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REPORT TO THE CONGRESS

Opportunities To Improve Effectiveness And Reduce Costs Of Rental Assistance Housing Program

B-171630

Department of Housing and Urban Development

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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JAN. 10, 1973

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This is our report on opportunities to improve effectiveness and reduce costs of the rental assistance housing program of the Department of Housing and Urban Development

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U S C 53), and the Accounting and Auditing Act of 1950 (31 U S C 67)

Copies of this report are being sent to the Director, Office of Management and Budget, the Secretary of Housing and Urban Development, and the Secretary of the Treasury

Elmer B. Staats

Comptroller General
of the United States

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ABBREVIATIONS

GAO	General Accounting Office
HUD	Department of Housing and Urban Development
OMB	Office of Management and Budget
SMSA	standard metropolitan statistical area

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

OPPORTUNITIES TO IMPROVE EFFECTIVENESS AND REDUCE COSTS OF RENTAL ASSISTANCE HOUSING PROGRAM
Department of Housing and Urban Development B-171630

D I G E S T

WHY THE REVIEW WAS MADE

Because Federal funds involved could range from $19.6 billion to $49.2 billion and because there were indications of problems in administering the program, the General Accounting Office (GAO) reviewed the Federal program to increase rental housing units for low- and moderate-income families to determine whether the Department of Housing and Urban Development (HUD) could improve its effectiveness and reduce costs

Background

The need for adequate housing for low- and moderate-income families is one of the major issues facing the Nation To increase rental housing available to such families, section 236 of the National Housing Act authorized a mortgage insurance program in 1968. The program goal is to provide 1 3 million housing units by 1978.

Under the program HUD pays the mortgage insurance premiums and part of the mortgage loan interest costs HUD financial assistance, called interest reduction payments, makes lower rents to tenants possible HUD's section 235 homeownership assistance program was the subject of a previous GAO report to the Congress in December 1972

FINDINGS AND CONCLUSIONS

Allocation of program resources

In allocating program resources, HUD did not insure that all eligible families had the same opportunity to participate in the rental assistance program regardless of where they lived.

The need for subsidized housing had not been identified adequately and was not used as the primary basis for allocating limited resources A major factor in allocating resources was an area's capability to produce housing.

HUD headquarters' estimates and the field offices' estimates of the need for subsidized housing differed greatly, and the differences were not reconciled to arrive at reliable data. (See pp. 9 and 10.)

HUD field offices did not receive adequate guidance from headquarters on the allocation of subsidized housing, they approved projects on a first-come, first-served basis. (See pp. 12 to 14.)

Land appraisals

HUD did not adequately consider purchase or option price data in its land appraisals However, in April 1972, HUD issued revised guidelines

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which, if properly followed, should improve the appraisals (See pp 17 to 21.)

Method of financing

HUD could save about $1.2 billion in rental assistance program costs if mortgage loans were financed through direct Government borrowings, rather than through private lenders, because of the lower interest rate at which the Government could borrow (See pp. 22 to 25.)

Incentives to investors

Incentives, such as low capital investment and income tax shelters, are structured primarily to attract profit-motivated organizations to invest in construction and initial management of projects and may not be sufficient to insure high-quality management services over the life of the projects. Tax shelters, in particular, generally expire within the first 10 years of project ownership and are available to project owners regardless of how well or how poorly they manage projects. (See pp 28 to 34.)

Other program observations

GAO generally found the quality of housing units inspected to be good (See p. 36.)

HUD did not have adequate data to make a comprehensive analysis of estimated operation and maintenance costs of proposed housing projects This increased the possibility of its approving projects with rents which were too high for low- and moderate-income families (See p 37.)

During the development stage of housing projects, the Dallas field office allowed amounts for legal and organizational fees that were higher than those suggested by HUD guidelines. For 16 projects over $200,000 in mortgage loan proceeds was paid out because of the higher legal and organizational fees allowed. (See p. 37.)

HUD has begun to improve project owners' compliance with its guidelines for establishing and collecting rents and assigning families to housing units. (See pp. 39 and 40.)

The rate of loan defaults is increasing. (See p. 41.)

RECOMMENDATIONS OR SUGGESTIONS

HUD should.

--Insure that rental assistance program resources are allocated primarily in proportion to needs GAO previously made a similar recommendation on allocating program resources for HUD's homeownership assistance program for low- and moderate-income families. (See p. 15.)

--Monitor field offices' land valuation practices to insure that HUD's revised land appraisal guidelines are being properly followed. (See p. 21.)

HUD and the Department of the Treasury should jointly study the adequacy of the project ownership incentives in promoting good project management and, if necessary, should take appropriate action to restructure the incentives (See p. 35.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

Allocation of program resources

HUD stated that it does not initiate housing production and does not attempt to force housing in any area but has been informing industry and communities of the benefits of the program and has considered a more intensive effort to stimulate production where most appropriate If subsidized housing is to be fairly distributed throughout the Nation, HUD must identify the true needs for subsidized housing and must allocate resources primarily according to the needs (See p 15.)

Land appraisals

HUD agreed that field office compliance with appraisal guidelines needs to be monitored (See p 21.)

Method of financing

HUD, Treasury, and the Office of Management and Budget agreed that the cost of direct Government financing would be lower than financing through private lenders They said, however, that factors other than cost must be considered, and they made certain observations regarding present and alternative methods of financing (See pp 25 and 26.)

Incentives to investors

Treasury questioned whether existing tax shelters encourage investors to sell projects after the shelters expire or to neglect project repair and maintenance. HUD believes new incentives, rather than a change to existing incentives, are needed to encourage project retention and good management and plans to explore this in depth (See p 34)

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress should consider legislation which would permit the rental assistance housing program to be financed by the Government, rather than by private lenders, because of the possible savings in interest costs GAO previously made similar recommendations to the Congress on the financing of HUD's homeownership assistance program and the Department of Agriculture's rural housing program. (See p 27)

CHAPTER 1

INTRODUCTION

The Housing and Urban Development Act of 1968 (42 U.S.C. 1441a) reaffirmed the national goal set forth in the Housing Act of 1949 (42 U.S C. 1441) of a decent home and a suitable living environment for every American family and established a national goal of constructing or rehabilitating 26 million housing units by 1978--6 million of which are to be provided for low- and moderate-income families with some form of Federal assistance.

Section 236, which was added to the National Housing Act (12 U.S.C. 1715z-1) by section 201 of the Housing and Urban Development Act of 1968, authorized a program under which a portion of the 6 million housing units would be provided to low- and moderate-income families. Under section 236 the Department of Housing and Urban Development (HUD) is authorized to insure privately financed mortgage loans for constructing or rehabilitating multifamily housing projects and to pay, on behalf of the mortgagors, the mortgage insurance premiums and the interest on the mortgage loans in excess of 1 percent. Because HUD makes these payments--called interest reduction payments--a basic monthly rent for each housing unit is established at a rate lower than would apply if the project received no Federal assistance.

Section 236 provides that a tenant pay either the basic rent or 25 percent of his monthly income, whichever is greater, and that a tenant's rent payment not exceed the rent which would apply without Federal assistance. Mortgagors must turn over to HUD rent payments in excess of the basic rent charges to help HUD provide future program assistance.

HOUSING GOALS AND ACCOMPLISHMENTS

The Housing and Urban Development Act of 1968 required the President to set housing unit production goals for each of the major housing programs for the 10-year period June 30, 1968, to June 30, 1978, and to report to the Congress each year on the results achieved. Following are the 10-year

goals and related accomplishments for the section 236 program as report by the President.[1]

Fiscal year	Goals	Accomplishments
	(thousands of units)	
1969	1	1
1970	17	51
1971	77	107
1972	159	147[a]
1973	165	
1974	175	
1975	175	
1976	175	
1977	175	
1978	172	
Total	1,291	

[a]Estimated.

As of June 30, 1972, HUD had insured mortgage loans totaling about $4.5 billion for 2,509 section 236 projects containing 277,502 housing units.

INTEREST REDUCTION PAYMENTS

As of June 30, 1972, the Congress had given HUD authority to make interest reduction payments of $525 million a year. HUD's total payments through June 1972 were about $102.3 million.

HUD estimates that the $525 million annual authority received through June 1972 is sufficient to subsidize 551,500 units and that interest reduction payments might be made on these units for periods ranging from 20 years to

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[1]The goals are in the "President's Second Annual Report on National Housing Goals," dated April 1970. The accomplishments are in the "Fourth Annual Report on National Housing Goals," dated June 1972.

40 years--the term of mortgage loans--at a total cost ranging from $8.4 billion to $21 billion. Using HUD's interest reduction payment estimates for the 551,500 units, we estimated that the total interest reduction payments on the 1,291,000 housing units planned to be constructed or rehabilitated under the section 236 program during the 10-year period ending 1978 might range from $19.6 billion to $49.2 billion. In December 1972 HUD advised us that its most recent preliminary evaluation of this cost estimate sets the long-term cost at about $26 billion. However, HUD conceded that the long-term cost might be higher than projected.

ELIGIBLE TENANTS

The authorized financial assistance under section 236 was intended to provide rental housing to families with incomes too high to qualify for public housing but too low to buy standard housing available on the market. To be eligible for admission to a section 236 project, families generally cannot have incomes greater than 135 percent of the limits prescribed for admission to local public housing. If a project cannot be filled by families whose incomes fall within the eligible income limits, families with higher incomes which are able to pay the full market rents may be admitted.

ELIGIBLE MORTGAGORS

To be eligible for HUD mortgage insurance, a project owner may be a nonprofit, cooperative, or profit-motivated corporation or entity. A profit-motivated owner is limited in the distribution of income and may receive an annual return equal to 6 percent of its investment in a project.

PROGRAM ADMINISTRATION

The Assistant Secretary for Housing Production and Mortgage Credit is responsible for developing and promulgating policies, standards, and procedures and for executing them in the field offices with respect to the allocation of contract authorizations for interest reduction payments, approval of projects for mortgage insurance and interest reduction payments, supervision of construction and rehabilitation, and approval of mortgage loans subject to HUD mortgage insurance. The Assistant Secretary for Housing Management is responsible for developing and promulgating policies, standards, and procedures and for executing them in the field offices with respect to the management of housing projects having mortgage loans insured pursuant to section 236 and the management and disposition of projects acquired as a result of loan defaults.

The regional administrators in each of HUD's 10 regions are responsible for the program in their respective regions, and area and insuring offices within the regions carry on the day-to-day administration.

To identify real or potential problems in the administration and operation of the section 236 program, HUD made two major internal program reviews. A central office task force team made the first review between May and July 1971 and issued a report in August 1971. The HUD Office of Audit made the second review between July and December 1971 and issued a report in January 1972. HUD has acted on the findings and recommendations of the two reviews.

Because of the magnitude of Federal funds involved and indications of problems in program administration, we reviewed major aspects of the section 236 program to determine whether opportunities exist for HUD to improve program effectiveness and reduce costs.

HUD's section 235 homeownership program, a sister program of section 236, and the Department of Agriculture's rural housing program were the subjects of a report to the Congress entitled "Opportunities to Improve Effectiveness and Reduce Costs of Homeownership Assistance Programs" (B-171630, Dec. 29, 1972).

CHAPTER 2

NEED TO IMPROVE ALLOCATION OF PROGRAM RESOURCES

HUD did not allocate program resources[1] to reasonably insure that eligible families had an equal opportunity to participate in the section 236 rental assistance program regardless of where they lived. For a fairer distribution of its limited program resources, HUD should better identify the housing needs of low- and moderate-income families and should distribute program resources primarily in proportion to such needs.

HOUSING NEEDS NOT ADEQUATELY IDENTIFIED

HUD headquarters and field offices estimated housing needs for low- and moderate-income families; however, these estimates differed greatly and HUD did not reconcile them to arrive at reasonably reliable data.

Estimates of needs

To estimate the subsidized housing needs for each standard metropolitan statistical area (SMSA)[2] and for each county with an urban center having a population of 8,000 or more, HUD headquarters updated 1960 census data on households and conditions of housing to show intervening construction, demolition, housing deterioration, growth in number of households, aging of population, and changes in family income levels and distributions. HUD annualized the total need estimates to show that portion of an area's needed units which, if provided, could be occupied during a 1-year period.

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[1] HUD program resources are authorizations to the field offices to enter into contracts with lenders for the payments of subsidies.

[2] An SMSA is generally defined as a county or group of contiguous counties which contain at least one city of 50,000 inhabitants or more, or twin cities with a combined population of at least 50,000.

Field office need estimates were to show the maximum number of subsidized housing units which could be sold in an area during a 1-year period. Field office personnel were allowed little time to prepare the estimates, and they told us that their estimates were nothing more than educated guesses.

Rather than reconcile the differences between HUD headquarters' estimates and the field offices' estimates, HUD used an average of both estimates in its allocation formula. For example, headquarters estimated that one field office needed about 6,600 units, whereas that field office estimated only about 2,000 units. Although the headquarters' estimate was over three times that of the field office, HUD used an average of 4,300 to determine how program resources would be allocated in fiscal year 1971.

NATIONAL ALLOCATION OF PROGRAM RESOURCES

A major factor in determining where HUD resources were to be allocated was an area's capability to produce housing. As a result, not all areas of the Nation participated in the program in proportion to their indicated needs.

Because HUD's homeownership program, authorized by section 235 of the National Housing Act, serves the same income group as the section 236 program, HUD developed one combined estimate of housing needs to be met by both programs. In our report on the homeownership programs administered by the Department of Agriculture and HUD, we compared the actual distribution of sections 235 and 236 housing units to individual States from program inception (August 1968) to December 1971 with HUD headquarters' estimates of housing needs which HUD officials advised us were the best approximation of nationwide needs.

Our comparison showed that several States had received far fewer housing units than their share as indicated by estimated housing needs. This was especially true for the Northeastern States. About 11 percent of the housing units provided through December 1971 were in the Northeastern States, which would have received about 32 percent of the housing units had they been allocated on the basis of HUD need estimates.

HUD allocated section 236 program resources to its 77 field offices primarily on the basis of a formula which considered production capacities and estimated needs for subsidized housing in the area served by the field office. The allocation formula used prior to March 1971 emphasized production capacities rather than estimated needs; therefore, areas most active in producing subsidized housing received a greater proportion of the available program resources.

HUD recognizes that need is an important factor in allocating limited program resources and has increased its emphasis on this factor in allocating section 236 program resources. In the March 1971 allocation, HUD gave equal weight to the factors of subsidized housing needs and production capacities. In the fiscal year 1972 allocation, HUD changed the relative weights assigned to these two factors to 60 percent and 40 percent, respectively.

LOCAL ALLOCATION OF PROGRAM RESOURCES

A basic problem encountered by HUD field offices was inadequate guidance by headquarters on the procedures and policies for allocating program resources. The field offices included in our review authorized the construction or rehabilitation of subsidized housing primarily on a first-come, first-served basis and did not attempt to insure that each housing market area received a reasonably fair share of the section 236 housing.

From program inception, authority to approve section 236 housing projects was delegated to the HUD field offices. HUD instructions provided that some of the factors to be evaluated in deciding whether to approve specific projects were locations, time required for completion, estimated costs, and various social factors. The evaluation factors were modified somewhat in 1969 and again in 1971 to emphasize the geographic dispersion of subsidized projects and to implement the President's policy for equal opportunities in housing.

Following is our comparison of the sections 235 and 236 housing provided with the estimates of needs for housing market areas under the jurisdiction of HUD's Atlanta, Dallas, and Los Angeles area offices.

HUD field office and housing market area	Housing units produced August 1968 through December 1971 Section 235	Section 236	Total	Percent	Estimate of needs (note a) Units	Percent
Atlanta						
SMSAs						
Atlanta	1,877	2,562	4,439	24 7	5,953	44 o
Albanv	717	42	759	4 2	278	2 1
Augusta	1,441	200	1,641	9 1	801	6 0
Columbus	1,781	104	1,885	10 5	300	2 2
Macon	1,669	528	2,197	12 2	803	6 0
Savannah	528	-	528	2 9	969	7 3
Counties						
Baldwin	41	-	41	' 2	180	1 3
Clarke	265	-	265	1 5	303	2 3
Floyd	22	120	142	8	250	1 9
Hall	27	-	27	2	232	1 7
Lowndes	522	104	626	3 5	234	1 8
Thomas	103	-	103	6	201	1 5
126 other counties	4,408	906	5,314	29 6	2,847	21 3
Total	13,401	4,566	17,967	100.0	13,351	100.0
Dallas						
SMSAs						
Dallas	7,731	6,606	14,337	85 5	5,573	61 5
Sherman-Denison	262	248	510	3 0	387	4 2
Tyler	183	372	555	3 3	313	3 4
Waco	39	-	39	2	748	8 3
Counties						
Bell	9	360	369	2 2	587	6 5
Gregg	166	100	266	1 6	273	3 0
Lamar	100	-	100	6	180	2 0
Navarro	7	-	7	-	159	1 8
14 other counties	406	200	606	3 6	838	9 3
Total	8,903	7,886	16,789	100 0	9,058	100.0
Los Angeles						
SMSAs						
Anaheim-Santa Ana-Garden Grove	493	593	1,086	7 9	2,917	8 0
Bakersfield	627	294	921	6 7	1,356	3 7
Los Angeles-Long Beach	1,282	6,040	7 322	53 0	26,082	71 5
Oxnard-Ventura	281	540	821	6 0	839	2 3
San Bernardino-Riverside	2,356	1,047	3,403	24 7	3,558	9 8
Santa Barbara	40	75	115	8	1 104	3 0
County						
San Luis Obispo	-	120	120	9	609	1 7
Total	5,079	8,709	13,788	100.0	36,465	100.0

[a] Represents the needs for sections 235 and 236 units through December 1971 HUD headquarters prepared the estimates

As shown above, the field offices' distribution of sections 235 and 236 housing to individual housing market areas in many instances did not approximate the ratios which the housing needs of the individual market areas bore to the housing needs of the entire areas served by the field offices. HUD officials of the three offices informed us that they generally considered applications for housing projects on a first-come, first-served basis and that they often approved a project on the basis of the project owner's ability to quickly get the project operational.

BEST DOCUMENT AVAILABLE

We noted that HUD field offices did not attempt to stimulate the construction or rehabilitation of housing in market areas where builders were not active, even though the need for subsidized housing in those areas might have been acute. Also, HUD did not develop and maintain adequate statistical data on the number of subsidized housing units being processed and approved in each market area. This lack of information may have contributed to the approval of more housing in certain areas than was indicated as needed.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on our draft report, HUD stated (see app. II) that the allocation system provides maximum fairness among the 77 HUD field offices. HUD stated also that it does not initiate housing production, nor does it believe that housing development should be forced in any area. HUD pointed out that such factors as the availability of builders, willingness of financial institutions to participate in the program, and resistance of local communities to housing for lower income families influence housing production in a given area. HUD pointed out that the ratio of housing provided to housing needs in the central city was higher than the ratio for the suburbs partly because the housing needs of the central cities, at the outset of the program, seemed more urgent than the needs of the suburbs. Also, HUD field offices were located in the central cities and housing developers and others interested in subsidized housing were more active in the central cities. We were told that HUD had been informing industry and communities of the benefits of the section 236 program and was considering a more intensive effort to stimulate production where it is most needed. Efforts to spur production in certain areas is necessary if subsidized housing is to be fairly distributed throughout the Nation. However, to make a fair distribution, HUD must first identify the true needs for subsidized housing and must make every effort to allocate program resources according to the needs.

HUD was of the opinion that its Project Section Criteria System, put into effect in February 1972, would significantly affect locational decisions of the field offices and would help meet the allocation problems we identified. Although the system can be helpful in evaluating such factors as management plans and the environmental impact of proposed individual projects, it is not directed, in our opinion, to the problems of identifying needs and allocating resources.

RECOMMENDATION

We recommend that the Secretary of HUD insure that resources under the section 236 program are allocated primarily in proportion to needs.

In our report on HUD's section 235 program, we made a similar recommendation on the allocation of section 235 program resources.

CHAPTER 3

ACTION TAKEN TO STRENGTHEN LAND APPRAISAL PROCEDURES

Because HUD gave little or no consideration to property owners' purchase or option price data in its land appraisals to establish section 236 mortgage amounts, the mortgage loans might have been larger than they would have been if HUD had adequately considered purchase or option price data. Higher mortgage loans result in higher interest reduction payments by the Government and probably higher rents to project tenants. In April 1972 HUD issued revised guidelines which, if properly implemented, should improve its land appraisals.

HUD LAND APPRAISAL PROCEDURES

In determining the amount of an insured mortgage loan for multifamily housing, such as a section 236 project, HUD estimates the replacement cost of the project, including the fair market value of the improved land. For a profit-motivated project owner, the insured mortgage loan amount generally is limited to 90 percent of a project's estimated replacement cost; for nonprofit owners, the insured mortgage loan amount may equal 100 percent of replacement cost.

At the time of our review, HUD determined the value of a proposed project site by measuring it against comparable sites (usually five) which had been recently sold or offered for sale and which had elements of utility and desirability similar to those of the proposed site. To bring the other sites and their prices into proper perspective with the site being appraised, HUD adjusted the prices of the comparable sites to compensate for differences in locations, recency of sales, zoning classifications, sizes, and off-site improvements.

HUD LAND APPRAISALS

We examined the land valuation assigned to 68 recently completed section 236 projects administered by HUD field offices in Atlanta, Dallas, and Los Angeles. Each of the field offices used the HUD land appraisal procedures and gave little or no consideration to the owners' costs. HUD valued project land above its cost to the owner for 47 of the 68 projects. For 12 of the 47 projects, the HUD valuations ranged from 126 to 333 percent of the owners' costs; HUD had made the valuations within 17 months of the owners' acquisitions of land, as shown below.

HUD field office	Project land: Cost (note a)	Project land: HUD valuation: Amount	Project land: HUD valuation: Percent of cost	Months between purchase or option agreement and HUD valuation
Atlanta	$ 61,400	$157,000	256	3
	22,503	75,000	333	17
	72,502	96,000	132	2
Dallas	149,750[b]	311,500	208	7
	116,320[b]	250,000	215	6
	125,886[b]	235,200	187	4
	116,520[b]	223,700	192	8
	260,020[b]	356,000	137	1
Los Angeles	317,400	415,800	131	17
	158,000	228,600	145	7
	271,407	341,000	126	17
	198,800	251,500	127	11

[a]Includes estimated costs of offsite improvements, demolition, and other related land improvements.

[b]The sponsors of these projects held purchase options at the time of the HUD appraisals.

At the Dallas project, where HUD valued the land at $311,500, an individual had obtained a purchase option in March 1969 to buy it for $143,000 (not including estimated offsite and other costs totaling $6,750) On the same day he offered the land to his father-in-law for $311,500. The

father-in-law submitted an application to HUD for a section 236 project, claiming $311,500 as his purchase price. In June 1969 a HUD appraiser assigned a value of $311,500 to the land (50 cents a square foot) as determined by his analysis of five other land sales. The HUD appraiser did not include in the five land sales an adjacent parcel of land on which another section 236 project was being constructed. About 3 months earlier HUD had valued the adjacent parcel at about 41 cents a square foot (about 20 percent less).

In September 1969 the HUD regional office reviewed the project application and requested the Dallas field office to reanalyze the value of the land because of the substantial difference between the amount allowed in the June 1969 appraisal and the March 1969 option price and because four of the five land sales used in the appraisal were not sufficiently comparable to make a valid comparison. In October 1969 the HUD appraiser reappraised the project land and, using five different land sales, again valued the land at $311,500. The appraiser was of the opinion that the son's offer to sell the land to the father-in-law for $311,500 was representative of the land's fair market value.

In an Atlanta project an individual had an option to buy the land for $72,502, subject to the condition that the seller obtain a zoning reclassification for multifamily use. The rezoning was obtained, and 2 months after the sale, HUD valued the land at $96,000, or 32 percent higher than the buyer's cost.

Because the value HUD places on the land is included in the amount of the mortgage loan, the higher the valuation, the greater are the interest reduction payments and, probably, the rents. For example, we estimated that the difference between HUD's valuation of, and the cost of, land for the 12 projects would result in about $2 million more interest reduction payments over the life of the mortgage loans.

We discussed land appraisal procedures with two realtors in Dallas and with members of the American Institute of Real Estate Appraisers in Los Angeles, who told us that the use of cost data was generally an excellent measure of fair value. Information provided by the institute indicated

that there are three approaches to determining value--cost, discounted value of future income, and comparison with recent sales of comparable properties. The institute advised us that most appraisers use all three approaches as checks against each other and as tests of their own judgments.

In a report issued in January 1972, the HUD Office of Audit stated that HUD estimates of land values made shortly after the project owners had acquired the land generally exceeded the owners' actual costs. The report cited eight examples in which, within 1 year of the owner's purchase, HUD had valued the land from 65 to 195 percent higher than its cost to the owner.

The Office of Audit interviewed officials of four mortgage companies in San Antonio and Oklahoma City regarding conventional practices in valuing land for mortgage loans. The officials said that, if a project owner had acquired land in the past year, the loan value of land generally should be about the same as the purchase price.

REVISED HUD GUIDELINES

On April 12, 1972, HUD headquarters issued revised guidelines to the field offices, which, in part, prescribed new land appraisal procedures. The guidelines pointed out that many land appraisals had been poorly prepared and documented. HUD directed that

- --accurate and timely land sales data be accumulated and maintained;
- --land sales prices, offsite improvement costs, demolition costs, and any costs to make the sites usable be noted;
- --data on three or more comparable sales be obtained and included as part of each appraisal file,
- --comparable sales not be used as the sole basis for determining land values; and
- --HUD appraisals which exceed the sponsors' costs be fully justified in the appraisal files.

We believe that the new guidelines, if properly implemented, should improve HUD's land appraisals and should help insure that reasonable values are given to project land.

RECOMMENDATION

We recommend that the Secretary of HUD monitor the field offices' land valuation practices to insure that HUD's revised land appraisal guidelines are being properly followed.

AGENCY COMMENTS

HUD agreed that field office appraisals needed to be monitored but stated that the appraisals must consider market values or else prudent landowners might use the land for other purposes which recognize its market value. HUD stated also that its appraisal guidelines are based on sound appraisal principles and practices and that, if the guidelines are followed, there should be little possibility of windfall profits on land.

CHAPTER 4

METHOD OF FINANCING

The Government could achieve substantial savings in section 236 program costs if mortgage loans were financed directly by the Government rather than by private lenders. These savings are possible because of the lower annual interest rate at which the Government could borrow, compared with the interest rates available in the private mortgage money market.

We estimated that savings on the section 236 program could amount to about $1.2 billion. The savings possible on the section 235 program and on the section 502 rural housing and certain other loan programs administered by the Farmers Home Administration, Department of Agriculture, were discussed in previous GAO reports.[1] In those reports, we stated that the Congress might wish to amend the legislation governing the programs to enable the section 235 program to be financed by Treasury borrowings rather than by private lenders and to enable the Farmers Home Administration's loan programs to be financed by Treasury borrowings rather than by sales of borrowers' loan notes.

OPPORTUNITY TO REDUCE PROGRAM COSTS

Under the present method of financing the section 236 program, project owners obtain loans for constructing or rehabilitating housing from HUD-approved lending institutions at interest rates established by HUD (7 percent at Dec. 31, 1972). HUD insures the loans and pays, on behalf of project owners, all interest in excess of 1 percent on the loans and the loan insurance premiums.

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[1] Reports to the Congress, entitled "Opportunities to Improve Effectiveness and Reduce Costs of Homeownership Assistance Programs" (B-171630, Dec. 29, 1972) and "Legislation Recommended to Reduce Losses of Two Insured Loan Funds of the Farmers Home Administration" (B-114873, July 20, 1971).

If the subsidized loans made under the section 236 program were financed by Treasury borrowings rather than by private lenders, the Government could take advantage of its ability to borrow funds at lower interest rates than those charged by private lenders. Data compiled by the Federal National Mortgage Association shows that the interest yield on multifamily mortgage loans insured by HUD was 7.62 percent in August 1972. The interest yield on a recent issuance of long-term Treasury bonds ($2.3 billion on Aug. 15, 1972) was 6.5 percent

On the basis of information in the "President's Second Annual Report on National Housing Goals," dated April 1970, we calculated that loans for new and rehabilitated units to be provided under the section 236 program during fiscal years 1973 through 1978 would amount to about $20.1 billion. We estimated that, if these loans were made with Treasury borrowings and if the project owners received assistance payments for an average of 20 years, the present value of savings to the Government would amount to approximately $1.2 billion.[1]

We used the present-value method to estimate savings because we believe this is the most appropriate method of estimating long-range costs. Under the present-value method, the current values of fund flows over a specific period are calculated by using a discount rate. Discounting future costs makes them comparable to present costs, i.e., to the present value of costs We used the 6.5-percent yield on long-term Government bonds sold in August 1972 as the discount rate.

Our estimate considered (1) Federal tax revenues on income to private lenders and to investors in Government securities, (2) costs incurred by the Government under the "tandem plan"--a plan under which the Government National Mortgage Association and the Federal National Mortgage Association provide joint financial assistance in financing

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[1] This estimate was based on the 1.04 million new and rehabilitated units planned to be provided under the section 236 program during fiscal years 1973 through 1978.

section 236 mortgages, and (3) costs of servicing mortgage loans under a Government direct loan program.

We believe that the loan servicers who process and service privately financed section 236 loans could also process and service Government-financed loans and that their fees would be the same for both kinds of loans.

CONCLUSIONS

Section 236 program costs could be substantially reduced if HUD were authorized to make loans to project owners with Treasury borrowings. The savings could be realized without significantly disrupting the relationship between HUD and the lending institutions that currently service section 236 loans.

We recognize that cost is not the only factor to be considered in determining which method of financing is most appropriate for a particular program. However, we believe that the Congress should be made aware of the cost savings that could be realized by an alternative method of financing the program.

AGENCY COMMENTS AND OUR EVALUATION

HUD, Treasury, and the Office of Management and Budget (OMB), although recognizing that Treasury could borrow funds at lower interest rates than available in the private mortgage money market, made certain observations on behalf of the present method of financing. These comments are presented in appendixes II, III, and IV and are summarized below.

HUD

HUD referred to its comments on our recommendation that section 235 mortgage loans be financed by the Government. In those comments HUD suggested that direct Federal financing might cause the interest rate of Treasury borrowings to increase. However, a Treasury official advised us that the increase in Treasury borrowings would not cause any appreciable increase in the interest rate.

HUD stated that the cost of direct Federal financing might equal or exceed the cost incurred under the present method because of the need for refinancing the public debt. Our estimate of savings is based on the assumption that funds would be obtained through long-term Treasury borrowings; therefore, refinancing should not be necessary.

HUD stated that substantial staff increases would be required to process loan applications and to establish and maintain accounting records and reports. Our review indicated that most mortgagees involved in the program would be willing to perform these services for HUD at no increase in cost over that under the present method of financing. In these circumstances, substantial staff increases would not be needed.

HUD commented that direct Federal financing of the program would result in a larger Federal budget and increased cash flows from Treasury. We agree, but this would be true only during the early years because loans, together with interest, would be repaid later. Because of the more favorable interest rates for Treasury borrowings, the direct loan method of financing the section 236 program could reduce the net costs to the Government without increasing rents to lower income families.

Treasury

Treasury stated that its views on Government financing of the section 236 mortgage loans were the same as those expressed in its comments on our recommendation for the section 235 program. In those comments Treasury agreed that the present-value method of calculating potential savings was appropriate. Treasury stated also that enactment of legislation which it proposed in December 1971 and which would create a Federal bank to finance Government loan guarantee programs would substantially achieve the objective of our recommendation. The 92d Congress did not enact this legislation.

OMB

OMB stated that its views were the same as those expressed in its comments on our recommendation for the section 235 program. In those comments OMB, like HUD, commented that direct Federal financing of the section 235 program would require a larger Federal budget. In addition, OMB expressed the view that the Government should not seek a major role as a direct lender when the private economy can perform this function effectively. We believe that this is a policy question to be considered by the Congress.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Because of the potential interest savings, we recommend that the Congress consider legislation which would permit section 236 loans to be financed by the Government rather than by private lenders. We have previously recommended that the Congress consider amending the legislation to require direct Federal financing of the section 235 homeownership program and the section 502 rural housing program.

CHAPTER 5

INCENTIVES TO INVESTORS

HUD's eligibility requirements for ownership of section 236 projects provide that a mortgagor may be a profit-motivated, nonprofit, or cooperative corporation or entity. (See p. 7 .) Profit-motivated organizations own about 60 percent of all section 236 projects.

In addition to the return on equity investment, incentives to profit-motivated organizations to invest in the development and management of section 236 projects include low capital investment, income tax shelters, and opportunities to profit by participating in more than one phase of project development and operation.

The existing incentives are structured primarily to attract profit-motivated organizations to invest in the construction and initial management of projects and may not be sufficient to insure that high-quality management services, which are essential to the success of the program, are provided over the life of the projects. Income tax shelters, in particular, generally expire within the first 10 years of project ownership and are available regardless of how well or how poorly the owners manage the projects.

Most projects have been in operation less than 3 years; therefore, it is too early to assess the long-term impact of the incentives now available to investors. However, because of the importance of good management, we believe HUD and Treasury should make a joint study to determine whether the incentives need to be restructured to give more emphasis to this aspect of the program.

Each incentive is discussed in further detail below, and examples of the tax shelters are included as appendix I.

LOW CAPITAL INVESTMENT

To obtain a HUD-insured section 236 mortgage loan, a profit-motivated owner is required by law to have at least a 10-percent investment in the project. This investment is based on the project's estimated replacement cost.

An owner's cash investment in a project, however, may be substantially less than 10 percent of the project's replacement cost because HUD permits the owner to use the difference between HUD's appraised value and the owner's cost for the land (see ch. 3) and to use certain allowances to meet the investment requirement. For example, if the owner is also the general contractor, HUD permits the owner to use the builder-sponsor profit and risk allowance--an amount equal to 10 percent of the estimated construction cost which is included in the project's replacement cost--to help meet the investment requirement.

INCOME TAX SHELTERS

Incentives to invest in federally subsidized multifamily housing have been provided in the form of tax shelters that may be used to reduce Federal income tax liabilities. Some of the tax shelters include accelerated depreciation, recapture of accelerated depreciation in event of sale, 5-year writeoffs of rehabilitation costs, deferments of taxable gains when they are reinvested in other subsidized housing, and allowance of fair market values rather than depreciated costs as deductible items when housing is donated to qualified charitable organizations.

Accelerated depreciation

The owner of a newly constructed section 236 project is permitted to depreciate the construction cost at an accelerated rate, using either the double-declining balance or the sum-of-the-years-digits method of depreciation. This depreciation expense, combined with other operating costs of the facility, often results in a loss from operations which can be offset against income from other sources and which thereby can reduce tax liabilities. The advantage of accelerated depreciation diminishes rapidly after about the 10th year of project operation. (See app. I.)

Multifamily rental housing is the only type of real estate investment which can use the maximum rate of accelerated depreciation (200 percent of the straight-line rate applied to a declining balance) permitted by the 1969 revisions to the Internal Revenue Code. Commercial and industrial facilities can claim accelerated depreciation at a rate of 150 percent of the straight-line rate applied to a declining balance.

Recapture of excess depreciation in event of sale

Federally subsidized rental housing, such as section 236 housing, receives preferential tax treatment over nonsubsidized rental housing with respect to the recapture of excess depreciation in the event of sale of the property. As a result of the 1969 revisions to the Internal Revenue Code, any excess depreciation which is claimed on new,

unsubsidized rental housing projects is treated as ordinary income (recaptured) instead of capital gains, if the property is sold within 100 months and a gain is realized. If the property is sold after 100 months, the amount of excess depreciation treated as ordinary income is reduced by 1 percent a month, so that property must be held for 16 years and 8 months (200 months) for all of the gain to be treated under the more favorable capital gains tax rates.[1]

All excess depreciation for subsidized rental housing is treated as ordinary income during the first 20 months of project operation, and any residual gain is taxed at capital gains rates. Thereafter, the amount of excess depreciation recaptured as ordinary income is reduced by 1 percent per month, so that all the gain on a sale of property held 10-years is given the more liberal capital gains treatment. This preferred treatment applies only to property built or acquired before 1975.

The tax recapture provisions appear to induce owners to sell after 10 years of project ownership rather than maintain long-term ownership. (See app. I.)

Rehabilitation costs

The 1969 revisions to the Internal Revenue Code provide that rehabilitated housing be given special tax consideration so that the owners of such housing may write off the rehabilitation expense over a 5-year period rather than over the remaining useful life of the project. This special writeoff is available only for rehabilitation expenses incurred before 1975. (See app. I.)

Deferment of taxable gain
through reinvestment

The 1969 revisions to the Internal Revenue Code permit an investor in a subsidized housing project to defer the gain on the sale of the project if he reinvests the proceeds in another subsidized housing project.

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[1] In the event of sale of the property during the first 12 months of operations, all depreciation claimed is subject to recapture as ordinary income.

To qualify for the tax deferment, the investor must reinvest within 1 year from the date of sale of the first project (unless the Internal Revenue Service approves a longer period) and must sell to the tenants of the project, a cooperative, or a qualified nonprofit organization.

Upon sale of the second property, any excess depreciation claimed on both properties can be recaptured as ordinary income (see p. 30); the holding period is based on the combined length of ownership of both properties. For example, if the first project was held 5 years before sale and the second property was also held 5 years, the combined holding period would be 10 years. After 10 years, any gain realized on the sale of subsidized rental housing is subject to the more liberal capital gains tax treatment.

Donation of property to a charitable institution

The owner of a section 236 project can realize a substantial tax benefit by donating the project to a qualified charitable organization. When a project is donated, a deduction equal to the fair market value is allowed. Since real estate often appreciates in value, the deduction may be substantially more than the project's depreciated cost.

The Internal Revenue Code provides that the full fair market value of an appreciated asset may be claimed as a contribution, if the asset would not have been subject to recapture of depreciation had it been sold. Therefore, when an owner holds a section 236 project for at least 120 months, he can donate it to a qualified charitable institution and use its fair market value as a tax deduction. The amount of the deduction must be reduced by any portion of the appreciation which would have been treated as ordinary income if the project had been sold before 120 months.

This and the other tax incentives discussed above can provide substantial tax shelters for investors with large incomes from other sources.

Interest subsidy payments

As noted earlier, the Government pays to mortgagees, on behalf of project owners, interest subsidies to reduce

the projects' operating costs which, in turn, permit lower rent charges for housing units. The subsidy payments are equal to the difference between the monthly payment on the privately financed loan (currently the maximum interest rate is 7 percent and the loan term is 40 years) and a monthly payment on a loan in the same amount and for the same term with interest at a rate of 1 percent.

The interest subsidy is a fixed amount, and the interest portion of the monthly payment on the privately financed loan ranges from about 94 percent of the monthly payments in the first year to less than 4 percent in the 40th year of the loan. Therefore, the interest subsidy payments in the later years of the loan are larger than the actual interest on the subsidized loan, as illustrated below for a loan of $720,800.

	Loan payments		Interest subsidy
	Total	Interest	payments
1st year	$53,751	$50,348	$31,880
10th year	53,751	47,873	31,880
20th year	53,751	40,933	31,880
30th year	53,751	27,992	31,880
40th year	53,751	1,983	31,880

The Internal Revenue Service told us that project owners, in computing their Federal tax liabilities, must include as gross income the full amount of the interest subsidy payments each year and may deduct as expenses the total interest included in the loan payments. Such treatment for tax purposes does not disturb the tax shelters that accrue to owners in early years of projects but does induce project owners to sell the projects when the subsidy payments equal or exceed the interest payments on the loans.

PARTICIPATION IN MORE THAN ONE PHASE OF PROJECT DEVELOPMENT AND OPERATION

The owner of a section 236 project may also profit from participating in the construction and management of a project. In many instances the owner also is the general construction contractor. The owner can have interest in the architecture firm which designs the project and in the firms which subcontract for the general contractor.

Many project owners also own real estate management firms which provide the project with management, custodial, and bookkeeping services.

AGENCY COMMENTS AND OUR EVALUATION

Treasury questioned whether tax shelters encourage investors to sell projects after the shelters expire or to neglect project repair and maintenance. Treasury pointed out that a decision based on minimizing taxes may not maximize after-tax returns and that the sales price of a project depends partly on past repair and maintenance.

HUD stated that the tax incentives, in particular, had greatly influenced the motivation of investors in the program and that some imbalance might exist between the production incentives and long-term retention or management incentives due to the special tax provisions. HUD said that the crucial point is not whether a well-managed project changes ownership but whether sound management continues. However, it stated that the concern with ownership has some validity because owners of projects often manage them. HUD was of the view that developing new incentives which encourage project retention or good management should be stressed, rather than reducing or shifting incentives, such as using the builder-sponsor profit and risk allowance to meet project investment requirements and special tax provisions. HUD stated that it plans to study this in depth.

Although HUD's views merit consideration, we believe Treasury, as well as HUD, should make the study because it would include an evaluation of tax incentives.

RECOMMENDATION

We recommend that the Secretaries of HUD and Treasury jointly study the adequacy of the section 236 project ownership incentives in promoting good management and, if necessary, take action to restructure the incentives to help achieve this goal.

CHAPTER 6

OTHER PROGRAM OBSERVATIONS

QUALITY OF HOUSING

In the four field offices included in our review, we inspected 518 rental units in 40 projects to evaluate the quality of the housing. We also discussed the quality of housing with tenants, owners, and managers. During each inspection a HUD construction engineer or building inspector assisted us.

Generally, the quality of housing was good and most housing defects were minor, such as loose bathroom fixtures, small roof leaks, and loose floor tiles. Only one project, in the New York area, had a defect which the HUD inspector considered more than minor. In that project, the air-conditioning ducts were improperly installed and serious water leakage and drafts in apartments were possible.

Generally the project managers were already aware of the defects noted and, in most cases, were taking or planning corrective actions.

OPERATION AND MAINTENANCE COSTS

The cost to operate and maintain section 236 projects is a major factor in establishing the rental rates. Since the program was designed to serve the needs of a limited-income group, it is essential that operation and maintenance costs be at a level that permits rent charges to be set within the means of that target group. (It has generally been established that low- and moderate-income persons cannot afford to pay more than 25 percent of their incomes for rent.)

Before approving construction of a project, HUD evaluates the estimated costs of operation and maintenance, to determine whether the project can be satisfactorily operated at costs which will permit rents within the means of the proposed tenants. HUD field offices, in making these evaluations, have been instructed to use operation and maintenance costs experienced by other subsidized housing projects.

BEST DOCUMENT AVAILABLE

The HUD field offices generally did not have adequate data available against which to measure proposed costs of a project. Our review of 31 projects in four field offices showed that about 39 percent of these projects had experienced operating costs which exceeded the HUD estimates. Some project owners had requested increases in rents because operation and maintenance costs were higher than expected. In our opinion, the lack of sound data for use in estimating project operating costs increases the possibility of approving projects with rents which are too high for low- and moderate-income families.

The HUD Office of Audit and the HUD central office task force team made the same observations. The Office of Audit found a consistent pattern of underestimation of project operating expenses in 17 of 21 HUD field offices and related the underestimates to outdated and incomplete cost data. The HUD task force noted that unrealistic operating expense estimates had caused several owners to request rent increases soon after the projects became operational.

In April 1972 HUD revised its guidelines for estimating project operating expenses to require that the estimates be documented by including actual costs from at least three similar projects and that significant variances between the estimates for a project and costs experienced on similar projects be explained.

VARIANCES IN FEES ALLOWED FOR LEGAL AND ORGANIZATIONAL EXPENSES

Legal and organizational fees claimed by project owners for attorneys' fees and expenses incurred in planning, financing, and constructing projects and allowed by the HUD Dallas field office for inclusion in project costs were higher than suggested by HUD guidelines.

For 16 profit-motivated projects completed in the Dallas area through September 30, 1971, the total legal and organizational expenses allowed by HUD amounted to $450,800, whereas the fees indicated for these projects by HUD guidelines would have been $247,900, a difference of $202,900. The expenses allowed on the projects ranged from $17,927 to $42,175 and, except when total expenses were limited to a

locally imposed maximum of $27,500, generally amounted to about 1 percent of the mortgage loans.

HUD guidelines state that legal and organizational expenses included as a cost of a project should be typical and necessary costs incurred for projects of the size and kind proposed in the locality in which the project will be built. To help estimate these expenses, the guidelines provide a schedule in which fees are set on a sliding scale ranging from three-fourths of 1 percent for the first $1 million mortgage loan to three-twentieths of 1 percent of the loan in excess of $10 million. The guidelines state that the amounts determined, if substantiated, may be more than those that would be found through a strict application of the schedule. The project files contained no evidence that the expenses allowed were typical of costs incurred in similar projects in the area.

HUD's attorney in Dallas analyzed the legal and organizational expense allowances in the latter part of 1970. The analysis identified the typical tasks involved in providing legal and organizational services for a multifamily project and estimated the amount of time required to perform each task--an average of 16.5 days, with a maximum of 32 days. Using a $250-a-day legal services rate which was derived from HUD's minimum schedule, HUD's attorney estimated that the legal and organizational fees under these circumstances would range from $4,125 to $8,000 a project. HUD's attorney pointed out, however, that lawyers with the expertise to command a higher fee should benefit HUD. For example, he stated that a lawyer with the ability to work closely with mortgagees might be able to obtain lower mortgage discounts for the project owner and that a discount lowered only a fraction of a percent would justify an attorney's higher fee.

The difference between the legal and organizational fees allowed by the Dallas field office and those suggested by HUD guidelines indicates a need for the HUD central office to periodically monitor the field office operations.

HUD stated that the Dallas field office is unusual in the degree to which it departs from the guidelines and that it plans to follow up on this matter.

OWNERS' COMPLIANCE WITH HUD GUIDELINES FOR RENTS, ASSIGNMENT OF FAMILIES TO HOUSING UNITS, AND RENT COLLECTIONS

At selected projects we reviewed project owners' compliance with HUD guidelines for establishing rents, remitting to HUD the rents collected in excess of basic rents, and placing families in housing units according to the family sizes and makeups.

In the Dallas area we examined the tenant records for 175 housing units at 10 projects. Tenants of about 5 percent of the units were being charged about $1,200 less rent per year than they should have been charged on the basis of their reported incomes.

In the Los Angeles area we examined the tenant records for 728 housing units at 10 projects. Tenants of 4 percent of the units were being charged about $4,000 less rent per year than they should have been charged on the basis of their reported incomes. About 5 percent of the 728 units were occupied by smaller sized families than suggested by HUD guidelines.

In the New York area we examined the tenant records for 118 housing units at 10 projects. We found instances of undercharging rents, charging rents in excess of basic rents that were not turned over to HUD, and allowing tenants to occupy units of incorrect size. In addition, the files had no income verifications for 19 tenants and 13 tenants had submitted income data after occupancy. The income verifications for 27 tenants, contrary to instructions, were over 60 days old when the tenants took possession of the housing units. In September 1971 three project owners understated their collection of rents exceeding basic rents by about $726, and one did not report $3,230 in excess rents.

HUD's Office of Audit, in its review at 62 projects, found similar deficiencies.

In commenting on our findings, HUD cited several actions that it had taken since our review to improve project owners' compliance with HUD guidelines. These actions

included (1) initiating preoccupancy conferences with owners to teach them about the tenant eligibility requirements, (2) increasing the monitoring of certification and verification of tenant incomes, (3) increasing staffs of field offices to administer the program, and (4) initiating workshops to familiarize field office personnel with the subsidized housing programs and the need to review and supervise the management of section 236 projects.

We believe that these actions, if properly implemented, should help to improve project owners' compliance with HUD's project management guidelines.

LOAN DEFAULTS

Of the 2,509 section 236 mortgage loans insured by HUD as of June 30, 1972, five had been foreclosed and the mortgaged property conveyed to HUD and 29 had been assigned to HUD because of payment defaults. In addition, 97 insured loans were in default because of delinquent payments. In total, these 131 loans represented about 5.2 percent of the loans.

The following schedule shows the number of insured loans and the number and percentage of loan defaults at the end of each month during fiscal year 1972.

Month	Insured loans	Loan defaults	Percent
July 1971	1,537	44	2.9
August 1971	1,590	49	3 1
September 1971	1,682	44	2.6
October 1971	1,733	47	2.7
November 1971	1,814	56	3.3
December 1971	1,910	60	3.0
January 1972	2,052	76	3.7
February 1972	2,147	86	4.0
March 1972	2,231	96	4.3
April 1972	2,333	108	4.6
May 1972	2,395	113	4.7
June 1972	2,509	131	5.2

Although the percentage of loan defaults at June 30, 1972, is low compared with other HUD multifamily mortgage insurance programs, it may not be indicative of the eventual default rate for section 236 loans because most of the insured loans were relatively new, however, as shown above, the percentage of loan defaults is increasing.

HUD OFFICE OF AUDIT FINDINGS

The HUD Office of Audit disclosed, in addition to the findings noted previously, that.

- --Field offices did not have up-to-date and complete cost data to estimate construction costs of proposed projects.
- --Field offices' reviews of construction and related costs of completed projects were inadequate. Of 52 field offices, 21 were deficient, which resulted in about $625,000 of ineligible or questionable costs.
- --Section 236 program resources, rather than college housing program resources, were used to finance several housing projects intended primarily for college students.
- --Nonprofit organizations should be required to have certain minimum assets and should be able to provide working capital as a condition for acceptance as a project owner.
- --Numerous projects were on sites that were undesirable for housing because of remote locations, surrounding neighborhoods, or topographical conditions.

Corrective actions taken or planned

HUD, in commenting on the Office of Audit findings, stated that it had revised and strengthened its construction cost review guidelines, particularly those for identifying nonallowable costs. HUD stated further that it was preparing instructions which would help to eliminate the overlap between the section 236 and the college housing programs.

CENTRAL OFFICE TASK FORCE FINDINGS

The task force noted, in addition to the findings mentioned earlier, that:

- --Construction cost estimates for proposed projects were poorly documented and usually excessive, and

construction time often was overestimated by 50 to 100 percent.

--Credit analyses of prospective project owners often were incomplete or were not made.

--Reviews of construction and related costs of completed projects were not satisfactory.

--Housing under the sections 235 and 236 programs was approved for construction without regard to the impact it would have on other HUD-subsidized housing in the market area.

--Subsidized projects were often clustered in specific areas, which caused vacancy problems and unfavorable neighborhood distinctions.

These findings were included in a report issued in August 1971. HUD officials told us that, because the Office of Audit's review was underway at that time and because the program areas included in that review were the same areas covered by the task force, HUD had taken no specific actions as a result of the task force report.

CHAPTER 7

SCOPE OF REVIEW

We examined HUD's policies, procedures, and practices in (1) allocating sections 235 and 236 program resources throughout the country, (2) appraising land selected for section 236 projects, and (3) assisting and monitoring the management of projects. We also reviewed the method of financing the program and the various program incentives, to determine whether they were sufficient to bring private capital into the program to meet section 236 objectives.

We made our review at HUD headquarters in Washington, D.C., and at field offices in Atlanta, Dallas, and Los Angeles. In HUD's New York City field office, our review was directed toward HUD's policies, procedures, and practices in assisting and monitoring the management of projects. We interviewed HUD officials, real estate brokers, project owners, and tenants of section 236 projects and examined pertinent legislation, administrative regulations, and records. With assistance from HUD construction engineers and building inspectors from the four field offices, we inspected 518 apartment units in 40 projects for construction quality and project maintenance.

The field offices at which we conducted our review had been authorized at April 28, 1972, to make interest subsidy payments of $88 million a year for section 236 projects and had approved about 69,000 housing units for construction. These interest subsidy authorizations represented 19 percent of the total section 236 authorizations through April 1972.

TAX SHELTERS

A number of tax shelters have been provided by 1969 revisions to the Internal Revenue Code to encourage persons to participate in Federal subsidized housing, such as that provided by the section 236 program.

Examples of the potential advantage of several of the tax shelters are presented in the following sections.

ACCELERATED DEPRECIATION

Since 1969 project owners of newly constructed rental housing have been permitted to depreciate the construction costs of such facilities at an accelerated rate using either the double-declining balance method (200 percent of the straight-line rate applied on a declining balance) or the sum-of-the-years-digits method. In comparison, owners of newly constructed nonresidential commercial buildings, using the double-declining balance method, can depreciate those facilities at 150 percent of the straight-line rate applied on a declining balance.

To understand the tax advantage of using the double-declining balance method of depreciation, assume that a residential structure and a nonresidential commercial structure each has a capitalized construction cost of $1 million, an estimated useful life of 40 years, and an estimated residual value of $200,000. During the first 10 years of operations, the owner of a residential structure will be able to deduct substantially more depreciation under the double-declining balance method than the owner of a commercial structure. An illustration of the two methods follows.

	Residential structure using double-declining balance method		Commercial structure using double-declining balance method	
Year	Depreciation for the year	Cumulative	Depreciation for the year	Cumulative
1	$50,000	$ 50,000	$37,500	$ 37,500
2	47,500	97,500	36,094	73,495
3	45,125	142,625	34,740	108,334
4	42,869	185,494	33,437	141,771
5	40,725	226,219	32,184	173,955
6	38,689	264,908	30,977	204,932
7	36,755	301,663	29,815	234,747
8	34,917	336,580	28,697	263,444
9	33,171	369,751	27,621	291,065
10	31,512	401,263	26,585	317,650

The depreciation for the residential structure exceeds the amount for the commercial structure by about $84,000 in the first 10 years. The current income tax rates for individuals range from 14 percent to 70 percent. Therefore, if a taxpayer had other income against which he could apply any losses from the added depreciation claimed on the residential structure, the added tax shelter, depending on the owner's tax bracket, would be between $11,760 and $58,800 in the first 10 years. Persons with substantial incomes from other sources would be most interested in such a tax shelter as that offered by the section 236 program.

RECAPTURE OF EXCESS DEPRECIATION IN EVENT OF SALE

The most common alternative to accelerated depreciation is straight-line depreciation, in which the owner of property deducts an equal amount each year for a specified number of years The difference between the amount of depreciation calculated under accelerated methods and the straight-line method is called excess depreciation. As noted in chapter 5, excess depreciation may be subject to recapture as ordinary income in the event of sale of property, but the provisions for recapture are less stringent for subsidized housing than for nonsubsidized housing.

To understand the advantage of the recapture provisions for subsidized housing, assume the same residential project previously illustrated (see p. 45) was sold at the end of 10 years. Also, to compute the tax advantage, assume that (1) the cost of land was $100,000 which, when combined with the capitalized construction cost, makes the total project cost $1.1 million, (2) the project sales price at the end of the 10th year is $1.2 million, and (3) the excess depreciation (difference between accelerated and straight-line) is $201,263.

The following schedule shows a corporate entity's tax liability on the sale of a subsidized project and a nonsubsidized project.

		Subsidized	Nonsubsidized
Sales price		$1,200,000	$1,200,000
Net cost:			
Cost	$1,100,000		
Less depreciation	401,263	698,737	698,737
Gain on sale		$ 501,263	$ 501,263
Tax computation (note a):			
Gain on sale		$ 501,263	$ 501,263
Excess depreciation subject to recapture at ordinary rates		-	161,010[b]
Amount subject to capital gains tax rate		$ 501,263	$ 340,253
Capital gains		$ 150,379	$ 102,076
Ordinary		-	77,285
Total tax		$ 150,379	$ 179,361

[a]A corporate tax rate of 48 percent was used because this rate was constant regardless of income, whereas personal rates vary from 14 to 70 percent of ordinary income. The current corporate capital gains rate is 30 percent.

[b]Because the unsubsidized rental housing project was held for 120 months (10 years), the amount of excess depreciation treated as ordinary income is reduced by 1 percent a month in excess of 100 months. In this example, 20 percent of the excess depreciation would be treated as capital gains and 80 percent ($161,010) as ordinary income for tax purposes.

The tax liability for a sale after 10 years of ownership is about $29,000 less for subsidized housing than for nonsubsidized housing. However, if an unsubsidized project is held for 16 years and 8 months (200 months), the recapture

provisions will no longer be in effect and the tax advantage of the subsidized project will expire.

REHABILITATION COSTS

Rehabilitation expenses may generally be depreciated over a 5-year period for a subsidized housing project, whereas such expenses for a nonsubsidized housing project must normally be depreciated over the remaining useful life of the project. Owners of nonsubsidized housing may use accelerated depreciation methods. To understand the tax advantage, assume a section 236 project incurs rehabilitation expenses of $1 million and has a remaining useful life of 20 years. Using corporate tax rates, the added tax benefits to be derived per year for the 5-year period would be as follows:

Year	5-year depreciation of rehabilitation cost	Regular depreciation of rehabilitation costs using double-declining balance method	Difference	Tax advantage (note a)
1	$200,000	$100,000	$100,000	$48,000
2	200,000	90,000	110,000	52,800
3	200,000	81,000	119,000	57,120
4	200,000	72,900	127,100	61,008
5	200,000	65,610	134,390	64,507

[a]Assuming the corporate tax rate of 48 percent.

An owner of rehabilitated subsidized housing will have expended all rehabilitation costs within 5 years, whereas the owner of rehabilitated nonsubsidized housing will continue depreciating the rehabilitation costs at a lesser amount per year for the 20 years of the project's useful life. This would appear to be an incentive for the owner of the subsidized housing to dispose of his property after 5 years since the tax shelter would have expired. However, the Internal Revenue Code provides that, if a rehabilitated project is sold within 16 years and 8 months of the incurrence of rehabilitation expenses, any excess depreciation claimed (the amount by which accelerated depreciation exceeds regular depreciation) may be subject to recapture as

ordinary income. This provides an incentive for owners of rehabilitated projects to retain ownership for more than 5 years.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
FEDERAL HOUSING ADMINISTRATION
WASHINGTON D C 20411

DEC 11 1972

ASSISTANT SECRETARY COMMISSIONER

Mr B E Birkle
Associate Director
United States General
Accounting Office
Washington, D C 20548

Dear Mr Birkle

This is in reply to your letter of September 28, 1972, transmitting for comment copies of your draft report on "Opportunities to Improve Operations and Reduce Costs in the Section 236 Rental Housing Program " We appreciate receiving the constructive recommendations concerning problems identified in the report, which will be helpful to this Department in developing national solutions in several troublesome and complex areas Some observations in the report pertain to inadequacies previously identified by HUD, and on which we have already initiated positive action

Before giving our comments with particular reference to the recommendations in the draft report, I would like to advise that a recent evaluation of Section 236 program costs by HUD, estimates total payments under the program, for the 10-year period ending 1978, at approximately $26 billion Our evaluation is based on 1,291,000 housing units planned for construction or rehabilitation Although our evaluation is in preliminary draft form, and long-term costs may be somewhat higher than projected, it appears that the final figure may be substantially lower than the high of $49 2 billion projected in the GAO report

GAO note Material has been deleted because of changes to final report

[See GAO note, p 50]

The allocation system presently used provides maximum equity among the 77 HUD field offices A composite weighted average, reflecting percentage of individual office participation in nationwide totals for such factors as starts in the preceding year, estimated current year starts, market absorption potenial, and occupancy potential is compared with a separately estimated fair share percentage in determining contract authority allocable to each office

The GAO report correctly points out that contract authority within the jurisdiction of a given field office is not distributed to the various counties, SMSA's, or other areas strictly and solely according to estimated need, however, need, although important, is really only one of a number of important criteria used by HUD offices to evaluate proposed projects under HUD's Project Selection Criteria Included among other significant factors are improved location, relationship to orderly growth and physical environment, and adequacy of proposed management These are factors considered in determining which projects are to receive reservations of contract authority as well as the order in which such projects are to be funded A poor rating in any of the criteria is sufficient for disqualification of the project

The report correctly points out that some communities with market need that could be served by the Section 236 program are not utilizing or not fully utilizing this resource The report also indicates that HUD offices have not attempted to stimulate construction or rehabilitation of housing under Section 236 in such areas

HUD has never taken the position that it can allocate contract authority to each individual area exactly in ratio to the need for housing in that market area in comparison with other areas HUD does not initiate housing production, nor do we believe that the Department should attempt to force housing development in any area We do see merit in efforts to inform industry and communities on the benefits of the Section 236 program, and have been doing this We are considering development of a more intensive effort which might be used to stimulate productivity where it is most appropriate Many conditions influence housing production in a given area. Included are the quality and availability of builders, the willingness of financial institutions to participate, resistance on the part of local communities to the housing of lower income families, lack of permissive zoning, and so on

In support of allocations of contract authority to regional offices, FHA market analyses have long provided the most accurate data available on housing needs This information together with knowledge of regional and local conditions has formed the basis for national allocation decisions

The ratio of Section 236 subsidy funds applied to housing needs in the central city has been higher than the ratio of Section 236 applied to housing needs in the suburbs This tendency has existed in virtually every federal assistance program in recent years Part of the reasons for this are the facts that, at the outset of the 236 program, central city needs seemed more real and more urgent FHA offices were centrally located, and sponsors and activists were formed in well-organized, urbanized areas

HUD does not initiate assisted housing projects and although it must approve sites, it cannot select them Through the "fair share" effort we are expanding the geographical reach of the 236 program This system assigns values to demand, supply, and locational factors in a way which encourages both public agencies and private builders to shift attention from jurisdictions whose needs have been met, or nearly met, to those with greater need

The Project Selection Criteria system, made effective in February 1972, is expected to have a significant effect on locational decisions In support of these criteria, HUD field offices have received instructions prohibiting funding of proposals primarily on a "first come first served" basis (HPMC-FHA 4400 47 dated March 6, 1972) In the end, the Project Selection Criteria will go far to meet the problems on resource allocation identified in the GAO report

BEST DO[illegible]

[See GAO note, p 50]

The GAO report indicates that HUD Land Valuations exceeded the acquisition cost of the land by the sponsor in 47 of 68 Section 236 projects reviewed

The HUD valuation is concerned with Fair Market Value of Land Fully Improved HUD instructions require that the appraiser when estimating the value of the land treat any required off-site improvement, demolition, or unusual land improvement as though the work were already completed

[See GAO note, p 50]

If HUD appraisal instructions, which are based upon sound appraisal principles and practices, are followed there should be little concern for the possibility of windfall profits on the land

We agree with the need to effectively monitor field office practices to insure that outstanding instructions are being followed As to the adequacy of the instructions, whatever shortcomings that have been encountered in land appraisals have, without exception, been due to a faulty appraisal and not to deficiencies in the instructions or procedures Eliminating the possibility of providing at least some part of the equity by a legitimately incurred and documented appreciation of the land cannot be supported HUD must consider the market value of the land, assuming a proper appraisal, otherwise the prudent landowner will pursue the highest and best use of his land in developing it in a way which does recognize true market value

If a developer is astute, and acquires land for his project early and at a favorable price, it would be punitive to consider his acquisition cost and not the higher actual, fair market value when HUD processes the case If such a developer chose to, he could sell his land to another sponsor at fair market value, and HUD then would have to consider market value in processing a new application HUD must consider market value of land in the same way that we consider value of labor and materials

[See GAO note, p 50]

Unquestionably, this is an important area, and HUD has re-evaluated previous monitoring procedures with the following

corrective measures having been taken

1 Circular HM 4381 2, "Management Requirements in Processing Insured Multifamily Housing Projects" has been issued which requires a preoccupancy conference to instruct owners in requirements for subsidized tenant admission and continuing residency In addition, this issuance sets forth the requirement for an on-site HUD team review of tenant recertifications and income verifications

2 Circular HM 4442 22, "Section 236 Program Annual Recertification of Income Eligibility," dated September 26, 1972, prescribes recertification of tenant incomes at least annually in contrast to the previous requirement calling for biennial recertification This directive also requires a review by the HUD field office of 100 percent of the initial certification and at least 15 percent of the recertifications

3 A circular has been issued establishing a variable minimum income limit for initial admission to Section 236 projects Among the purposes of this circular is to increase the percentage of tenants receiving less than maximum subsidy thereby enhancing the economic viability of the projects, and at the same time, increasing the potential number of families in need of assistance that might be served

The recently authorized increase in Field Office staff is expected to provide the manpower needed to implement in depth the directives that have been issued to improve operations and reduce costs in the Section 236 program

In addition to the new requirement for more frequent recertifications, HUD has initiated a series of Rental and Occupancy Workshops in five Regional Office cities during the remainder of the current fiscal year The purpose of these workshops is to familiarize Area and Insuring Office personnel with the requirements of the various subsidized housing programs and to impress upon the field office staff the importance of their reviews and supervision of management in Section 236 and Rent Supplement projects

As a result of these workshops, it is expected that HUD personnel will be better able to monitor the activities of project managers and maintain a closer surveillance of adherence to admission and occupancy standards, rent collections and remittance of excess rents, and unit-size assignments as well as increasing responsibilities for review of income certifications, recertifications and verifications

Recommendation 4 - The GAO report recommends that the Government could achieve sizeable savings in Section 236 program costs if mortgage loans were financed by the Government rather than by private lenders A similar point also was made in your report on the Section 235 program

Whether it is in the public interest for HUD to enter the mortgage banking business is a rather broad and basic question If it is to be pursued further, I assume that the Office of Management and Budget will coordinate recommendations from the Executive Branch

We discussed the matter of direct funding in considerable depth in our response to the GAO report on the Section 235 program, and refer you to that for the Department's further views on the matter

Recommendation 5 - The GAO report contends that incentives provided to profit-motivated entities to invest in Section 236 projects are sufficient to initially attract a substantial number of prospective sponsors but do not appear adequate to encourage long-term ownership of projects

[See GAO note, p. 50]

The various incentives to investment, such as the use of loan proceeds applicable to builder-sponsor profit and risk allowance to meet equity requirements and particularly the provisions for favorable tax treatment, have influenced significantly the motivation of limited-dividend sponsors Some degree of imbalance may exist between production incentives and long-term retention or management incentives due to these special tax provisions, which are apparently attractive enough to offset an otherwise unimpressive yield to the investor limited to 6% There appears to be little tax incentive to continue ownership after the initial 10-year period While it may be desirable to encourage retention of projects by original owners, the essential factor is good management, regardless of ownership HUD exercises substantial control over the selection of project management and its management program Through regulatory agreements, we also influence management decisions to assure successful projects The crucial point is not whether a well-managed project changes ownership after 10 years or at any time, in fact, but whether sound management continues We believe that a project, which has reached its 10th anniversary--one-fourth of the way through the mortgage life--represents one of HUD's best and most successful investments

If it is assumed that ownership and management will in the future continue to share an identity of interest, as they do now to a large extent, the concern with ownership has some validity However, the measures being taken to promote the establishment of an independent, specialized, skilled, and competent housing management industry should lessen such concern In any case, development of retention or management incentives should be stressed, rather than the reduction or shifting of production incentives We plan to look into this possibility in depth

Other GAO Observations

Comments were made by the GAO report on the subjects of inadequate cost certification, outdated data books, inappropriate use of Section 236 funds for college housing, financial weakness of nonprofit sponsors, and approval of undesirable sites

HUD has already responded by revising guidelines intended to strengthen the cost certification process, particularly with regard to nonallowable costs A potential overlap may occur between Section 236 and the college housing program only in those cases where, in the absence of sufficient general market demand, sponsors have included college students in support of applications The new Section 236 Handbook, now in final draft form, eliminates this by requiring that there be a market for the Section 236 project exclusive of student use, although eligible students may not be excluded from tenancy in the projects

The GAO report also observed that fees for legal and organizational expenses were higher in Dallas than those fees suggested by HUD Guidelines This observation is correct Dallas is unusual in the degree to which it departs from the guidelines for legal and organizational fees Pursuant to the HUD decentralization policies, the responsibility in this regard rests with Area Office Directors and Regional Administrators The Department will follow-up on this matter

While determining that the quality of housing produced under Section 236 is generally "good," the GAO report noted that actual operating costs of projects were found to vary rather substantially from estimated costs GAO believes this underestimation to be the result of outdated and incomplete cost data To help correct this problem, HUD issued a guideline (HPMC-FHA 4442 3A, Change 1, April 10, 1972) which requires that estimates be documented by the inclusion of actual costs from at least three similar projects and that significant variances between the estimates for a specific project and cost experience on similar projects be explained We agree that particular attention must be directed to the issue of operating expenses, and that HUD field offices make use of the latest current data to the greatest degree possible

The GAO report is a sound presentation and certain of its observations and comments touch on some of the most troublesome and complex issues of this day Concerning these, HUD is devoting considerable resources and effort The constructive GAO comments are being added to our equations as we move toward meeting national housing goals in the best way possible

Sincerely,

Eugene A Gulledge

OFFICE OF THE SECRETARY OF THE TREASURY
WASHINGTON D C 20220

November 10, 1972

Dear Mr. McAuley:

This is in reply to your letter of October 3, 1972 to Secretary Shultz requesting comments on chapters 5 and 6 of your draft report, "Opportunities to Improve Operations and Reduce Costs in the Section 236 Rental Housing Program -- Department of Housing and Urban Development."

Draft chapter 5 concludes that the costs to the Federal Government under the section 236 rental housing program could be substantially reduced if HUD were authorized to make loans with funds borrowed by the Treasury, rather than the existing method of financing the program by insured loans made by private lenders. The draft chapter recommends that Congress consider amending the legislation pertaining to the section 236 program to require that the mortgage loans be financed by the Government.

The conclusion, recommendation, and technical analysis contained in draft chapter 5 are essentially the same as those in chapter 6 of your earlier draft report on the section 235 homeownership assistance program on which I provided detailed comments in my letter to you of June 7, 1972. As indicated in that letter, we believe that the methods of financing Federally guaranteed and insured obligations in the private market should be subject to overall review and coordination as proposed by the Secretary of the Treasury in the Federal Financing Bank Act.

Keep Freedom in Your Future With U S Savings Bonds

A major conclusion from draft chapter 6 is that the various tax incentives may encourage investors to turnover properties. It is not at all clear that the tax incentives have this effect. Investment analysis suggests that in many cases investors would be better off not selling and possibly mortgaging out.

High turnover is only a problem if it leads to external costs such as neglect of repair and maintenance. The argument that there are such external costs is not fully convincing and has not been documented in the draft report. "Fast buck" operators cannot neglect the potential sale price which in turn depends on past maintenance and repairs.

The draft report seems to imply that the goal of real estate investors is to minimize taxes. For example, the report implies that investors will hold properties until they can get out from under the recapture rules. However, it should be recognized that a decision based on minimizing taxes will not necessarily maximize after-tax returns.

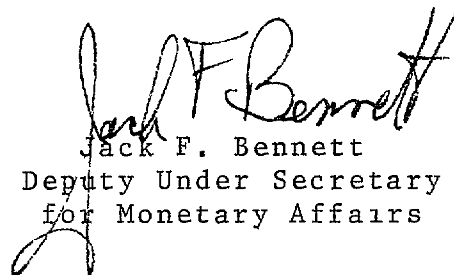
It does seem that there are a number of problems associated with a direct subsidy program which depends on tax incentives to make it go. The supposed advantage of tax incentives that they involve less red tape than direct subsidies surely does not apply here where the tax incentive is coupled to a direct subsidy.

[See GAO note.]

GAO note. Material has been deleted because of changes to final report.

[See GAO note, p. 59]

Sincerely yours,



Jack F. Bennett
Deputy Under Secretary
for Monetary Affairs

Mr. Charles P. McAuley
Assistant Director
U.S. General Accounting
Office
Treasury Annex Building
Washington, D.C. 20548

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D C 20503

NOV 20 1972

Mr. Henry Eschwege
Director, Resources and
Economic Development
General Accounting Office
Washington, D. C. 20548

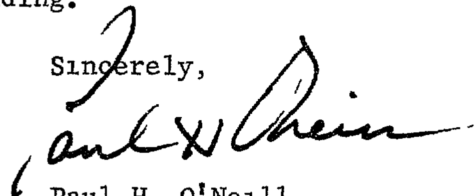
Dear Mr. Eschwege

This is in response to your request of September 29, 1972, for the views of the Office of Management and Budget regarding Chapter 5 of General Accounting Office draft report on Opportunities to Improve Operations and Reduce Costs in the Section 236 Rental Housing Assistance Program. In Chapter 5 GAO discussed its finding that the program cost (interest subsidies) would be reduced if HUD financed the capital costs of the Section 236 program with Treasury borrowings rather than rely on private lenders as is presently required by statute.

The Section 236 proposal is identical to an earlier GAO recommendation to use direct Federal lending for financing housing assisted under the Section 235 Homeownership Assistance Program. Mr. Weinberger advised you of our general opposition to the Section 235 proposal in his letter of August 5, 1972.

The concerns spelled out in our earlier correspondence are fully applicable to the present proposal for Section 236. In summary, the uncertain cost savings of a direct loan program do not justify the Federal takeover of this portion of the housing mortgage market, particularly when this part of the market appears to be adequately served by existing institutions and patterns of lending.

Sincerely,



Paul H. O'Neill
Assistant Director

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT RESPONSIBLE FOR THE ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF HOUSING AND URBAN DEVELOPMENT.		
Robert C. Weaver	Feb. 1961	Dec. 1968
Robert C. Wood	Jan. 1969	Jan 1969
George W. Romney	Jan. 1969	Present
ASSISTANT SECRETARY FOR HOUSING PRODUCTION AND MORTGAGE CREDIT (formerly Assistant Secretary-Commissioner, Federal Housing Administration) (note a):		
Philip N. Brownstein	Mar. 1963	Feb. 1969
William B. Ross (acting)	Feb. 1969	Sept. 1969
Eugene A. Gulledge	Oct. 1969	Present
ASSISTANT SECRETARY FOR HOUSING MANAGEMENT:		
Lawrence M. Cox	Mar. 1969	July 1970
Norman V. Watson	July 1970	Present

[a] In February 1970 the responsibility for section 236 housing management functions was transferred to the Assistant Secretary for Housing Management.

Copies of this report are available from the U S General Accounting Office, Room 6417, 441 G Street, N W , Washington, D C , 20548

Copies are provided without charge to Members of Congress congressional committee staff members, Government officials, members of the press, college libraries, faculty members and students The price to the general public is $1 00 a copy Orders should be accompanied by cash or check