THE IMPLEMENTATION OF THE RENT SUPPLEMENT PROGRAM—A STAFF VIEW

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When the rent supplement program was signed into law in the fall of 1965,[1] the Federal Housing Administration (FHA) was plunged into a new field. The shift in thrust from a moderate-income group to a low-income group demanded a changed approach. A program designed primarily to serve families at the public housing income level would of necessity have different imperatives than would one intended to replace the below-market interest rate program.

I

ADMINISTRATIVE FRAMEWORK

The attitude of Congress made it evident that, unless the program was placed in operation in a very short time, funding would be extremely unlikely. Since speed of execution was vital, a new approach to the problem of information exchange with the field offices became necessary. To accomplish this purpose, the FHA created a special task force, whose job it would be to put the program into motion rapidly and efficiently. The task force personnel were drawn from all over the country, on the basis of the central office's experience with their aptitude and their work. A sympathetic approach to the problems of a new client group was one requirement, and a thorough grounding in FHA methods and practices was another. An open mind was essential, since this was precisely the field which FHA personnel had always avoided as an undesirable mortgage risk, and which the Public Housing Administration had made peculiarly theirs.

The task force met for the first time early in December 1965 for an intensive two-week training session. The full resources of FHA and the Department of Housing and Urban Development were thrown into an attempt to explain the purposes and intent of the program to the task force members. Administrative, underwriting, and technical problems were discussed, but the main thrust of the training was the explanation of the intent of the program.

By the middle of December, the task force was deemed ready to begin operations. Its members were dispersed across the country to explain to the field officers the meaning and intent of the program, and to demonstrate the methods by which the Department intended to demonstrate to the Congress the desire and need for the program. Each task force member was assigned an area of the country. From that

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[1] 12 U.S.C. § 1701s (Supp. II, 1965-66). *See generally* Welfeld, *Rent Supplements and the Subsidy Dilemma*, in this symposium, p. 465-81.

area, he was to bring back expressions of opinion and judgments secured from the field.

In late December the task force again gathered in Washington to review the results of the trip and to study the problems foreseen by the directors and chief underwriters in the field offices. After analyzing the results of this study, the task force returned to the field during January 1966 to obtain from the field offices expressions of interest in the application of the program, and to help the directors secure capable sponsors for specific proposals which could be studied.

The results of the second task force journey demonstrated conclusively that a high level of genuine interest had been aroused by the passage of the rent supplement program. Church groups all across the country saw in the program an opportunity to serve a lower income level than they had ever before been able to reach. The FHA office was flooded with inquiries from sponsors who were interested in building rental units. The task force was then asked to help evaluate the proposals within the framework being considered by the FHA.

Early in the spring, a select group of experts was brought to Washington to review the tentative rules and to judge the chances of success in various parts of the country. This one-week meeting led to the conviction that the program could be placed in operation within the FHA framework and could be meshed with the other work of the field staff.

By early May, a handbook for the operation of the program had been written,[2] a tentative modus operandi had been established, and the Washington headquarters was ready to discuss the program in depth. The directors and chief underwriters of all field offices were brought to Washington for a one-week briefing on the prospective operation of the program. During the course of this meeting, Congress appropriated $12 million in rent supplement funds for the current fiscal year.[3]

The adjournment of this meeting put the program into operation. The FHA was now ready to accept applications for rent supplement projects. In less than eight months, a major new housing program had been thought out and placed into operation. By June 30, 1966, the $12 million dollar appropriation (except for a reserve account) had been spoken for. The first rent supplement contract was signed in September for a rehabilitation project in the Hough section of Cleveland, Ohio.

By late October, the task force was shaken down into an operating section of the multifamily operation of the FHA.

II

OPERATION OF THE RENT SUPPLEMENT PROGRAM

In order to rush the rent supplement program from its initial conception to full operation within one year, a number of problems had to be overcome. The in-

[2] U.S. FEDERAL HOUSING ADMINISTRATION, DEP'T OF HOUSING AND URBAN DEVELOPMENT, RENT SUPPLEMENT PROGRAM PUBLIC INFORMATION GUIDE AND INSTRUCTION HANDBOOK (1966).

[3] Act of May 13, 1966, Pub. L. No. 89-426, 80 Stat. 141.

herent nature of the program signalled a new approach to the housing problems of the poor. Private enterprise was to be given a chance to see what it could do, in partnership with the government, in attacking slums and poor quality housing. The social intent of charitable and other nonprofit institutions would be put to the test.

The idea of re-housing the poor through payment by the government of a portion of the rent on privately-built dwelling units required a new look at the problem of economic feasibility. For the first time, an apartment house owner could have a major portion of his rent roll guaranteed. The risk factor in mortgage insurability is entirely changed by this one fact. So long as a supplemented tenant remains in a dwelling unit, his supplement will be paid. The establishment of an upper supplement limit (set at seventy per cent of the gross rent) meant in effect that the FHA would collect a mortgage insurance premium on a mortgage against which it might be making as much as seventy per cent of the payments. Under such circumstances, it was difficult to believe that the FHA could lose. Even so, some of the top technical experts in the agency remained convinced that the program was basically unworkable. Two of the major officials retired rather than face the overthrow of the standards of risk evaluation used for other programs.

The relation of the social concept to the degree of mortgage risk revealed to the agency its deepset distrust of people who could not "pay the freight." It required of agency personnel a re-examination of their own training and judgment. Nothing in the FHA experience had prepared its technical staff for firm judgments on site selection in slum areas. Its previous management experience had been with the middle class; it had few standards of its own to use in facing the new management problems inherent in this program. In previous multifamily projects the agency's work had involved definite criteria based on the mores and living habits of an income group far above that to be served with rent supplements. Even with the section 221(d)(3) below-market interest rate program,[4] the social group served accepted much the same standards and could, for the most part, be handled on the same basis. The selection of FHA as the operating agency caused its members a great amount of honest soul-searching, as the responsible field officers attempted to understand the driving principles of housing poor people.

One positive benefit of the selection of FHA as the operating arm was that its primary interest lay in the economics of making such an idea a working reality. The agency was not frozen into an established pattern of acceptance of local mores, nor was it inclined to make moral judgments on tenant acceptability. Once it was made pellucidly clear that the FHA was not to pass judgment on the theory, but was instead to put the theory into successful practice, the field officers went to work on that task.

A danger seen from the beginning was that the program could very easily lead

[4] 12 U.S.C. § 1715*l*(d)(3) (Supp. II, 1965-66).

to the creation of new, modern ghettos. As a first, practical step in forestalling this problem, the FHA limited the size of any one project to 200 units. Although arbitrary, and recognized as such, the informal limitation was effective in that it made clear the intent to avoid ghettoizing the populace. The danger will exist throughout the life of this or any other similar program.

One of the purposes of the program was to achieve a measure of economic integration. Suburban structuring has proceeded to such a point that it is possible for a developer to know before he starts work the exact income level which will be attracted to his subdivision. Conversely, in low-income groups, the concentration of economic failure has reached formidable proportions. Human nature seems to be such that failure reinforces failure. If the rent supplement program could be used to expose low-income families to moderate-income families, with another set of standards, perhaps a beginning could be made toward de-structurizing that portion of society.

The intent of Congress was expressed on this point through a "modest design" requirement.[5] Individual congressmen may have felt that a modest design standard was essential to keep the program within the client group for which it was intended. The practical result of the criterion was to negate, at least in the beginning, any actual attempt at vertical economic integration. One standard squeezed out of Secretary Weaver was that no dwelling unit could contain more than one bathroom. For a three-or-more bedroom apartment, this starts out as an undesirable unit. Air-conditioning was forbidden, although any unit built in certain sections of the United States without it is automatically substandard. The mortgage term that will be used for the majority of the projects will be forty years. If any serious attempt is made during that period to remove poverty as an important factor in American economics, such apartments will become substandard and virtually unrentable. Rather than an attempt to keep costs within bounds, these requirements were moral standards which said in effect that rent supplement units should be second-class units.

For the technical sections, the establishment of cost limits and upper rent limits was a nightmare. Every conceivable method of arriving at a useable set of cost limits was tried and discarded. Upper rent limits were set at $85 per month for an efficiency, $105 per month for a one-bedroom unit, $120 per month for a two-bedroom unit, and $140 per month for a unit containing three or more bedrooms. In high cost areas, these limits could be exceeded by up to twenty-five per cent. A pragmatic upper limit of $175 per month for a three-or-more bedroom unit, including all utilities except telephone, was thus created. This limit immediately removed the possibility of large-scale new construction in New York City, Chicago, and other major urban centers. New units simply cannot be produced in quantity in such areas at these rent levels.

[5] U.S. FEDERAL HOUSING ADMINISTRATION, *supra* note 2, at 2.

Since the congressional delegations from the large metropolitan areas were a major source of support, the FHA was forced into a ruling that the funds allocated for use in conjunction with the below-market interest rate (five per cent of the total appropriations) could be used only in those areas in which no rent supplement project could be built without the three per cent interest rate. Most attempts to use the joint programs for experiments in economic integration were thereby shut off. Since rehabilitation projects are still feasible at a market interest rate in most of the metropolitan areas, the effort in those cities had to be switched from new construction to rehabilitation.

To those who were directly concerned with the implementation of the program, the establishment of these rent levels made it clear that the program was to be used mainly in medium-sized and smaller cities and towns where costs could be expected to be lower. This is, indeed, what has happened.

The emphasis on participation in the program by nonprofit sponsors revised another early concept. Historically, builders and developers managing rental units have tried, understandably, to skim the cream off the market by accepting as tenants only those families which could reasonably be expected to remain economically stable and which should be relatively trouble-free. The imperative of a church group entering this program is entirely different. Such a group is primarily trying to serve those who are purposely kept out of normal projects. Such families generally have less stable incomes, fewer work options and hence longer periods of unemployment, and are trouble-prone. These factors showed up at once as an increase in the anticipated rent supplement requirement per unit. Originally, the projected average supplement was estimated at $600 per year per unit. The eager participation of the nonprofit sector forced this amount to an average of $1,000 per unit per year almost at once. This, of course, meant that fewer units could be produced under a given appropriation than had been projected. It also meant that the program was to be used by at least some of its sponsors for a genuinely low income group. The relationship between a tenant's income and the amount of supplement payment is shown in table 1.

Nothing has yet appeared in the operation of the program that has caused as much difficulty as the projected management problems of these projects. Estimates of the probable cost of managing a rent supplement project vary so widely as to be ridiculous. Judgments about tenant relations as a management problem have actually kept some sponsors out of the program. The FHA's experience has been with the landlord class; in many cases it has seemed to adopt the landlord's attitude toward low-income tenants. It is extraordinarily difficult to convince a property management officer (who is fully aware of his troubles with middle-income tenants) that a rent supplement tenant could under any circumstances be anything but a problem. A guidebook to effective management has been prepared by the FHA and distributed

TABLE I
TENANT INCOME AND SUPPLEMENT PAYMENTS

Gross Rent	0-Bedroom $85		1-Bedroom $105		2-Bedroom $120		3-or-more Bedroom $140	
Tenant Income	Tenant Rent	Supplement	Tenant Rent	Supplement	Tenant Rent	Supplement	Tenant Rent	Supplement
$1200	25	60						
1300	27	58						
1400	29	56						
1500	31	54	31	74				
1600	33	52	33	72				
1700	35	50	35	70				
1800	38	47	38	67	38	82		
1900	40	45	40	65	40	80		
2000	42	43	42	63	42	78	42	98
2100	44	41	44	61	44	76	44	96
2200	46	39	46	59	46	74	46	94
2300	48	37	48	57	48	72	48	92
2400	50	35	50	55	50	70	50	90
2500	52	33	52	53	52	68	52	88
2600	54	31	54	51	54	66	54	86
2700	56	29	56	49	56	64	56	84
2800	58	27	58	47	58	62	58	82
2900	60	25	60	45	60	60	60	80
3000	63	22	63	42	63	57	63	77
3100	65	20	65	40	65	55	65	75
3200	67	18	67	38	67	53	67	73
3300	69	16	69	36	69	51	69	71
3400	71	14	71	34	71	49	71	69
3500	73	12	73	32	73	47	73	67
3600	75	10	75	30	75	45	75	65
3700	77	8	77	28	77	43	77	63
3800			79	26	79	41	79	61
3900			81	24	81	39	81	59
4000			83	22	83	37	83	57
4100			85	20	85	35	85	55
4200			88	17	88	32	88	52
4300			90	15	90	30	90	50
4400			92	13	92	28	92	48
4500			94	11	94	26	94	46
4600					96	24	96	44
4700					98	22	98	42
4800					100	20	100	40
4900					102	18	102	38
5000					104	16	104	36
5100					106	14	106	34
5200					108	12	108	32
5300							110	30
5400							113	27
5500							115	25
5600							117	23
5700							119	21
5800							121	19
5900							123	17
6000							125	15

to its offices,[6] but it is likely that only experience will teach the sponsors, the owners, and the FHA the proper blend of supportive services and hard-nosed management

[6] U.S. FEDERAL HOUSING ADMINISTRATION, DEP'T OF HOUSING AND URBAN DEVELOPMENT, RENT SUPPLEMENT PROGRAM PROJECT MANAGEMENT OUTLINE (1967).

practices. The efforts of one organization are illustrated in the appendix that follows this article.

CONCLUSION

Within the next few years, enough projects will be finished so that a pattern may be established. Some facets of the program need revision, but in many parts of the country rent supplements seem a promising answer to low-income housing problems. It is beyond doubt the most widely misunderstood housing program ever put into effect. Its greatest usefulness at this moment is in the southeast and southern middle western regions; yet this is the area of most determined congressional opposition to the concept. In North Carolina, for example, a statewide Low Income Housing Development Corporation has been established by the North Carolina Fund.[7] It is using the rent supplement program under nonprofit sponsorship as its major instrument, and is finding that the tool fits the job; yet the North Carolina congressional delegation votes as a bloc to kill the program.

As experience with the rent supplement program grows—and it must grow, since the appropriations already made commit the government to support of the existing program for up to forty years—and misunderstandings about its purposes and methods lessen, it is likely to become the keystone of the effort to re-house the poor.

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APPENDIX

I

MANAGEMENT PLAN FOR RALEIGH INTER-CHURCH HOUSING, INC.

1. *Professional management.* RICH will hire, for day-to-day management of the project, a competent, experienced real estate firm.
2. *Resident manager.* RICH will include in its project at least one rental unit which shall be reserved for a resident manager.
3. *Property maintenance.* RICH will form, within the sponsoring group itself, a property maintenance committee. This committee shall be responsible to the sponsor for the upkeep and appearance of the project.
4. *Tenant selection.* RICH will form, within the sponsoring group itself, a tenant selection committee. This committee shall be responsible for the determination of tenant selection, in accordance with the requirements of the FHA and the policies of the sponsoring group. It shall make, or cause to be made, an investigation of the income, assets, family size and composition, of each prospective tenant. It shall make a determination for the sponsor of the required amount

[7] The corporation is now completely independent.

of supplement for each tenant, and shall furnish to the management firm a completed application form for each tenant.

5. *Social support and assistance.* RICH will form, within the sponsoring group, a committee (which shall include representatives from all churches involved) which shall be responsible for making available to the tenants and to the project any and all socially supportive services needed or desired to assist the tenants. The information secured by the tenant selection committee shall be made available to the tenant assistance committee.
6. *Financial management.* RICH will form, within the sponsoring group, a financial committee which shall be responsible to all concerned for the management of residual receipts, replacement reserves, maintenance and decorating reserves; mortgage management; rent supplement funds computations and management; loans and grants.
7. *Tenant advisory committee.* RICH shall form a tenant advisory committee, which shall be responsible for giving the tenants financial and credit advice, job opportunity information, and other information and advice.
8. *Steering committee.* The chairman of each of the above committees shall also serve as a member of a steering committee which shall coordinate implementation of the policies of the board of directors, and which shall recommend policies and policy changes to the board of directors. This committee shall contain representatives of the tenants.
9. *Open occupancy.* No policy determination may be made by RICH or any of its constituent bodies or agents which contravenes the occupancy policies of FHA.
10. *Tenant privacy.* RICH will prohibit its members, constituent bodies, and agents from making public, inside or outside the project, the financial situation or supplement requirements of any tenant.

II

ORGANIZATION OF RALEIGH INTER-CHURCH HOUSING, INC.