

(8) Urge the permanent elimination of all usury rate ceilings.

(9) Encourage governmental policies leading to equitable tax treatments in areas such as depreciation allowances, capital gains treatments, and interest and dividend deductions so as to encourage programs whereby more multifamily residential real estate investment would occur. Examples include:

(a) Reduce and eventually eliminate the double taxation on corporate dividends.

(b) Advocate 15-year straight-line depreciation schedules for all income producing structures and 5-year depreciation on equipment.

(c) Seek the deduction of interest and taxes incurred during the construction period in that same time period and the removal of the $10,000 investment interest ceiling on individuals.

(d) Encourage the stimulation of savings through tax relief by increasing the interest and dividend exclusions.

(e) Urge the reduction of corporate income taxes below its current 46 percent rate.

(f) Advocate increasing the capital gains deduction from 60 percent to 70 percent of the gain.

(g) Urge that investment tax credits be refunded.

(h) Encourage the use of tax-exempt bonds to finance low priced housing for low income families.

(i) Advocate the qualifying of the apartment industry under the Subchapter S corporation regulations by removing the passive income status of rental income.

(10) Encourage the creation of a new real estate investment vehicle whereby the individual investor realizes directly the benefits of interest and tax payments.

MULTIFAMILY HOUSING AFFORDABILITY

Definition of affordability: Adequate quality housing including for rental and for sale units (encompassing the associated operational expenses thereof) should be available to financially solvent individuals without placing an excessive burden on their other financial responsibilities.

Goal:

To have the free enterprise system function relatively unimpeded through the mechanisms of supply and demand in markets that are relatively unencumbered by artificial barriers whereby conditions will be encouraged to meet the national requirements for housing.

(1) Encourage the conditions for maintaining equitable capital tax provisions and interest and real estate tax deductions.

(2) Encourage conditions that enable financing for housing and real estate development to be widely, consistently, and equitably available under terms and at interest rates that reflect the efficiences of fair competition by a variety of types of lending institutions utilizing different means for acquisition of funds and making of housing loans.

(3) Support the establishment of federal and state tax policies which recognize the reality of continuing inflation and accordingly gear their taxing practices so that real purchasing power of tax payers is preserved.

(4) Closely monitor trends in the operational costs faced by home owners, with the intent of early detection of anomalies and trend departures so that prompt action can be taken to develop pertinent recommendations and/or other contingency measures to help relieve adverse effects; e.g. increases in real estate taxes and utilities.

(5) Encourage conditions whereby tax structures are both equitable and consistent in application and provide fair rewards (in terms of after-tax income) for individual and corporate initiatives and efforts in the provision of housing for society.

(6) Encourage the private sector through various appropriate financial incentives to initiate their own research efforts involving the use of R & D techniques whereby cost saving procedures will be realized and utilized for supplying the components of residential construction as well as for supplying an increasing variety of alternative methods of dwelling unit construction.

(7) Encourage uniform regional residential building codes as well as uniform interpretations of similar or identical "uniform building codes."

(8) Encourage the imposition of spending limitations on the federal government as well as on state and local governments whereby spending increases are tied to some growth indicator such as 2% less than growth in personal income.

(9) Seek the reduction and/or elimination at all governmental levels of unreasonable and untimely policies, rules, regulations, and procedures that unnecessarily increase the cost of housing, i.e. no growth and slow growth policies, excessive environmental regulations, restrictive building code zoning and subdivision regulations.

(10) Urge the tax deductability of payments made to condominium owners associations.

COST AND AVAILABILITY OF MORTAGAGE FUNDS

Goal

To have a consistent and adequate supply or mortgage funds available whereby the demand for homeownership and multifamily residential development will be met by the lowest competitive prices.

(1) Urge the availability nationwide of various mortgage instruments geared to the needs of specific categories of potential as well as existing homeowners, i.e. variable rate mortgages, graduated payment mortgages, reverse annuities, refinancing mechanisms, variable length or "rollover" type mortgages, etc. and FHA and VA conditions that compare favorably with current market conditions.

(2) Encourage the participation of the financial community as well as additional appropriate related components thereof into the residential mortgage lending and/or equity participation market, i.e. pension funds, insurance companies, credit unions, etc.

(3) Develop additional devices and maintain those in existence that stabilize the availability of mortgage funds and diminish cyclical fluctuations in mortgage lending, e.g. 6-month money market certificates, allowing a significant amount of tax free interest from deposits in all financial institutions and variable rate certificates of deposits.

(4) Encourage the development and implementation of procedures that will facilitate the granting of mortgages.

(5) Encourage the active participation of the secondary mortgage market (i.e. FNMA, GNMA, FHLBMC, and any other quasi-governmental institutions as well as private sector institutions (insurance companies, banks, and pension funds) in the continual turnover of mortgage funds (including seller-held final mortgages as well as second mortgages) and the continual development of innovative marketable mortgage "packages".

(6) Encourage more expeditious financing procedures for multifamily housing development as well as lower overall development "packages".

(7) Advocate that income from savings (interest and dividends) be taxed at the same rates as income from salary and wages.

(8) Urge a higher ceiling on IRA contributions.

(9) Advocate tax incentives for mortgage investors.

INNOVATIONS IN MULTIFAMILY HOUSING CONSTRUCTION

Goal

To have the capability of and capacity to enhance the supply of dwelling units by producing "innovative" housing of adequate quality at "affordable" costs through the development and refinement of R & D endeavors and their implementation.

(1) Encourage improved efficiency in Internal space utilization whereby dwelling units with less square footage will adequately meet market needs.

(2) Encourage the development of more energy efficient dwelling units and encourage voluntary retrofitting of existing units.

(3) Encourage the development of cost efficient modular building construction.

(4) Encourage the development of a massive industry wide coalition effort to create and apply innovations in housing construction, e.g. perhaps coordinated through some organization such as the National Institute of Building Sciences.

(5) Encourage the elimination of undue regulations by all government bodies that inhibit innovative cost effective construction techniques.

(6) Encourage the development, utilization, and acceptance into the building codes of new procedures, techniques, and products whereby the cost of housing construction components are reduced and/or stabilized, e.g. plastic plumbing components versus copper materials.

(7) Support efforts whereby innovative land use planning combined with cost effective innovative dwelling unit design reduce land requirements and overall developmental costs.

(8) Advocate an educational program whereby the various sectors of society will understand the need for the utilization of more efficient construction procedures through the use of public relations oriented educational programs regarding higher housing costs.

(9) Encourage the development and dissemination of complete informational packets regarding successful innovations in dwelling unit construction to appropriate parties.

National Association of Realtors Multifamily Housing Development Task Force

PURPOSE

Development pragmatic recommendations along with documentation whereby barriers to the development of rental and sale multifamily housing will be removed and/or incentives for such development will be created. The optimal end product would be a supply of multifamily dwelling units which would adequately fulfill the nation's demand. Such a situation would result from being able to function from proactive rather than reactive conditions.

NATURE OF RESEARCH

Initiate a comprehensive macro overview of mutifamily housing. Both private sector conventional and government subsidized housing are to be addressed. Tasks to be undertaken include: literature and document search; contacting other affiliated groups regarding their related endeavors; short- and long-term quantitative projections; the aforementioned recommendations along with the development of implementation strategies.

This Task Force would provide a composite current and future overview of the multifamily housing situation. A dual research approach would be employed. On the one hand, macro quantitative projections would be made. Concomitantly, the salient issues would be determined and strategies devised. While the latter approach would be primarily qualitative in nature, quantitative measurements of impact and/or cost of effectiveness would be applied where appropriate. Considerable interaction with other affiliated organizations would be considered to be highly beneficial for all parties.

The end product would be a complete research report with executive summary which would provide the substantiated suggestions whereby an adequate supply of multifamily housing would become available.

It should be mentioned that at this time the research game plan is preliminary and will be subjected to close scrutiny, refinement, and revisions.

COMPREHENSIVE ISSUES TO BE ADDRESSED

(1) supply and demand considerations and projections; (2) real estate investment climate; (3) cost and avialability of mortgage funds; (4) affordability; and (5) innovations in housing construction.

The Task Force is to develop goals and strategies to address the issues in a positive vein. A strategic planning type approval is to be utilized. The strategies would address matters at all governmental levels with primary emphasis at the federal level. A prioritizing of strategies according to their impact upon supply as well as on chronological basis would be undertaken.

Senator BENTSEN. Thank you very much. I want to get back to some of your comments in just 1 minute.

Ms. Kovisars is the manager of housing and urban rehabilitation for the city of Dallas and we are very pleased to have you here this morning. Please proceed.

STATEMENT OF JUDITH H. KOVISARS, MANAGER, DEPARTMENT OF HOUSING AND URBAN REHABILITATION, ON BEHALF OF HON. ROBERT S. FOLSOM, MAYOR, CITY OF DALLAS, TEX.

Ms. KOVISARS. Well, I'm pleased to be here. I very often get to write such statements and rarely to deliver them. I am pleased to be here on behalf of the mayor.

Lack of capital formation and the failure of capital to flow to housing are increasing problems in the United States. The problem is even more acute in growth areas such as Dallas where additional housing is needed. From 1976 through 1980, the city of Dallas authorized the construction of 14,176 single-family homes, 41,521 multifamily units, and 1,390 subsidized units.

Compared with the first quarter of 1980, single-family permits are up 19 percent in the first quarter of 1981 and multifamily permits are down 12 percent. But the overall volume of housing construction is not keeping pace with the business and employment expansion.

National policy regarding savings, income taxes, and banking must be reevaluated to allow appropriate levels of private capital to flow to housing production and rehabilitation. At this time, in Dallas, mortgage funds for apartments are almost nonexistent. For single-family homes, the interest rate is in excess of 15 percent.

The problems confronting both homeowners and renters are numerous. Between 1970 and 1980, the following occurred in Dallas. Long-term interest rates increased from 8 percent to 14 percent. The cost of building materials increased by 125 percent. Labor costs increased by 82 percent. The price of the average home increased by 300 percent. Utility costs increased by 100 percent. High interest rates require the potential home buyer to have a higher income than before to buy the same price home.

Increased labor and material costs due to inflation make the same dwelling more costly to produce each year. More builders are directing their products to the higher priced end of the market. Land use plans, zoning ordinances, and site review procedures within many communities restrict the construction of affordable homes for low- and moderate-income families. Areas with affordable housing for low- and middle-income families are often relatively distant from work centers.

Often, those least able to afford the increased commuting costs must pay them. Steadily increasing utility costs must also be borne by owners and renters. As the housing and money markets tighten, older—only older apartment units or those that are in a deteriorated state are available to low- and moderate-income households.

In some cases, deterioration of older and marginal units is being hastened by overcrowding. This year, for the first time in its history, the city's department of housing and urban rehabilitation began receiving significant complaints about overcrowded units and has had to shift emphasis to enforce this portion of the minimum housing ordinance. The problem of overcrowding exists in both single family and multifamily rental units, and usually occurs at the lower end of the cost and quality spectrum.

This housing problem is a symptom of certain social and economic problems caused by the influx of undocumented workers into the Dallas job market. Most overcrowding complaints reported to the department of housing and urban rehabilitation concern undocumented workers. Overcrowding can tip marginal units and neighborhoods from a deteriorated state to dilapidation. The answers to these problems is a larger supply of affordable private housing.

While housing in the private sector is currently in a state of economic dislocation, to a great extent, this is a reflection of the broarder national and international monetary and energy problems. However, problems with public housing in Dallas are directly attributable to Federal legislative action.

Prior to the Brooke amendment, the Dallas Housing Authority operated with 100 percent of allowable reserves and no Federal subsidies except the annual contribution contract. After the Brooke Amendment, a gap between operating expenses and revenue has caused reserves to fall to 20 percent of the allowable amount and maintenance to fall further behind each year, despite Federal subsidies of \$5 and \$6 million per year.

We have approximately 730 public housing units. The formula for funding public housing and rents, limited to 25 percent of income, has caused projects to gradually deteriorate and decline. An assessment of the public housing modernization needs, just completed by consultants for the city of Dallas, itemizes $133 million worth of immediate needed repairs. Commonsense says that funds for this existing need must come ahead of funds to build more public housing which will suffer further from inadequate maintenance support.

Some reform of the Government subsidies to public housing authorities is urgently required to bring these units into livable condition. Deregulation by the Federal Government would also go a long way toward improving public housing, as the current system restricts management and creates inefficiency. Thank you.

Senator BENTSEN. Thank you very much, Ms. Kovisars.

We have fewer incentives for savings and more disincentives for savings than I think probably any major nation in the world.

And look at what's happening now on interest rates. Take a mortgage on a $64,000 home, which is the average across the Nation, a 30-year mortgage. Raise the interest rate from 8 percent to 15 percent and you are talking about increasing the payment by about $275 a month. That just puts it out of the reach of the average family today.

I looked at some numbers on Dallas that make your point, Mr. Smith, about homes going to the upper end of the bracket. The average is now $73,000, and that means that you have to have a family earning $42,000 to qualify for the mortgage on that kind of a home.

So the dream of home ownership is just evaporating. It is becoming a nightmare. And then you have a lot of young people that strap themselves with a mortgage payment that they find extremely difficult to meet.

Now when you talk about an incentive in the system—I talked to the Economics Minister of France about what they do, and he said they put in a program that allowed a $5,000 savings exemption. And I asked him how it worked. And he said, "Well, one thing that a Frenchman understands is not paying taxes. The money just came from everyplace. Out of mattresses and wherever." They had an amazing increase in savings in France, and in equity investment.

Japan, Germany, all of these major nations, have incentives for savings. Now our savings rate is running a little over 4 percent, I believe. And yet you take the Germans and the Japanese—or the Germans and the French; they are saving at the rate of about 13 percent, and the Japanese from 22 to 25 percent.

If we're going to have the funds for homebuilding or buying new plants and equipment in this country, it means we have to add incentives for savings. So that's why I have been pushing hard on that, and I am delighted to see that most of you have commented on this bill and feel that we should be making some strides in that direction.

A comment was made on the CPI indicator. Obviously it distorts and it has too large a quotation there for homes and for home mortgages. But I've talked to Janet Norwood, the Commissioner of the Bureau of Labor Statistics, and I know that they're making a study trying to come up with better indicators and better components in that regard. I do hope that they will expedite that and give us something that will truly reflect the rate of inflation to give us a better denominator insofar as to how it relates to indexing in many of our other programs.

I'd like to ask you, Mr. Smith about the statistics on multiple family dwellings. You were referring to that. They've shown a decline between 1979 and 1980 in the Dallas-Forth Worth area. How about the rest of the State? Is it keeping pace with demand for multiple family dwellings?

Mr. SMITH. In most cases, Senator, it is not. Especially where they have had an influx of new people. And, also, especially in the area of affordable rents. In other words, the modern income approach.

Also, we're seeing, even outside of this area, in places like Chicago, vacancies running about 1 to 2 percent. Los Angeles is at about 3 percent, which in effect tells us that there's just no housing available in the rental situation. That means you're talking about the young couple's doubling up or staying with their parents. I think we're fortunate in this part of the country. In fact, we have had, over a period of years, some projects in the pipeline that brought us onstream with a better rental market than certain other major areas.

But it has certainly stopped, for all practical purposes, at today's interest rates. I think you'll also see some of your smaller communities that have the real need are the ones hurt the most, because there's the economic realities in that area or such that funds are not available. And with the potential Farmer's Home cut, back under the new budget of 38 percent, is going to compound the conventional problem because its going to cause a shortage in the small communities.

Senator BENTSEN. Mr. Cassidy, you were talking about a variable rate mortgage, and you touched on it too, Mr. Miller. The problem is, the homeowner wants the certainty too. And you talk about 5 years of level payments and the deferral of the excess interest. That means it could well be a very substantial increase, doesn't it, in the monthly payment thereafter?

I've heard one approach proposed—it may be that this is done in Canada, so any of you can correct me on this who are more familiar with the mortgage market currently. But, I am told that what they do there is they added to the term—to the length of the mortgage. And that it has been effective.

You have any comment on that? I mean the payment stays flat, as I understand it.

Mr. CASSIDY. I think that's correct, Senator. Obviously, the flexible rate mortage is something we have not done in this country. It represents change; it represents something new; the consumer and others are always reluctant to change.

Senator BENTSEN. Maybe that's the way we have to go.

Mr. CASSIDY. I think it is. Obviously the system will work in England. All their loans are written on a variable rate mortgage and the interest rate fluctuates monthly. In Canada, 95 percent of the rollover loans come due 1 year, 2 years, 3 years, or 5 years from now and adjust the market rate. We're the only country in the world that will ride—or has been riding. We don't any longer. We write a 30-year, fixed-term, fixed-rate mortgage. Texas probably has the best situation of anywhere, as far as savings and loans are concerned at the present time.

I think a flexible mortgage is needed in two areas of a rollover mortgage, similar to the Canadian system, where that mortgage will come due 2 years or 3 years from now and be adjusted to the market rate with the borrower able to go to any other source of lending with no prepayment penalty. It keeps the mortgage on a market rate.

A variable rate mortgage with the payments staying the same for 5 years and with interest adjusting every 6 months is a way to go.

The loan is originally written on a 40-year term with a 30-year amortization schedule on it. If that payment gets too high at the end of 5 years, if inflation increases, certainly if inflation goes to 20 percent, his house is going to be up 20 percent.

It's going to be worth much more at that time if his payment increases. But that loan can then be extended out. Rather than taking on a 30-year amortization, it can go on out to 33, 34, 35. Your amortization would still be within the term of the 40-year original estimate that was written on it. Which will help bring that monthly payment down.

And, that's really what the individual and what the owner looks at—is his monthly payment. The interest rate is not that important as a figure. It's that monthly payment that they have to take out of income each month that is the important figure.

Senator BENTSEN. Mr. Boykin, I met with Paul Volcker a day or two after he took office, and I met with Bill Miller at breakfast with him one morning. And I said to Mr. Volcker. You know, we're moving to a monetary policy and I think we have to, but we've never done that before in this Nation. And there'll be some aberrations there; there'll be some unanticipated results. And the one thing we should be doing is making the housing industry bear the brunt of it, as we normally do in these cycles—at least the first impact of it. And there should be some moderation taking place as you find these cycles become excessive.

I recall his saying, "Well, Senator, I agree with that and I assure you those lender windows won't close."

It was about 6 months after that we saw the prime at 21 percent and a lot of windows closed. But I would open the operation of the Fed. When I fully understand the problem of trying to combat inflation—with the cutting of Government expenditures, which I have been advocating for a long time through this committee. But that we would see some moderation on the upper limits of these interest rates too. And I know that the Fed too has been out in some unchartered waters in this situation. Do you care to comment? [Laughter.]

Mr. BOYKIN. Well, I guess I would say Paul Volcker's comment was about as good a comment as we could give. As you know, Senator, under the Humphrey-Hawkins legislation the Federal Reserve must set its monetary growth targets. Those for 1981 evidenced dedication that we stay within those target ranges. Those ranges, in effect, call for a gradual reduction in the growth of the monetary aggregates. With our new operating procedure we concentrate more on monetary aggregates and less on interest rates.

Interest rate movements tend to be a result of these actions as opposed to an objective. There are dislocations that occur as a result of these interest rate movements, and we have sympathy to what's going on. But, I think we have a more basic problem. And that is the problem of inflation. And, given the role of the Federal Reserve, with its monetary policy responsibilities, we're using the authority that we have in about the only way that we can.

Senator BENTSEN. Well, Mr. Boykin, you've heard the testimony this morning. It sounds like housing is becoming something that's available just to the wealthy. I just don't think we have to accept the fact that fighting inflation means that we have to limit ourselves to that kind of availability of housing to that limited few.

I really believe that homeownership is a stabilizing influence in this country. And its one where we ought to put in some incentives. I frankly don't agree with the idea that we must have it done through municipalities with floating some tax-free bonds just for that purpose.

I'd much prefer to see it done through the private sector. If you can do it through the municipality, or some public entity, and have a tax-free bond to do it that way, why isn't it better to go the other way and say that you have tax-free interest on savings accounts that go into private financial institutions? As long as they are dedicated to housing?

Mr. BOYKIN. I would have some difficulty in arguing with what you are saying. In fact, I would not even want to argue with that statement. Without endorsing a particular or a specific proposal, to me, I think it does make sense.

Senator BENTSEN. Oh, I wouldn't mind you endorsing it.

Mr. BOYKIN. To have policies or laws that encourage saving and investment just has to make sense economically.

I have not thought it through enough to take a specific position, I'm not sure. But in general terms I think that greater savings and investment are sorely needed. And incentives that would encourage that, I would certainly not take exception to.

Senator BENTSEN. Well, I introduced one last Congress to give a $2,000 exemption on interest—$1,000 for a single return and $2,000 for a joint return—I finally got it through at $200 for the individual and $400 for a joint return; not nearly enough.

The Secretary of the Treasury last time opposed it and the new Secretary is also opposing it. One of their arguments is, "Well you're just rewarding those people who are already saving."

We l, my answer is, "Its about time someone did." Because if you don't do that you're going to have that continuous hemorraging of funds.

Last year, as I recall, it was approximately $28 billion that flowed out of the savings and loan institutions. And you just can't have that continuous hemorraging of funds and expect to have long-term money available for housing in this country.

What do you think the outlook is for the multiple family housing market in the cities?

Now, you touched on that some, Herman. Do any of you care to comment on this? Part of it, I know, you say is the interest during construction.

Mr. MILLER. Well, there simply is no set of circumstances, without massive amounts of equity contributions, that will justify new construction, Senator.

At best, at today's rental rates, a new project will return perhaps 12 to 13 percent on its total capital commitment.

Well, there's a lot of struggle, a lot of risk to get to that point. And anyone who has that capital is going to put it into savings. Housing and multifamily rental bases are really just dead in the water in the Dallas-Fort Worth area. I expect that we will see fewer than the predicted 12,000 starts in the Dallas-Fort Worth area during 1981. I think it will probably be half that.

Senator BENTSEN. So then we've got problems for middle-income families and we have, perhaps, even more problems for low-income families when we're talking about new homes?

Mr. MILLER. Yes, sir.

Senator BENTSEN. Mr. Cassidy, you were talking about some of the problems of the thrift institutions. Are there any bright spots in the savings and loan industry across Texas?

Mr. CASSIDY. Well, Senator, there's a bright spot in Dallas and Houston as probably the best area in the State or in the country, economically, now. And much better than the Northeast part of the country like Michigan or Ohio, where they're having other problems.

The bright hope of the savings and loan industry, and its a hope, is that inflation will bow out and that interest rates will go down.

We must have other rules and other legislation, as I say, in order to compete in the program and bring housing back where it should be under the present climate, and the present system. We can live on the hope that inflation will go down and it may well next year. But the probability is that it will not. The probability is that interest rates are not going to go back to the 5-, 6-, or 7-percent level. So, we've got to adjust where we think the future's going to be. And that's lower interest rates overall, both worldwide and in this country.

Senator BENTSEN. What's the consumer reaction to the flexible mortgage?

Mr. CASSIDY. It's an unknown quantity. When we originally started in Texas, we started with a 5-year rollover in a Canadian type rollover system. It begins very slowly. That moved down to a 4-year, then a 3-year, then a 2-year rollover. It is readily accepted in Dallas at the present time.

Generally, a 3-year rollover is well accepted around the country. I think as people begin to understand what that instrument is and have a knowledge of it, it will be well accepted by the public.

Senator BENTSEN. Mr. Boykin, don't you run into some counterproductive influences on high-interest rates on inflation when they're in place for a long period of time? Don't those high interest costs finally just get built into the cost of the product and passed on to the consumer?

Mr. BOYKIN. I think that it tends to work that way, Senator. On the other hand, I do think that, at some point, if the high-interest rates continue over a long enough period of time, they will do the sort of thing that they're intended to do; that is, to help wring inflation out of the economy.

Senator BENTSEN. Mr. Smith, do you have a feel for the housing problems in rural areas? I'd like to get your comment.

Mr. SMITH. Senator, in looking at some statistics in the last few days from our Washington staff, we find, of course, that production is down in rural areas because of the high-interest rates. I mentioned earlier that it seems there will be a sizable cutback in the Farmers' Home Loan program if the new administration's proposals go through. More so than in the uraban programs. The last figures I saw were in the area of 38 percent. The problem is, there's no substitute for financing in most of these cases.

In other words, the cities are not large enough to have the mortgage finance agencies. In a lot of cases they do not have savings and loans and, if they do, in today's market they are hardly in the lending business. So I would think that you will see the problems in the smaller communities be greater than the problems in the urban areas in the next couple of years.

One of the problems is that we won't hear from them very early, but this is something I think we certainly need to address.

Senator BENTSEN. Mr. Miller, would you comment further on what you think the effect will be on housing related industries of the tax and budget proposals that have been made to the Congress.

Mr. MILLER. Well, yes, Senator, I have included a lot of Mr. Carlson's complete statement to the House Budget Committee into the record. Basically, the spending cuts will greatly help make available capital to the mortgage market. Especially in tandem with some of the encouragement for savings that you proposed and have supported.

However, in regard to the tax cuts, if the tax cuts come across the board and are oriented toward consumption, we'll have increased deficits. Some people, you know, even estimate over a hundred billion dollars in deficits if this plan, as proposed by our administration, is enacted.

If the modifications of Chairman Jones in the House Budget Committee, which would target the cuts more toward the consumer are passed, we're likely to see a worse case scenario of inflation and the total unavailability of long-term capital funds for the bond markets, for the mortgage markets and for any other markets. There would be encouragement, once again, for people to head toward so-called collectibles. But, they will be priced out of buying a home so the housing market is going to be hurt anyway.

So, I would hope for a delay in an across-the-board tax cut. I think it can be very productive over a period of years, but I think we've got to be very careful not to give too much of a tax cut on the consumption side at this point in time.

Senator BENTSEN. On the consumption side.

Mr. MILLER: On the consumption side. Now, if we could have earned income and investment income taxed at the same rate, I think that would be a major help to encouraging savings.

Senator BENTSEN. I tried that 4 years ago on the floor of the Senate and I got my ears pinned back. But I think that the mood in Washington is better on that. I think we have a good chance doing that this time.

I also introduced an amendment to the budget resolution last fall, requiring that half of any tax cut go toward increasing productivity meaning capital formation, savings accounts, and that type of thing.

So there is substantial support for that point of view.

Ms. Kovisars, the Brooke amendment is one that requires that rent not be more than 25 percent of income? Is that giving you some real problems?

Ms. KOVISARS. It's giving our housing authority some real problems. In a lot of cases they're collecting just minute amounts of money for the rent and the real problem with this is that they have not been able to maintain their units. The housing authority is a separate entity from the city of Dallas. In the largest public housing units in West Dallas, there's a 30-percent-vacancy rate and this is because the units are nonhabitable.

The recent needs assessment that we had completed showed that almost all of the garden style apartments, that is those that are only two story, range from delapidation to severe deterioration. It's very difficult to get new modernization money to upgrade the units.

We have about 25,000 people a year migrating into the Dallas-Fort Worth area and sometimes we wish that with their U-Hauls they could bring their houses from Detroit and Cleveland along with them.

Senator BENTSEN. We have a problem and a continual fight with the formulas used in the programs. I noticed on the housing formula for Federal Assistance the Senate, over my opposition, changed that formula. Instead of providing funds for inadequate housing, they put part of it on the age of the housing. Of course, that was aimed against those of us in the Sun Belt where we have been growing and where the housing is newer. I see some of those houses over in the Georgetown area in Washington, D.C., that are a hundred years old that sell for half a million dollars. So I don't really think that age of the housing is a proper formula at all.

But, with redistricting and more Congressmen being added in the Sun Belt, maybe we'll get that evened out and get those formulas where they're a bit more equitable.

Well, I'm very appreciative of having your testimony. Is there any other comment that any of you would like to make at this point?

These comments will be very helpful to us in the Joint Economic Committee. As many of you know who have looked at our reports, we have been on the cutting edge of the idea of trying to increase productivity and savings and cutting back on government spending. We have been leading that fight for well over 2 years and it's really quite a pleasure to see some of those ideas coming into vogue.

I've noticed, too, that in Washington there's a situation where you have to say something 44 times before someone finally says, "Oh, by the way, did you hear what he said?" Then the next morning they say, "Oh, by the way, did you hear what I said?" [Laughter.]

Mr. SMITH. Senator, you might be interested in knowing, 1 month ago the Shelter Trade Associations met, including the president of the American Bankers Association, U.S. League, Mortgage Bankers Association, Builders and Realtors. And they signed off on a letter to the President that, among other things said that out of this tax reduction they would hope that for every $2 spent, $1 went toward productivity. They're now getting around to saying the same thing you said 2 years ago.

Senator BENTSEN. Well, thank you very much for your testimony. We'll have some other witnesses and we appreciate your contribution this morning.

Mr. CASSIDY. Thank you, Senator.

Senator BENTSEN. We have asked that some of those who would like to testify from the audience for the time that we have remaining please come down. One of those who had requested to speak was Mr. Tracy Stanley, who I believe is here.

Mr. STANLEY. I'm here.

Senator Bentsen, are we going to be allowed to question some of the witnesses?

Senator BENTSEN I've given them immunity on that, but we'll be delighted to have you come up and testify.

I'll tell you what we can do, Mr. Stanley, I have promised the witnesses a time limitation so that they can meet their other commitments, but why don't you submit such questions as you have to the record and we can submit them to the witnesses for their response. We'd like to help you on your request.

Go ahead, sir. Come up here if you'd like. Are there others who would like to testify this morning?

Mr. STURGES. I would like to testify, Senator.

Senator BENTSEN. All right, sir. Why don't you come on up. If you'd like to come on up, I'd be delighted to have you.

If you gentlemen would just sit at the witness table and give your names, as you're called on, and such affiliation that you have in the housing industry, it would be helpful to us. All right, Mr. Stanley.

Mr. STANLEY. Thank you, sir.

Senator BENTSEN. Why don't we try to keep the comments to 5 minutes and then that'll give each of us time to have some exchange and we'll take such further comments as you have for the record.

TESTIMONY OF TRACY STANLEY, REAL ESTATE BROKER, ARLINGTON, TEX.

Mr. STANLEY. My name is Tracy Stanley. I'm a real estate broker in Arlington, Tex. I'm also partners with a small builder in Arlington, Tex., by the name of Sid Broyles.

Arlington recently was the third most active housing industry in Texas, behind El Paso and Houston. We sold a lot of houses then. Currently, in Arlington on the market, there are 2,100 houses for sale, 42 percent of which are new homes. That is about 906 new houses of the 2,100 houses for sale in Arlington.

In March of 1981 we sold 35 new houses in Arlington of 210 sold. That is 17 percent of the homes sold in March 1981 were new homes.

In the last 5 months our housing sales of new homes were off 49 percent. Record FHA interest rates of 14½ percent contributed to that. But I believe the main factor, and I'll try to show this later on, is that T-bills were at 13 to 13.9 percent. That is a 150-percent increase since the small boom period that we had in June, July, August, and September of 1980.

I've found that wherever the T-bill rates rise, housing sales fall because interest rates are sensitive to the T-bill rates.

In the 5 months prior to the 5 I was just talking about, our housing sales were up 148 percent. That is during that period of June, July, August, September, and October. That is a period of time when the

T-bill rates were 8.9 percent. So I know that they can get under 10 percent. Whenever they seem to get under 10 percent we seem to sell houses.

At that period of time, in June, July, August, and September, 1980, the FHA interest rates were 11½ and 12 percent. Currently in Arliugton, the builder houses stand vacant. Utilities are cut off We can't pay it.

The city taxes remain unpaid and they've gone from an unimproved basis to an improved basis. Vandalism occurs daily. These homes are increasing about $1,000 a month even though no work is being done to them, because of the interm interest that is accruing daily, and that remains in a delinquent state. We just don't have the money to pay for it.

And the irony of the situation is that we have 11⅞ rollover money available for the sale of these new homes. On a 3 year, what they call an adjustable rate mortgage, we can offer 11⅞ interest, but we still can't find any takers.

I believe that these houses will remain unsold until we experience the May to September 11½ percent-interest rates. And I believe that can only happen when T-bills get down below 10 percent. And they will remain unsold until I can sell the preowned homes to free the equity for the reinvestment in new houses.

There are hundreds of preowned homes in Arlington that remain vacant, because we can't sell them and the people can't sell them and they move out and the equity funding people have to pay the equity to the homeowners and they move on.

And that's all the testimony I have to enter.

Senator BENTSEN. Thank you, sir. Please proceed, Mr. Sturges.

TESTIMONY OF ELI STURGES, MORTGAGE BANKER, SOUTHERN TRUST & MORTGAGE CO., DALLAS, TEX.

Mr. STURGES. Yes, sir.

My name is Eli Sturges. I am with Southern Trust & Mortgage Co. I'm a mortgage banker and past president of Dallas North Bank Association, and Carl forgive me, I think, Senator, that if there's a consensus of what we have heard today, that the conventional mortgage market is in a very fragmented situation.

We have heard the problems of the savings and loan associations. There are several points that I would like to make, however.

No. 1. Savings and loans generally are locally oriented. In growth areas there is not enough local capital to supply the housing demand. Thus, the mortgage originators, whether they are savings and loans or mortgage bankers, need to depend on secondary market to import capital from capital long areas to capital short areas.

To accomplish this, we need recognizable standard mortgage instruments that will readily cross State lines.

The comment was made a few minutes ago that the savings and loan industry has mortgages on approximately 65 percent of the homes in the United States.

Depending on your numbers this will leave another 35 percent of the market unaccounted for which is accounted for by other types of investors.

Now, these investors include life insurance companies, pension funds, commercial banks, and the New York Mutual Savings Banks. And a lot of the local welfare is dependent on these.

Now, we have addressed the public housing sector. We have addressed the conventional mortgage sector of those in the higher bracket that contribute to the average housing cost in Dallas. However, the first-time home buyer, the low to moderates, they always speak of are not savings and loan customers.

In last night's paper was an article which indicated that Federal Housing Administration programs were being phased out. The statement was made that it was begun by the previous administration. However, I feel it was begun earlier than that.

Now, the National Housing Act of 1934 created the FHA 203(b) mortgage loan which has done more to house the low- and moderate-income working man in this Nation than any other single act.

Now, in phasing the 203(b) program out this may be the time to do it as the paper related to. However, considering the fragmentation of the marketplace that it is now, the confusion in it, I doubt the wisdom of phasing out the Federal Housing Act, particularly the 203(b) program, until satisfactory alternatives are in place.

This today, the 203(b) program, is about the only source of long-term fixed rate mortgage that is available. And this is what the first time home buyer needs.

Thank you, sir.

Senator BENTSEN. I'm sympathetic to what you're saying there.

Would you state your name?

TESTIMONY OF CARL HEARNE, PLAVCO MORTGAGE CO., DALLAS, TEX.

Mr. HEARNE. I'm Carl Hearne. I'm in the mortgage business here with Plavco Mortgage Co. I'm also past president of the Dallas Mortgage Bankers Association.

Eli just made my speech, but I would like to add one additional comment to that. It's my understanding that the private mortgage insurance industry is advocating a phaseout of FHA, VA and has gone on record to the administration that they can effectively replace them.

Certainly I am not against the private enterprise and we have worked in the past with most of the private mortgage insurance companies and in many times and many cases they are very effective.

I think the problem that I see—and I again agree with what Mr. Sturges said—is that there is no effective alternative right now to an FHA insured and also a GNMA guaranteed bond. There is no secondary market at this point for conventional loans and the only way that we're effectively able to continue making loans, specifically FHA loans, is through the auspices of the GNMA guarantee.

Its my understanding that the PMI companies are also advocating that GNMA be phased out. I would like to submit——

Senator BENTSEN. Let me interrupt you for just a minute.

Mr. HEARNE. Sure.

Senator BENTSEN. On the FHA, with the premium paid there, for the insurance on it, hasn't that been self-supporting?

Mr. HEARNE. Its not only been self-supporting, but its made money for the Government.

Senator BENTSEN. Sure.

Mr. HEARNE. It is an entirely self-supporting program, and has probably been one of the most effective programs that the Government has ever come out with to house middle-class America.

Uh, the GNMA, of course, gave us in the mortgage industry a vehicle to market our mortgages. And that market is there. We might not like the price on any given day, but nevertheless there is a viable two-way market for mortgages in this country. And I would submit that the secondary mortgage for conventional loans at this time—that's just not true.

The one thing that I have a very hard time buying that the private mortgage industry is advocating is that their contention is if you get GNMA out of the market it will reduce Government borrowing. That may be true. They say they can replace that with private mortgage insured bonds. Well, whether it be a GNMA bond or a PMI sponsored bond, which is more costly to the borrower, its going to go to the same investor. So, I cannot see how it will create more dollars for mortgages, and yet they're advocating that this will. It just doesn't make sense.

If we insure a $1 million block of mortgages through GNMA, which incidentally is also self-supporting, they receive fees and their losses have been minimal, versus insuring it with a private mortgage company or selling to the same investor, normally he's going to require a higher yield on the noninsured product.

And I just don't see where its going to create——

Senator BENTSEN. Where does all the criticism come from? I don't hear it. I don't know where the criticism is of FHA. It seems to me it has been a major contributor to people being able to buy homes in this country.

Mr. HEARNE. It still is. And GNMA has too, and yet their wanting to phase it out—their contention it is will create more money—I don't see this.

Mr. STURGES. Senator, if I may. Part of the FHA's travail as I see it now, is an outgrowth of the scandals and investigations in connection with the 203 program that occurred in the late sixties, and the consequences of that bad publicity. Frankly, my observation in visiting with some of the HUD people is perhaps some of the impetus for phasing out FHA may be internal within the bureau, I'm, I'm not sure, this is just speculation.

Senator BENTSEN. I have a note here that Mr. Ernest Kennedy, Jr., is here and would like to testify. Is that correct?

Would you like to come up too, Mr. Kennedy?

Mr. KENNEDY. No. It's been said.

Senator BENTSEN. What?

Mr. KENNEDY. It's all been said.

Senator BENTSEN. It's been said.

Well, we've got some good witnesses.

All right, you brought up a very pertinent point on this question of FHA, VA, and I appreciate very much having your comments on that.

Do you have any further comment on that?

Mr. STANLEY. I sell a lot of houses FHA and VA and they're new homes, too. I couldn't do without it. It kept me in business last year.

Senator BENTSEN. Beg your pardon.

Mr. LEONARD. Senator, I have just one brief question for you.

The future of the National Consumer Cooperative Bank is in immediate jeopardy in Congress today. The bank which was chartered by Congress in 1978.

Senator BENTSEN. Would you give your name, please, and any affiliation you have?

Mr. LEONARD. Yes, sir. My name is Mark Leonard. I'm a housing planner with the North Central Texas Council of Governments.

Senator BENTSEN. Go ahead, sir.

TESTIMONY OF MARK LEONARD, HOUSING PLANNER, NORTH CENTRAL TEXAS COUNCIL OF GOVERNMENTS

Mr. LEONARD. The housing division of the bank opened in September 1980. Since that time, 104 loans, totaling over $84 million, have been committed.

The bulk of the housing loan activity has occurred in two areas—loans to tenant associations to purchase and rehabilitate multifamily structures or conversion to cooperative ownership. Second, loans to existing co-ops to rehabilitate structures to reduce energy costs and other operator expenses.

Neither of these areas is absolutely served by existing public or private lenders. Although the National Consumer Cooperative Bank is very small, relative to the U.S. real estate lending market it can have a major impact by broadening the acceptance of housing co-ops by private lenders. Second, by providing loan origination and servicing functions to co-ops on behalf of other financial institutions, and finally by expanding the cooperative access to the secondary mortgage markets.

Senator, what are your present feelings about the need for the National Consumer Cooperative Bank, especially in light of the need for creative and alternative methods for providing homeownership opportunities for low- and moderate-income families?

Senator BENTSEN. Well, frankly, I haven't looked at that since the Senate hasn't addressed it and I'd have to try to study it and see what's being proposed.

I appreciate your bringing it to my attention and I will look at it in detail.

Mr. LEONARD. The primary reason why I'd like to bring this up is that one of six regional offices for the bank is located in Fort Worth, and they have yet to make any housing loans to co-ops and that's primarily because the idea is just now reaching this part of the country. Interest is growing in this area, concerning co-ops, especially in light of the advance of the conversion of multifamily units to condominiums.

Senator BENTSEN. Well, I'm just not conversant with it as yet, but I'll become so. Thank you.

Well, the reason for our having this hearing here is first because it is an extremely serious problem facing the Nation.

Second, we have these hearings in Washington but there are limitations on time on so many people who can't make it there; you have budgetary problems, too.

So, I chose to use this so-called recess period to come back and have this hearing and I think the information we have received today from you has been very helpful to us and will help us develop a record and develop some ideas on what we would hope would be corrective legislation.

I was particularly interested in your comments concerning some of the current programs we have, such as VA and FHA, and your concern over the possible demise of them.

Thank you very much.

Mr. STANLEY. Senator, let me ask you this: In your S.701, is there a provision that will permit the savings and loans to pay the maximum rate available under regulations for these interest-bearing accounts, or will they lessen the interest rate simply because we are not having to pay taxes on the deposits?

Senator BENTSEN. Well, we would hope to see the free market system work on that to the extent of having a substantial inflow of funds. We are going to get, according to an econometric model, sufficient funds to help lower interest rates. You have so much of of an inflow that it would help bring the market price down. That's what we are trying to bring about.

You've had housing starts dropping off substantially as we have seen all of this testimony say. Then, in turn, the question I was concerned about is how much revenue we lose by this kind of a provision.

But our preliminary information is that it would put 1 million more people back to work in the housing industry. More than that. That would mean that those people would be paying taxes and they'd be going off the unemployment rolls and we believe, initially, that it would certainly more than make up for any loss in taxes from that kind of an exemption on interest from savings accounts.

But we want to be sure of ourselves on that and so we're having this kind of an econometric model run on it.

Well, thank you very much for your testimony. We're delighted to have you here and we appreciate your coming. And channel 4, we're delighted to have you.

[Whereupon, at 10:15 a.m., the subcommittee adjourned, subject to the call of the Chair.]

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