PN-ACY-823

Final Report

ZIMBABWEAN DELEGATION HOUSING STUDY TOUR OF WASHINGTON

by

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Fannie Mae Office of Housing Research

September 1994

CFED's Indefinite Quantity Contract
for Housing and Urban Development
Contract No. 1008-I-00-2069-00
is sponsored by the U.S. Agency for International Development
Washington, DC 20523

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ZIMBABWEAN DELEGATION HOUSING STUDY TOUR OF WASHINGTON

Introduction

For a week during May 1994 (see attached itinerary for specific dates), a delegation of eight representatives from various private, public, and non-profit sector housing finance institutions in Zimbabwe attended a housing study tour in Washington, D.C., sponsored by the U.S. Agency for International Development (USAID). The tour was conducted by the Center for Financial Engineering in Development (CFED) and its subcontractor, the Office of Housing Research at Fannie Mae. The delegation attended the tour directly after participating in a three-week course in housing finance given by the Fels Center of Government and The Wharton School at the University of Pennsylvania.

The challenge was to educate the delegation about the conceptual underpinnings of the U.S. housing finance system through in-depth discussion and a series of meetings with representatives from key U.S. housing finance actors and institutions, such as the Federal Housing Finance Board, National Association of Mortgage Brokers, Mortgage Insurance Companies of America, U.S. Department of Housing and Urban Development, and the National Association of Home Builders. At the direction of USAID, particular emphasis was placed on examining the relationship between the private and public sectors in the U.S. system and their respective roles in the provision of low income housing. The objective of this educational process was not to enable the delegation to copy the U.S. housing finance system, but rather to ensure that the delegates could return to Zimbabwe and begin to broaden and deepen the reach of their housing finance sector in the most informed and appropriate manner possible.

Successes

Perhaps the most compelling indication of the week's great success was the near universal consensus among the delegates that the time allocated for the tour was insufficient to reflect fully upon the concepts presented and discuss them to a thoroughly satisfying depth. This consensus is clearly evident in the attached evaluation forms, which the delegates completed just before their departure. Each delegate was provided with an extensive collection of technical materials relating to housing finance systems. Much of this material came from the U.S. institutions who met with the delegation and the balance from the Office of Housing Research or other Fannie Mae departments. A largely inclusive (but not exhaustive) collection of the cover pages of these technical materials is attached for review. Boxes containing these materials were shipped to the offices of USAID/Harare for distribution to the delegates.

The delegates verbally expressed the view that the study tour far exceeded their expectations in terms of the quality and rigor of the concepts presented. Each delegate was certain that he would now be able to contribute to improving the Zimbabwean system in a much more substantive and confident way as a result of the tour experience.

USAID's inclusion of delegates from the public, private, and non-profit sectors proved wise. In combination with what proved to be a very effective study tour format, this collection of actors had the result of bolstering the cohesion among and the resolve of the various Zimbabwean housing finance institutions to effect changes to extend the benefits of the housing finance sector to more of the country's population.

Difficulties

Many steps designed to maximize the efficient use of time were taken, including the use of working lunches, the practice of bringing representatives to Fannie Mae to meet with the delegation to reduce the transit time required, and an emphasis on keeping discussions tightly focused. However, our U.S. system is extensive and complex. Digesting all its important underlying concepts is a time-consuming endeavor. Although CFED and Fannie Mae were very pleased with the quality and depth of exchange with the delegation and feel that overall the study tour was an extremely positive experience, it was necessary to scale back the number and duration of meetings to include time for debriefing and discussion. The time constraint did not allow the group to delve into operational details, and, in many cases, two-way discussion with the various U.S. institutional actors had to be prematurely cut off.

Aside from the general shortage of time, problems were few and minor in nature. The delegates experienced some difficulty with the prompt disbursement of per diem payments resulting in an unnecessary 90-minute delay in discussions. In addition, transportation service was only budgeted through the end of the business day, sometimes necessitating cutoff of the day's debriefing or other crucial discussion.

Recommendations for the Future

Based on this very positive first experience in conducting a housing finance study tour, we have only a few recommendations for future improvements:

- Allow more time for the tour overall, despite the additional cost.
- Provide more flexibility with regard to logistical support, such as the provision of transportation after 5 or 6 p.m. This will increase the time available for discussion and prove cost effective overall.
- Allow more time for prior planning of the substance of the tour and the logistics under the "Terms of Performance" heading in the terms of reference document. The period between the April 25 commencement of performance and the arrival of the delegation on May 18 proved to be inadequate.
- Budget more "Work Days Ordered." Both the senior and junior housing finance specialists expended significant time in excess of their respective ten and twenty days. In a related matter, the pre-provision of more extensive background information on the Zimbabwean housing finance system and on the tour objectives would save significant work time.
- Free and full access to the ultimate requester of the tour should be a standard feature of future projects to ensure prompt clarification or augmentation of background information on the delegation, their country's situation, and on any unique factors motivating the tour. This was pursued independently by the Office of Housing Research with this project, and was critical to properly designing the study tour agenda.
- Provide the contractual flexibility to make expenditures for small social gatherings, such as meals, to establish an important personal rapport between the delegates and the presenters or discussants.

Final Itinerary for Housing Study Tour

Final Itinerary for Housing Study Tour of Washington by Zimbabwean Delegation

Note - One day, not shown on this itinerary, was spent at an all-day research roundtable "A Conceptual View of the U.S. Housing Finance System" at Fannie Mae. All participants in the Fels Center of Government Housing Finance Training Course attended (see attached final agenda for the roundtable).

Wednesday, May 18

12:15 Arrive, check into hotel, and transport to Fannie Mae

2:45 Welcome to Fannie Mae and the Office of Housing Research
James H. Carr, Vice President for Housing Research, Fannie Mae

A Broad, Conceptual Overview of the U.S. Housing Finance System
Ellen P. Roche, Director of Mortgage Market and International Research, Fannie Mae

"Road Map" of the Study Tour
Steven P. Hornburg, Director of Housing Policy Research, Fannie Mae

6:00 Reception given by the Center for Financial Engineering in Development for the Zimbabwean delegation at Sequoia, Washington Harbor

8:00 Return to hotel

Thursday, May 19

FEDERAL HOUSING POLICY OVERVIEW (at Fannie Mae)

8:30 Depart hotel for Fannie Mae

9:00 U.S. Mortgage Markets: Historical Overview, Current Status, and Policy Issues
Steven P. Hornburg, Director of Housing Policy Research

10:30 Break

11:00 Overview of the Regulatory Environment in the U.S. Housing Finance System
Kenneth Ryder, Deputy Associate Director, Housing, Treasury & Finance Division, Office of Management and Budget

12:30 Break for lunch

1:30 Meet to transport to Federal Reserve Board

MACRO POLICY ENVIRONMENT (at Federal Reserve Board)

2:00 Monetary and fiscal policy, safety and soundness, and the role of housing in the macroeconomy
Jack Goodman, Section Chief, Mortgage & Consumer Finance Section, Federal Reserve Board

4:00 Return to Fannie Mae to discuss the day's presentations

5:00 Return to hotel

<u>Friday, May 20</u>

PRIVATE-SECTOR FINANCIAL INSTITUTIONS (at Fannie Mae)

8:30 Depart hotel for Fannie Mae

9:00 Overview of the "unbundling" of residential finance in the U.S. (to establish context of system actors and their roles)
James Follain, Syracuse University, Visiting Fellow, Urban Institute

9:45 Break

Representatives from range of institutions will discuss various aspects of originating, servicing, or guaranteeing loans:

10:00 Mary Burt, Staff Vice President for Government Relations and Allen Jones, Director of Agency Relations, National Association of Mortgage Brokers (NAMB)

10:30 Brian Smith, Director of Policy Development, Savings and Community Bankers Association (SCBA)

11:00 Kelly Ziglar-Clay, Director of Legislative and Regulatory Relations, Mortgage Insurance Companies of America (MICA)

11:30 Phyllis Slesinger, Senior Director, Government Agency Relations, Mortgage Bankers Association (MBA)

12:00 Break for lunch

INTERMEDIARIES/CREDIT ENHANCEMENT/SPECIALIZED CIRCUITS
(at Fannie Mae; note: Fannie/Freddie already covered by one-day session with Fels)

Representatives from state and local housing finance agencies and non-profit intermediaries:

1:00 Diana Meyer-Flanagan, Director of Research, Evaluation, and Documentation, The Enterprise Foundation

1:35 Anne Morrison, Director of Real Estate Finance, Fairfax County (Virginia) Redevelopment & Housing Authority

2:10 Abigail Calkins, Program Officer and Richard Owens, Cooperative Development/Training Advisor, Cooperative Housing Foundation

2:45 Break and transport to Federal Housing Finance Board

3:15 Tour and discussion of Federal Home Loan Bank System:

Mary Moore, Deputy Dir., District Banks Directorate, Fed. Housing Finance Board

Scott Baker, Manager of Congressional Affairs, Federal Housing Finance Board

Sylvia Martinez, Dir.of Housing Finance Directorate, Federal Housing Finance Board

Tom Sheehan, Associate Director, Office of Special Projects, District Banks Directorate, Federal Housing Finance Board

4:45 Return to Fannie Mae

5:15 Return to hotel

<u>Monday, May 23</u>

DIRECT FEDERAL PROGRAMS (at U.S. Dept. of Housing & Urban Development-HUD)

8:45 Depart hotel for HUD

9:20 Introduction to HUD
John Geraghty, International Affairs Program Officer, Office of Policy Development and Research, HUD

9:30 Insured housing programs: FHA & multifamily
Joseph Bates, Office of Insured Single Family Housing and Benjamin Jacinto, Office of Insured Multifamily Housing Development, Office of Housing, HUD

10:30 Overview of the Government National Mortgage Association (GNMA, "Ginnie Mae")
George Anderson, Vice President for Asset Management and Paul Yates, Senior Assistant Vice President, GNMA

11:00 Six priorities for the Clinton Administration's housing programs
Marc Weiss, Special Assistant to the Secretary of Housing, HUD

11:15 Rental/low-income programs: section 8 housing vouchers, public housing, tax credits and creative finance
The Honorable Michael Stegman, Assistant Secretary for Policy Development and Research, Edward Szymanoski, Housing Economist, and Arthur Rieger, Financial Research Specialist, Office of Policy Development and Research, HUD

12:15 Transport to National Association of Homebuilders (NAHB)

PROPERTY CONSTRUCTION AND MARKETING/BROKERAGE (at NAHB)

12:30 Working lunch: homebuilding and construction financing in the U.S.
David Crowe, Assistant Staff Vice President for Housing Policy, NAHB

2:30 Marketing residential property in the U.S.
Susan Collins, Housing Economist, National Association of Realtors

3:00 Site visit to Courthouse Commons/Crossings multifamily apartment development, Arlington, Virginia (winner of Association of Local Housing Finance Agencies meritorious achievement award for affordable low-income financing structure)
W. Clarke Ewart, Executive Vice President, Paradigm Development Company
Alice Barrett, Vice President, Paradigm Development Company

5:30 Return to hotel

Tuesday, May 24

FINANCING MULTIFAMILY HOUSING (at Fannie Mae)

8:30 Depart hotel for Fannie Mae

9:00 Conceptual discussion of Fannie Mae's multifamily financing activities and discussion of general financing mechanisms including Real Estate Investment Trusts (REITs)
Richard S. Lawch, Vice President for Affordable Housing & Negotiated Transactions, Multifamily Finance, Housing Impact Division, Fannie Mae

10:30 Break

10:45 Pension fund and insurance company investors in multifamily housing
Donald Campbell, Sr. V.P., Government Affairs, Multifamily Housing Council

11:45 Break for lunch

USAID HOUSING PROGRAMS

1:00 USAID's global activities and the origins and future of the housing guaranty program
David Grossman, Director of Operations, Office of Urban Programs, USAID

POLICY LESSONS LEARNED IN THE U.S.

2:00 Wrap-up roundtable discussion to explore potential application of the U.S. experience
Steven P. Hornburg, Director of Housing Policy Research, Fannie Mae
Ellis Leslie, Senior Research Analyst, Fannie Mae

4:30 Adjourn

4:45 Return to hotel

<u>Wednesday, May 25</u>

Individual activities or group sightseeing, as desired. Depart Washington early evening.

Agenda for Fannie Mae Research Roundtable

Fannie Mae Research Roundtable Series:
A Conceptual View of the U.S. Housing Finance System

In Conjunction with the Fels Center of Government and
The Wharton School, University of Pennsylvania

10:30 a.m.	**Welcome and Introduction to Fannie Mae** James H. Carr Vice President for Housing Research
10:45 a.m.	**Regulation of the U.S. Financial Sector: Lessons from the Past** Ellen P. Roche Director of Mortgage Market and International Research
11:20 a.m.	**Legal Requirements of the Housing Finance System** Robert A. Nelson Vice President and Deputy General Counsel
12:00 p.m.	**Lunch** *Fannie Mae: Blueprint or Concept?* Ellis Leslie Senior Research Analyst, Office of Housing Research
1:15 p.m.	**Credit Quality and Policies** Joseph J. Sakole Director of Loan Credit Risk Analysis
1:50 p.m.	**Asset/Liability Management Strategy** R. Warren Fitzgibbon Manager of Asset/Liability Management Strategy
2:25 p.m.	**Tour of the Fannie Mae Market Room** Elizabeth A. Martini Director of Long-Term Funding
3:15 p.m.	**Dessert Break**
3:25 p.m.	**Info Processing Requirements and the Housing Finance System** Richard A. Morelli Director of Research and Development Business Systems
4:00 p.m.	**Adjourn**

The goal of the Office of Housing Research is to generate thoughtful and insightful research on a broad range of issues to further the development of solutions to America's housing problems. Areas of interest include housing policy and finance, housing markets, affordable housing technologies, and international housing issues.

Participants' Comments

Participants' Comments: Housing Study Tour of Washington

1. Did the overall program provide you with a clear understanding of the overall structure and context of the U.S. housing finance system?

   Yes ☒ No ☐

   Comments

2. Did the presentations give you enough information to understand the roles and functions of the actors in the U.S. housing finance system?

   Yes ☒ No ☐

   Comments

3. Did you receive enough information regarding those aspects of our system which most interest you?

   Yes ☒ No ☐

   Comments

4. Do you feel that you had the opportunity to meet with an appropriate mix of players in the U.S. housing finance system?

   Yes ☒ No ☐

   Comments

5(a). From your perspective, what was best or most valuable about the program, and why?

The knowledge on ~~how~~ the key role of the central Government and Government sponsored agencies (FANNIE MAE) play in the operations of the secondary mortgage market.

(b). What would you most like to have seen done differently, and why?

Increase in the period of the program so as to provide the participant with time to criti analyze the secondary mortgage market.

Participants' Comments: Housing Study Tour of Washington

1. Did the overall program provide you with a clear understanding of the overall structure and context of the U.S. housing finance system?

   Yes ☑ No ☐

   Comments ______________________________

2. Did the presentations give you enough information to understand the roles and functions of the actors in the U.S. housing finance system?

   Yes ☑ No ☐

   Comments ______________________________

3. Did you receive enough information regarding those aspects of our system which most interest you?

   Yes ☑ No ☐

   Comments ______________________________

4. Do you feel that you had the opportunity to meet with an appropriate mix of players in the U.S. housing finance system?

   Yes ☑ No ☐

   Comments ______________________________

5(a). From your perspective, what was best or most valuable about the program, and why?

The Secondary Mortgage Market and other forms of financing. I am actively looking for alternative means of resource mobilisat

(b). What would you most like to have seen done differently, and why?

Substantial information was delivered wi a short time frame not giving enough time to reflect.

Participants' Comments: Housing Study Tour of Washington

1. Did the overall program provide you with a clear understanding of the overall structure and context of the U.S. housing finance system?

Yes ☒ No ☐

Comments

2. Did the presentations give you enough information to understand the roles and functions of the actors in the U.S. housing finance system?

Yes ☒ No ☐

Comments

3. Did you receive enough information regarding those aspects of our system which most interest you?

Yes ☐ No ☐

Comments In general I think I received the information that I required subject to the comment in 4 and 5(b)

4. Do you feel that you had the opportunity to meet with an appropriate mix of players in the U.S. housing finance system?

Yes ☒ No ☐

Comments But I feel meeting somebody from a major insurer or pension fund would have cleared the air regarding how they see their role on this topical issue.

5(a). From your perspective, what was best or most valuable about the program, and why?

It gave me exposure to the various aspects and players in the US housing markets. This enab me to draw lessons and comparisons between our syst and the US system.

(b). What would you most like to have seen done differently, and why?

We should have been a bit more exposed to the dealing room (computer room) ~~transactions~~ processes so that we had a feel of the secondary market.

Participants' Comments: Housing Study Tour of Washington

1. Did the overall program provide you with a clear understanding of the overall structure and context of the U.S. housing finance system?

   Yes ☑ No ☐

   Comments

2. Did the presentations give you enough information to understand the roles and functions of the actors in the U.S. housing finance system?

   Yes ☑ No ☐

   Comments

3. Did you receive enough information regarding those aspects of our system which most interest you?

   Yes ☑ No ☐

   Comments

4. Do you feel that you had the opportunity to meet with an appropriate mix of players in the U.S. housing finance system?

   Yes ☑ No ☐

   Comments

5(a). From your perspective, what was best or most valuable about the program, and why?

After our course at YELS - this program gave us the actual feel of the industry by having several actors put their acts together.

(b). What would you most like to have seen done differently, and why?

I would have liked to go and spent time at the dealing room to see how the actual process of Selling the Securities is done. However I realised that the department is very busy But. Maybe in future, This would have completed the circle on Secondary Mot

Participants' Comments: Housing Study Tour of Washington

1. Did the overall program provide you with a clear understanding of the overall structure and context of the U.S. housing finance system?

   Yes ☑ No ☐

   Comments

2. Did the presentations give you enough information to understand the roles and functions of the actors in the U.S. housing finance system?

   Yes ☑ No ☐

   Comments

3. Did you receive enough information regarding those aspects of our system which most interest you?

   Yes ☑ No ☐

   Comments

4. Do you feel that you had the opportunity to meet with an appropriate mix of players in the U.S. housing finance system?

   Yes ☑ No ☐

   Comments Time allocated for their presentations was too short.

5(a). From your perspective, what was best or most valuable about the program, and why?

It exposed us to the actors involved in the American Housing Finance System. It also clarified the hierarchical aspects ~~[illegible]~~ we had learnt all Feb

(b). What would you most like to have seen done differently, and why?

I thought we would visit one of the minority projects "in [illegible]" and discuss the ~~[illegible]~~ project implementation aspects. We would also have had a feedback from the beneficiaries involved.

Participants' Comments: Housing Study Tour of Washington

1. Did the overall program provide you with a clear understanding of the overall structure and context of the U.S. housing finance system?

   Yes ☑ No ☐

   Comments

2. Did the presentations give you enough information to understand the roles and functions of the actors in the U.S. housing finance system?

   Yes ☑ No ☐

   Comments FAR MORE INFORMATION THAN I COULD DIGEST IN THE TIME AVAILABLE. BUT THE HANDOUTS SUPPLIED WILL BE ABLE TO CORRECT THIS IN TIME.

3. Did you receive enough information regarding those aspects of our system which most interest you?

   Yes ☑ No ☐

   Comments

4. Do you feel that you had the opportunity to meet with an appropriate mix of players in the U.S. housing finance system?

   Yes ☑ No ☐

   Comments MORE EXPOSURE TO THE OPERATIONS SIDE OF FANNIE MAE WOULD HAVE BEEN USEFUL.

5(a). From your perspective, what was best or most valuable about the program, and why?

THE PROGRAM COVERED A WIDE RANGE OF SUBJECTS ALL CONNECTED WITH HOUSING FINANCE AND HAS GIVEN ME A VALUABLE INISIGHT INTO US HOUSING POLICIES WHICH I CAN NOW USE TO TRY AND IMPROVE THE SYSTEMS PRESENTLY USED IN ZIMBABWE.

(b). What would you most like to have seen done differently, and why?

I WOULD LIKE TO HAVE HAD A CLOSER LOOK AT THE SECONDARY MARKET IN OPERATION. I.E HOW MORTGAGES ARE SPLIT AND SECURITIES PHYSICALLY ISSUED.

Participants' Comments: Housing Study Tour of Washington

1. Did the overall program provide you with a clear understanding of the overall structure and context of the U.S. housing finance system?

   Yes ☒ No ☐

   Comments I still need to do a lot of reading to complete what is outstanding

2. Did the presentations give you enough information to understand the roles and functions of the actors in the U.S. housing finance system?

   Yes ☒ No ☐

   Comments Your Housing Financial System is ~~comple~~ very complex. I hope the literature will cover the gaps still outstanding

3. Did you receive enough information regarding those aspects of our system which most interest you?

   Yes ☒ No ☐

   Comments I am glad that you made extra effort to supply extra information requested. ~~A~~ Your assistance to ship ~~the~~ our information is most appreciated

4. Do you feel that you had the opportunity to meet with an appropriate mix of players in the U.S. housing finance system?

   Yes ☒ No ☐

   Comments I wish we had more time to discuss ~~iss~~ with some players. The program was a bit too tight at.

5(a). From your perspective, what was best or most valuable about the program, and why?

The structuring of the study tour was good. Having a brief, concise overview first and then discussing/meeting with various actors was most useful.

(b). What would you most like to have seen done differently, and why?

Giving more time to actors we met on Friday 5/20/94. All what these people presented was extremely interesting and raised a lot of questions we had ~~words~~ no time to discuss exhaustively

Cover Pages of Technical Materials Given to Participants

federal register

Wednesday
December 9, 1992

Part III

Department of Housing and Urban Development

Office of the Secretary

24 CFR Part 24, et al.

Mortgagee Approval Reform and Direct Endorsement Expansion: Final Rule

National Association of Home Builders

The Future Of Home Building

1992-1994 and Beyond

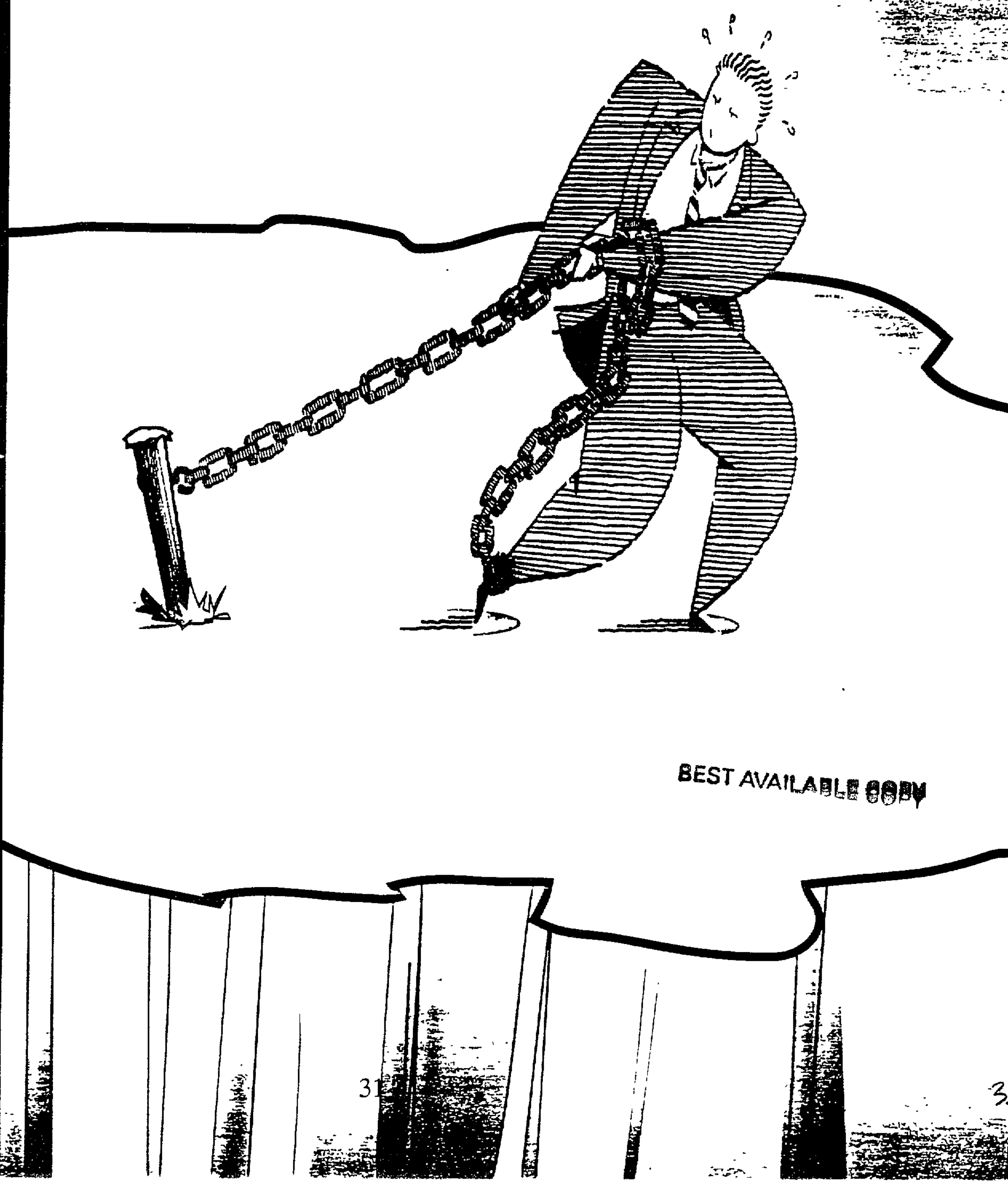
30

A Monthly Publication of the National Association of Mortgage Brokers • April 1994 • Volume 10, No.

NATIONAL MORTGAGE BROKER

Legislative Limits and Regulatory Restraints

A CHAIN AROUND OUR LEG OR PROTECTION FROM GOING OVER THE EDGE?



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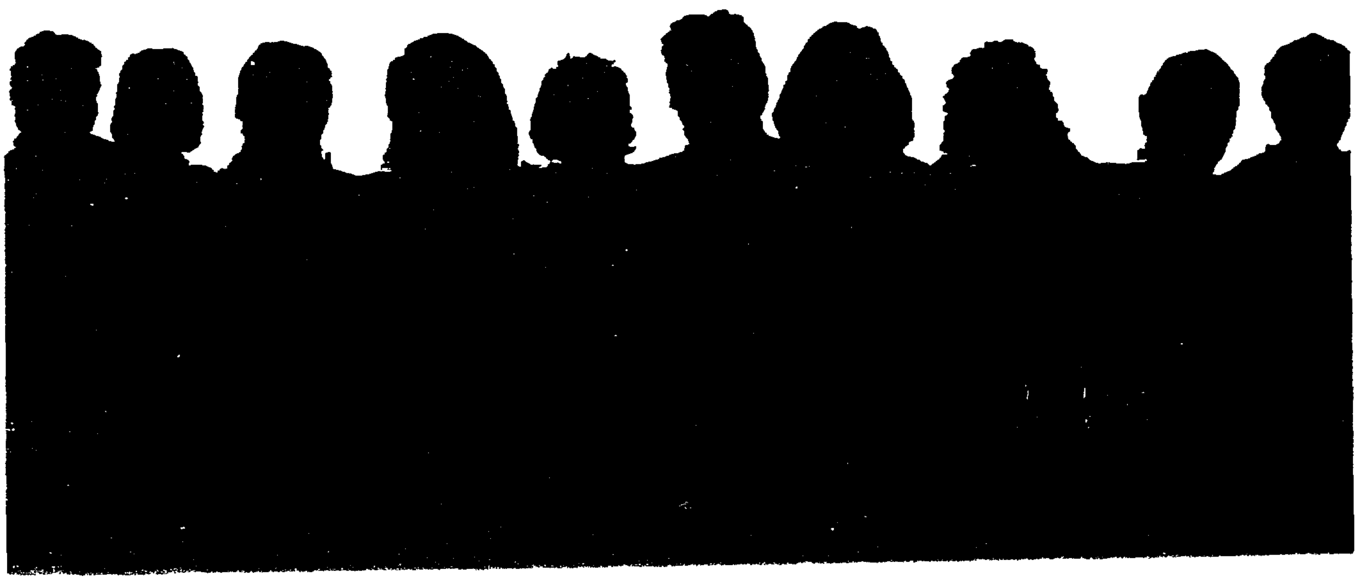
The Nation's Mortgage Brokers

Who are they? Where are they? What do they do?

1992 NAMB Mortgage Broker Industry Study



Volume 1 Issue 1

Journal of Housing Research

[illegible]

Housing Policy Debate

Volume 2 Issue 4

Forum

Articles

Current Issues

1991

Housing Policy Debate

Volume 3 Issue 2

Discrimination in the Housing and Mortgage Markets

Papers Presented at the
Fannie Mae Annual Housing Conference
Washington, DC, May 19, 1992

Sessions:

Setting the Stage: What Do We Know About Discrimination and Credit Allocation?

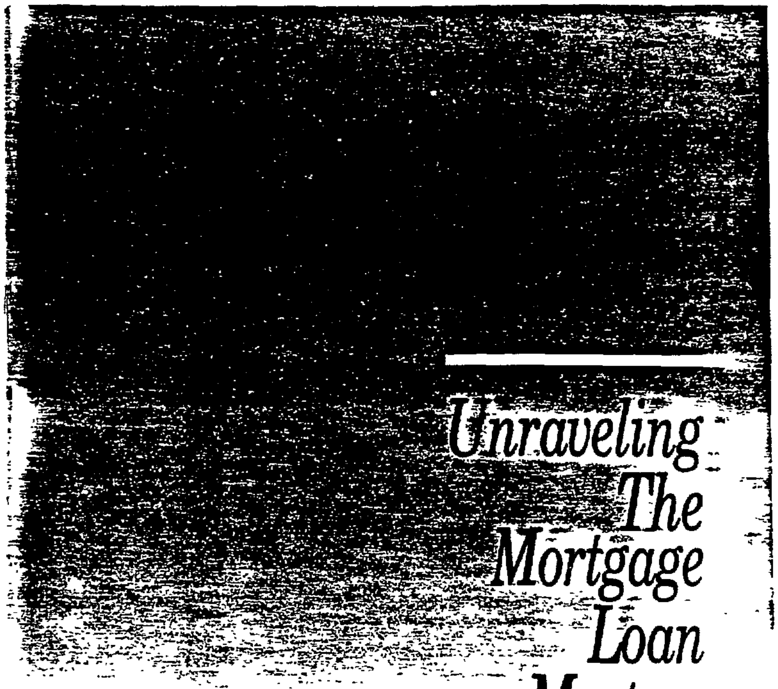
Impacts of Housing and Mortgage Market Discrimination

Discrimination, Segregation, and Federal Rental Programs

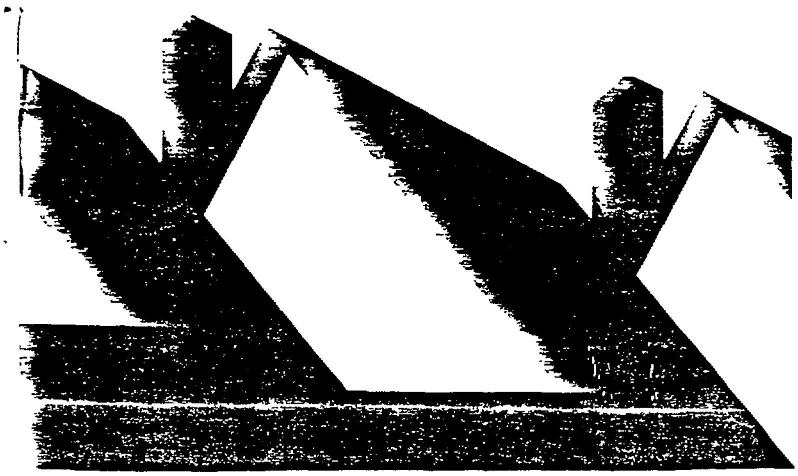
Federal Efforts to Combat Discrimination in the Housing and Mortgage Markets

Setting Research and Policy Agendas

1992



Unraveling The Mortgage Loan Mystery



Fannie Mae

Papers Presented at the Tri-Country Conference on Facing Up to Housing and Urban Issues: 1992

September 17–19, 1992
San Francisco, CA

This conference was convened by the National Association of Housing and Redevelopment Officials (NAHRO), Institute of Housing (IOH), and Canadian Housing and Renewal Association (CHRA), in cooperation with the Federal National Mortgage Association (Fannie Mae) and the Canada Mortgage and Housing Corporation (CMHC).

Office of Housing Research

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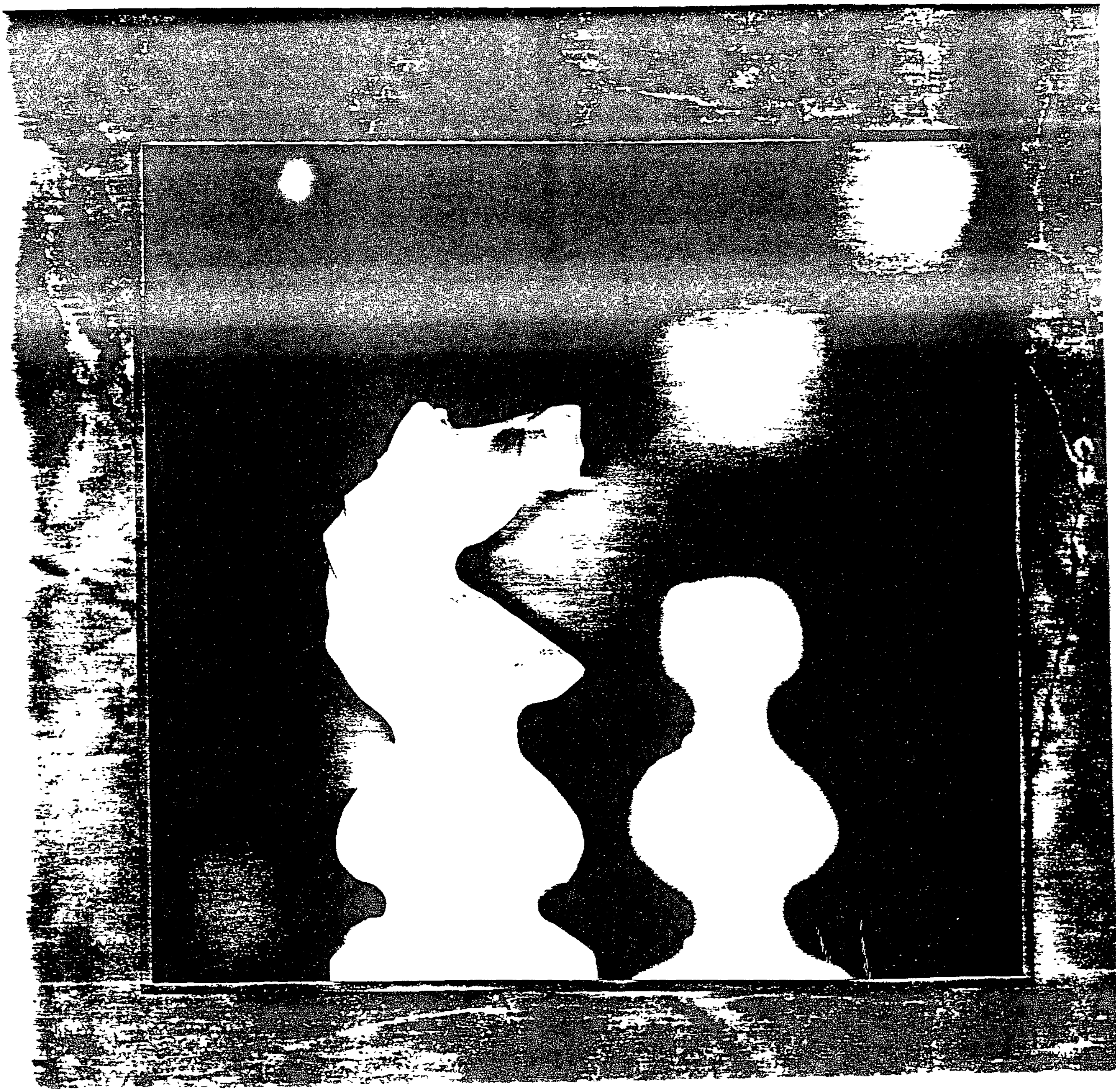
Investing in REMIC Securities

FannieMae



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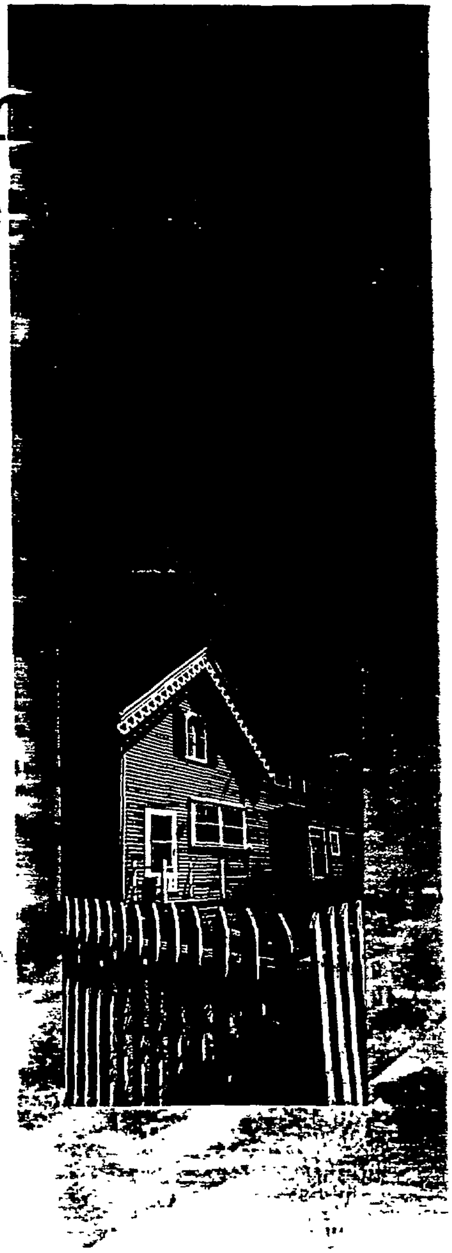
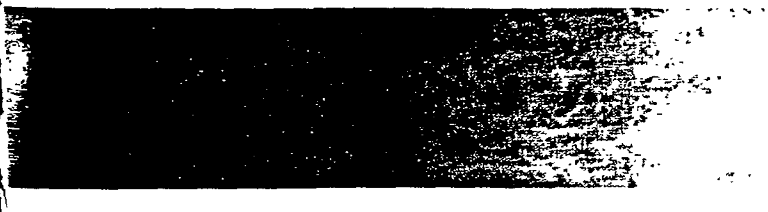
Welcom
Fannie

Fourth Edition



FannieMae



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Published Research

Indexed by Author

May 1994

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A periodic commentary on housing and urban research

Housing Research News

Vol. 2 • No. 2 Office of Housing Research May 1994

HUD Takes New Directions in Managing FHA Multifamily Inventory

by Nicolas P. Retsinas

Last year, Secretary Henry Cisneros testified before Congress that the management and disposition of the Department of Housing and Urban Development's (HUD's) multifamily inventory is the single largest problem facing the department. This inventory—31,000 units that must be managed and then sold—is only the tip of the iceberg. Beneath the water, out of view, is a much larger body of distressed projects and mortgages at risk of default, assignment, or foreclosure.

As Secretary Cisneros has emphasized, "the problem" is really many problems, with no single or simple solution. First, it is an **operational** problem: the number of properties owned, or about to be owned, by HUD has grown phenomenally. Second, it is a **money** problem. Even with greater legislative flexibility, maintaining the affordability of foreclosed and HUD-owned properties will be costly. Third, it is an **affordable housing** problem. Many properties in HUD's inventory serve low- and moderate-income families; this housing is a resource that should be preserved. Finally, it is a **neighborhood** problem. While the department is able to stabilize or improve many projects it takes over, their physical, financial, and social distress spills over in the surrounding community and vice versa.

Solving the problem challenges HUD on many fronts. The department proposed and received legislation to improve the property disposition process, developed an asset management strategy to stem the flow of mortgages and properties into the HUD-held and HUD-owned inventories, and plans a series of mortgage sales to enable FHA to focus on the insured stock.

The Inventory

HUD has $43 billion of multifamily insurance in force. Last year, 27 percent was estimated to be at risk of default, requiring a loss reserve of $11.9 billion. HUD currently holds more than 2,400 mortgages with unpaid principal balances totaling $7.3 billion, and owns 184 properties, valued at $850 million.

Problems with much of this stock require substantial expenditures for insurance losses and for financial assistance, including repairs and rental assistance. In a number of subsidized multifamily projects, living conditions are unacceptable. Root causes of these problems include poor program design (such as the coinsurance program), faulty underwriting, lack of adequate staff, and insufficient monitoring. (Other influences, including the downturn in regional rental markets and the impact of tax reform, are outside HUD's control.) Resolving these difficulties will take many years, additional resources, and a concerted effort by HUD and its partners. To begin addressing the problems, the department has developed an asset management strategy covering three areas: the HUD-

See HUD on page 3

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A periodic commentary on housing and urban research

Housing Research News

Vol. 2 • No. 1 Office of Housing Research February 199

Analysts Examine Research Issues Concerning Homeowner Tax Incentives

by Ellen P. Roche

Although American homeowners have had preferential treatment in the U.S. tax code since the early 1900s, this federal support of homeownership has enjoyed its most widespread use and support in just the past 40 years.

As the federal government struggles to reduce the deficit and find revenues for new initiatives, many programs that were previously considered sacrosanct may be put on the political chopping block. In 1993 the federal government will have supported homeowners by relinquishing more than $75 billion in tax revenue, according to Congress's Joint Committee on Taxation. On the face of it, that $75 billion may seem easy to tap for new health care, crime, and disaster programs.

But experts at a Fannie Mae Research Roundtable sponsored by the Office of Housing Research (OHR) strongly cautioned that tax policy modifications may not produce revenue gains comparable to these tax expenditure estimates and may negatively affect the nation's economy. The roundtable brought together academics, industry representatives, advocates, and government analysts to examine the different tax preferences for homeowners, discuss their impact on the economy and on homeowners of different income levels, and explore ways to measure the revenue implications of modifying th tax provisions.

The participants noted that the revenue gained from eliminating a tax deduction is not necessaril equal to its tax expenditure—the estimated cost to the federal treasury of allowing the deduction. A tax expenditure estimate does not account for behavioral responses by taxpayers attempting to avoid a new tax or subsequent impacts on the economy that might lower individual or corporate earnings. For example, high-income taxpayers who can no longer deduct mortgage interest may adju their personal portfolios to avoid increased tax payments. Without a mortgage interest deduction, potential first-time buyers may delay purchases while current owners may defer trade-up decision Either scenario could dramatically affect house prices, construction employment, and housing demand. Furthermore, tax expenditure estimates do not measure the potential financial impact on homeowners of different income levels.

Too little is known about who actually benefits fro the tax code's various homeownership incentives and how the benefits of each incentive are distrib ed across households of varying income levels, noted OHR Vice President Jim Carr. "For example, the federal treasury doesn't even measure forego revenue provided through the nontaxation of net

See Tax Incentives on page .

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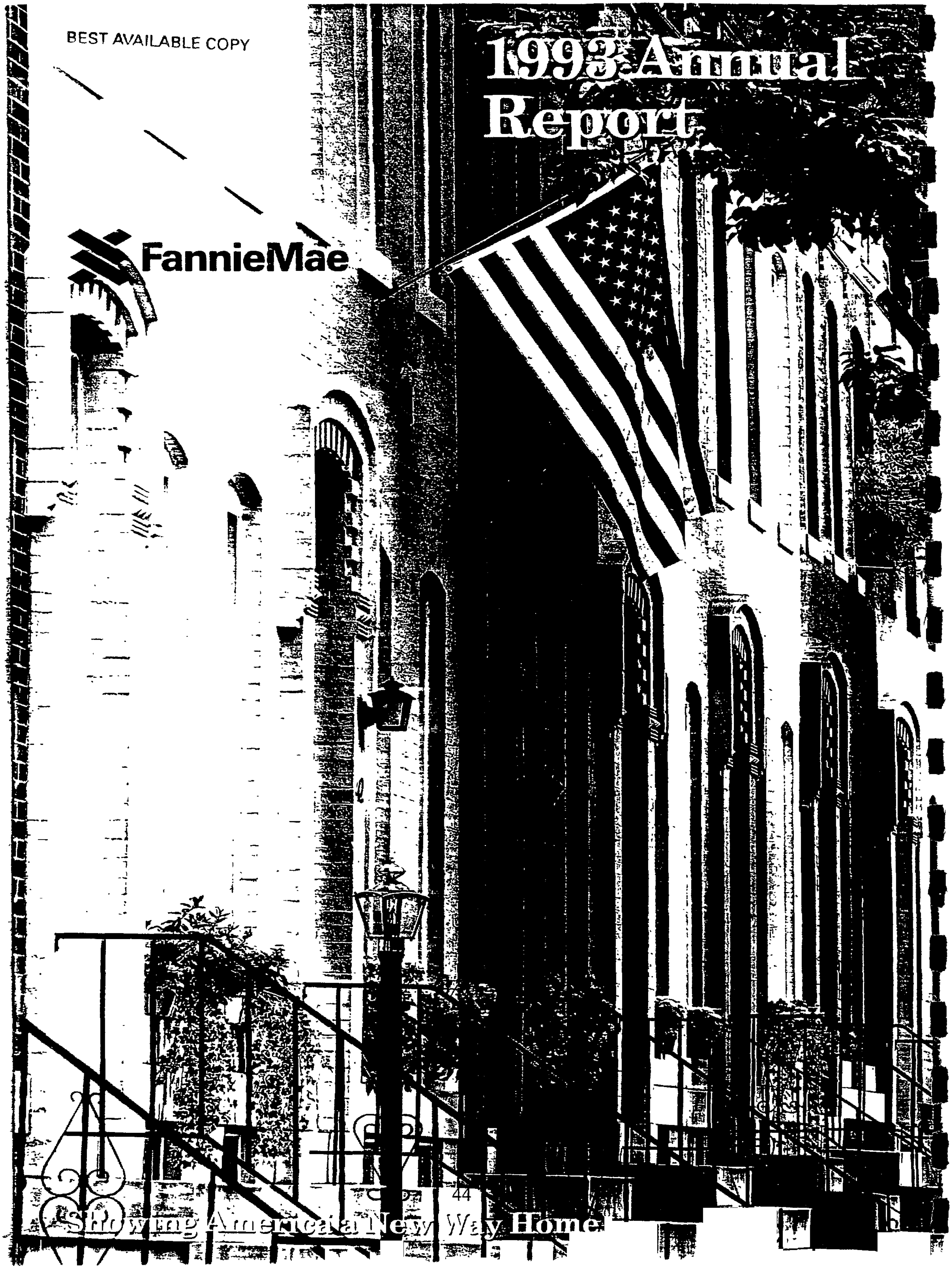

Showing America a New Way Home

44

U.S. Department of Housing and Urban Development
Office of Policy Development and Research

HUD USER

An Overview of Services

HUD USER

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Office of Policy Development and Research
U.S. Department of Housing and Urban Development

Creating Communities of Opportunity

Research Priorities

1994

U.S. Department of Housing and Urban Development
Office of Policy Development and Research
Michael A. Stegman, Assistant Secretary

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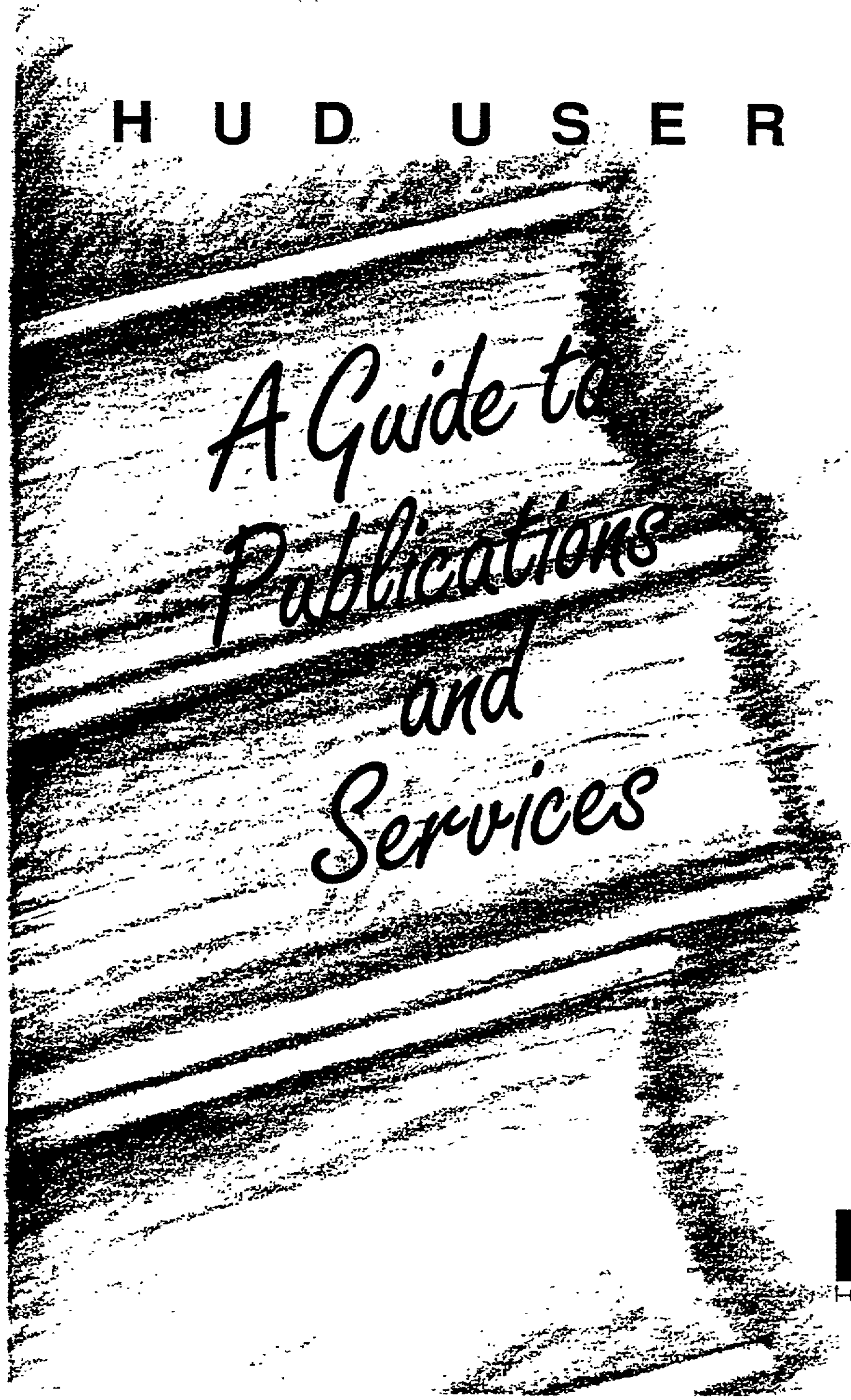
Office of Policy Development and Research

H U D U S E R

A Guide to Publications and Services



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U.S. Department of Housing and Urban Development

1993

Programs of HUD

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

1st Quarter 1994

May 19

SUMMARY

Two factors stand out in the housing market statistics for the first quarter of 1994: weather and interest rates. Weather had the most immediate effect on housing markets. Buffeted by severe winter weather throughout much of the Nation in January and February, housing market activity in the first quarter of 1994 generally was down from the sharp peak in the fourth quarter of 1993, but still substantially above the same quarter last year. Also, in response to tightening by the Federal Reserve and market apprehension about inflation, mortgage interest rates rose along with rates on other long-term and short-term instruments. While rising interest rates will eventually lower housing demand, the short-term consequences are less predictable. Sometimes rising rates can cause purchasers to buy earlier than they had planned in order to avoid expected higher future rates.

During the first quarter of 1994, single-family production and new and existing home sales declined, but were still at considerably higher levels than a year earlier. Multifamily construction was much less affected, as production held at a steady pace from the fourth quarter. Despite an end-of-year decline in market absorption combined with a large downward revision in the previous quarter absorptions, production was significantly above year-earlier levels.

■ Single-family permits were down 6 percent from the previous quarter and up 16 percent from the same quarter last year. Single-family starts—at a seasonally adjusted annual rate of 1,164,000—were down 10 percent and up 14 percent over the same periods. Single-family completions were unchanged and 11 percent higher over the same periods.

■ Multifamily permits were down 4 percent from the previous quarter but up 31 percent from last year. Multifamily starts—at a seasonally adjusted annual rate of 159,000—were virtually unchanged from the previous quarter but up 48 percent over last year's first quarter. Multifamily completions were below year-earlier levels, not yet having responded to the higher start rates in 1993 due to the longer construction timelag.

■ Residential Fixed Investment in the fourth quarter of 1993 rose 3 percent from the previous quarter and 14 percent from the fourth quarter of 1992; it was 4.2 percent of the Gross Domestic Product in the fourth quarter of 1993, up 8 percent from a year earlier, reflecting housing's important role in the economic recovery.

Regional Perspective

The regional summaries generally show a continuation of the 1993 trends of improving housing market conditions. HUD's regional economists' reports of first quarter construction activity, as measured by building permits, show a continuation of the 1993

Inside

New in this Issue

This issue contains six new historical tables and added information to one of the existing tables. The additional information covers FHA interest rate series for commitments (added to Table 11), interest rates on closed loans from the Federal Housing Finance Board (Table 12), unassisted FHA multifamily insurance (Table 14), Mortgage Bankers Association's series on delinquencies and foreclosures (Table 15), expenditures for existing residential properties (Table 16), value of construction put in place (Table 17), and fixed residential investment and Gross Domestic Product (Table 18). With the addition of these tables, the numbering of the tables from the February 1994 issue has been altered.

U.S. Department of Housing and Urban Development
Office of Policy Development and Research

U. S. Department of Housing and Urban Development
Washington, D.C. 20410-6000

OFFICE OF THE ASSISTANT SECRETARY
FOR POLICY DEVELOPMENT AND RESEARCH

HOUSING PRODUCTION IN THE UNITED STATES

OVERVIEW

The production of new housing in the United States is overwhelmingly local, private, competitive, and by small-scale builders. The volume of production varies widely from year to year, dependent on the economy and the availability of financing. Since World War II, it has ranged from just under 1 million units per year to well over 2 million units. Given such variation, the information that follows is intended to be representative rather than for a particular year.

THE BUILDERS

The home-building industry is dominated by small producers averaging 10-20 units per year. In any given year there may be from 75,000 to 100,000 producers. Entry to the industry is easy and turnover is very high; perhaps 25 percent or more are new each year. No producer achieves so much as one percent (10,000 to 20,000 units) of the annual national market; fewer than 500 producers achieve one-tenth of one percent (1,000 to 2,000 units) of that market; but the ten to twenty percent of producers who build 100 or more units, produce 65 to 75 percent of all units built each year.

The typical builder/developer entrepreneur acquires the building plot, erects the dwelling, arranges long-term home financing for the buyer, and markets the unit. In addition, there is a highly developed network of small, independent subcontractors who undertake part of the work for the builder/developer, such as excavation, masonry, plumbing, electrical, heating, drywall, flooring, and real-estate sales. There is also an extensive network of independent building-materials suppliers. The buyer's long-term purchase mortgage is usually provided by local savings and loan associations or mortgage bankers (which in most cases resell their mortgages in the secondary market). Commercial banks provide the builder's interim financing for property acquisition, development and construction.

The use of professional architects and engineers, except for multifamily housing and for repetitive tract housing, occurs only in a very limited segment of the upper income market.

U. S. Department of Housing and Urban Development
Washington, D.C. 20410-8000

OFFICE OF THE ASSISTANT SECRETARY FOR
HOUSING-FEDERAL HOUSING COMMISSIONER

FACT SHEET
HUD/FHA Mortgage Insurance
Single Room Occupancy Housing
Section 221(d)(3) & (d)(4)

1. **Single Room Occupancy Housing - What It Is**

HUD/FHA insures mortgages made by FHA-approved lending institutions to aid in the construction or rehabilitation of single room occupancy (SRO) housing. The SRO program is designed to expand affordable housing opportunities for single individuals who may not be eligible for subsidized housing and cannot afford full-sized apartments. New and rehabilitated SRO projects will provide much needed housing for persons now living in substandard or overcrowded conditions or at risk of becoming homeless.

2. **Eligible Projects**

Projects must have 5 or more units.

Units may contain kitchen or bathroom facilities or such facilities may be shared among tenants.

Units may be designed to allow for more than one occupant, but maximum number of occupants is subject to State or local requirements and compliance with Fair Housing Act.

Local government must review SRO proposals and certify as to need, relocation plan, if any, and services.

3. **Ineligible Projects**

Projects with or proposing HUD project-based rental assistance.

Proposals for purchase or refinancing of existing structures that do not require substantial rehabilitation.

Projects subject to State licensure, certification or regulation as a board and care home (or similar residential care facility).

Projects containing central kitchens or dining facilities for providing food services to tenants.

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

JUN 24 1993

MEMORANDUM FOR HOUSING REFORM AND ECONOMIC INDEPENDENCE WORKING GROUP

FROM: Alicia H. Munnell
Assistant Secretary
for Economic Policy

SUBJECT: The Treasury Department's Role in Low- and Moderate-Income Housing

The Treasury department is responsible for two notable activities that help provide housing for low- and moderate-income households -- the low-income housing tax credit and the Resolution Trust Corporation's (RTC) Affordable Housing Disposition Program (AHDP). In addition, the Treasury administers several other provisions of the Internal Revenue Code that affect low- and moderate-income housing. Several Treasury agencies influence many aspects of the housing industry through various regulatory activities.

Low Income Housing Tax Credit

Section 42 of the Internal Revenue Code provides for a tax credit in annual installments over 10 years for newly constructed or substantially rehabilitated low-income rental housing. For most newly constructed and substantially rehabilitated housing, the credit percentages provide a credit stream with a present value equal to 70 percent of the total qualified expenditures. In the case of housing receiving other federal subsidies and the acquisition of an existing building that is substantially rehabilitated, the credit percentages provide a credit with a present value equal to 30 percent of the total qualified expenditures. Generally, that part of the building for which the credit is claimed must be rented to qualified low-income tenants at restricted rents for 15 years after the building is placed in service.

Generally, in order for a credit to be claimed with respect to a building, the building owner must receive a credit allocation from the appropriate credit authority. The low-income housing credit is allocated by State or local government authorities subject to an annual limitation for each state. The population component of the annual State credit limitation was $1.25 per resident for 1992, but this portion of the State credit limitation could not be allocated after June 30, 1992. Treasury has estimated that the outlay equivalent value of this tax credit will increase from $1.13 billion in FY 1992 to $1.53 billion in FY 1994, with associated revenue losses of roughly equal magnitude.

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Washington, D.C. 20410-8000

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

FACT SHEET

HUD NON-ASSISTED PROGRAM FOR SECTION 223(f) RENTAL HOUSING

A. PURPOSE

The first multifamily program which provides for the purchase or refinancing of existing multifamily projects. Through the availability of mortgage insurance, it is anticipated that this program will play a major role in the conservation of existing housing resources.

B. ELIGIBLE PROJECTS

1. Projects containing five (5) or more units of detached, semi-detached, row, walk-up, or elevator-type multifamily structures, designed primarily for residential use and to provide decent, safe and sanitary housing.

2. A project must be at least three (3) years old prior to the filing of an application.

3. The project must attain sustaining occupancy prior to insurance endorsement or an operating deficit escrow will be required.

4. A project to be insured under this program will involve only minor repairs, if any, substantial rehabilitation is not allowed. The total cost of repairs may not exceed 15 percent of value after repair or $6,500 per unit whichever is greater. The per unit limitation may be increased by the appropriate high cost factor as described in Section C. Further, the repairs to the project must not involve replacement of more than one major building component.

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Washington, D.C. 20410-8000

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

HUD/FHA MORTGAGE INSURANCE FOR BOARD AND CARE HOMES -- SECTION 232

Board & Care -- What it is:

HUD/FHA insures mortgages made by FHA approved lending institutions to aid in the construction or substantial rehabilitation of board and care home for occupancy by individuals who cannot live completely independently but do not need to extensive care offered by nursing homes or intermediate care facilities.

Eligible Projects:

Free-standing structures or identifiable and separate portions of an intermediate care facility or nursing home. Minimum of 5 bedrooms and/or units.

Maximum of 4 persons for each bedroom and for each full bath.

Must provide room, board, and continuous protective oversight and areas for central dining, kitchen, lounges, recreation and other appropriate purposes.

Must be located in a State which has certified to the Secretary of HHS or HUD that the State is in compliance with 1616(e) of the Social Security Act (Keys Amendment).

Must meet State and local licensing and occupancy requirements.

Ineligible Projects:

Boarding houses providing only food and shelter and single room occupancy hotels are not permitted.

Proposals which require "founders fees", life care fees or other similar entrance charges or fees are not permitted.

Eligible Sponsors:

Proprietary and private nonprofit organizations.

Financing:

FHA approved lending institutions must originate the loan. Project mortgages are eligible for the GNMA Mortgage-Backed Securities Program.

Mortgage Terms and Conditions:

Maximum mortgage limited of 90 percent of HUD/FHA estimate of value of the property and major equipment.

Maximum Mortgage term 40 years.

Interest rate negotiable between borrower and lender.

U. S. Department of Housing and Urban Development
Washington, D.C. 20410-8000

OFFICE OF THE ASSISTANT SECRETARY
FOR HOUSING-FEDERAL HOUSING COMMISSIONER

MORTGAGE INSURANCE FOR NURSING HOMES AND INTERMEDIATE CARE FACILITIES

SECTION 232

PURPOSE

- To help finance construction and substantial rehabilitation of nursing homes and intermediate care facilities (ICFs). HUD-insured existing projects may also be purchased or refinanced pursuant to Section 223(f) without substantial rehabilitation. The mortgage may include the cost of equipment for operating the nursing home or ICF. Projects may combine both nursing and ICF beds.

ELIGIBLE PROJECTS

- Projects with 20 beds or more.
- Projects with a State Certificate of Need (CON) or alternate market study if the State does not issue CONs.
- Nursing homes serve people who need skilled nursing care and medical services but do not require acute in-patient hospital care.
- ICFs provide a protective living environment and routine personal and health services for people who do not need skilled nursing care.

FINANCING

- The Section 232 Program is not a direct loan program. HUD-approved lenders (mortgagees) must originate the loan.
- Includes advances of funds during project construction except for existing projects pursuant to Section 223(f).

ELIGIBLE MORTGAGORS

- Proprietary facilities may be a corporation, trust, partnership, or individual approved by HUD. Nonprofit mortgagors must be organized for purposes other than making a profit for themselves or for their officers or members. Nonprofits must not be controlled or directed in any way by persons or firms seeking to derive profit from the facility.

U.S. Department of Housing and Urban Development
Government National Mortgage Association

GNMA

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and Urban Development
Government National
Mortgage Association

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Programs for Multifamily Mortgages

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U.S. Department of Housing and Urban Development
Government National Mortgage Association

GNMA

Ginnie Mae Investment Facts

A Symbol of Safety, Liquidity and High Yield

17TH STORY of Level 1 printed in FULL format.

The Plain Dealer

May 16, 1994 Monday, FINAL / ALL

SECTION: BUSINESS; Pg. 2C

LENGTH: 590 words

HEADLINE: UNION-ORIENTED FUNDS DESIGNED FOR PENSION PLANS

BODY:

New and different kinds of mutual funds are being born as rapidly as financial imaginations can create them.

The latest still seek the simple old targets of growth and income, then the; go beyond that to satisfy personal feelings.

They appeal to the likes or dislikes of potential investors, including socially responsive funds. And now Massachusetts Financial Services Co. has coı out with labor union-oriented funds.

The MFS Union Standard Trust has open-end mutual funds designed for pension plans sponsored by labor unions or in which union members participate, said Jo F. Reilly, MFS spokesman.

The trust consists of two portfolios: the Union Standard Equity Fund and th Union Standard Fixed-Income Fund.

The union stock fund plans to put up to 10% of its assets into " economically targeted investments. "

This means it wants companies with expanding employment opportunities, increasing the availability of affordable housing, building or improving schools or health-care facilities, or assisting minority or women-owned businesses.

In picking the rest of its companies, the fund will consider the degree to which a company's work force is unionized, whether the company manufactures products on a union boycott list, whether the company is or has been involved strikes or lock-outs and whether the company has demonstrated a pattern of non-compliance with applicable labor or health and safety laws.

The financial clout it hopes to wield can be seen in the requirement that t minimum investment at the present time is $5 million. It obviously is seeking input from the treasuries of union pension funds, said Reilly.

If the fund is successful, a similar one will be created for individual investors, he said.

Investments are based on a labor sensitivity index developed by American Capital Strategies Ltd. of Bethesda, Md.

After a list of potential purchases has been made, it is reviewed by a Labc Advisory Board, composed of senior labor officials, senior managers of

21ST STORY of Focus printed in FULL format.

Rocky Mountain News

March 28, 1994, Monday

SECTION: BUSINESS; Ed. F; Pg.39A

LENGTH: 1027 words

HEADLINE: PAVING the way with PENSION funds
Governments try to tap a $ 3 trillion U.S. pool for public works, but effor
stir controversy

BYLINE: Penelope Lemov; Governing Magazine

BODY:

With more than $ 3 trillion in assets, public and private pension funds the biggest lump of money in the world - around 40% of this country's finan assets. And nearly everyone would like a piece of that money.

'' Pension funds are viewed as the last pot of money that's available f significant investment,'' says Relmond Van Daniker, executive director of t National Association of State Auditors, Controllers and Treasurers. ''The pressures on them are enormous.''

Top government officials, from the Clinton administration down to governc and mayors and their cabinets, would like to see some of those hundreds of billions of dollars put to use underwriting cutting-edge infrastructure pro or boosting local economies.

It is at the state level, including Colorado, that the talk of drawing pension fund money into economic development or socially sensitive projec has been elevated to action, though not without a good deal of controversy. code words around which the battle is raging are '' economically targeted investments,'' or ETIs.

For example, Colorado's Public Employee Retirement Association has been ɛ to put 20% of its assets in investments that will help local economies.

So far, it has only gone as high as 7% of its assets - about $ 600 millic Much of this is in local real estate (apartments, hotels, office buildings, pools of mortgages), in-state venture capital deals (start-up high-tech companies, for example) and bonds issued by the Colorado Housing and Finar Agency to provide loans to small businesses.

Robert Scott, PERA's executive director, quibbles about calling these investments ETIs but agrees that the in-state investments are producing healthy returns and helping the local economy at the same time.

The Denver Employees Retirement Plan also recently committed to investinc a new Elitch Gardens amusement park in the Platte River Valley near downtow The $ 93 million Elitch project is seen as a centerpiece of the city's redevelopment efforts in the valley.

57TH STORY of Focus printed in FULL format.

National Mortgage News

February 7, 1994

SECTION: MULTIFAMILY MORTGAGES; Pg. 8

LENGTH: 487 words

HEADLINE: Pensions Buying 'Social' MBS, Including MF

BYLINE: TED CORNWELL

DATELINE: WASHINGTON

BODY:

State pension funds rely heavily on mortgage-backed securities, including some backed by multifamily loans, to meet social investment targets, according to a recent survey of the funds.

About 30% of the assets in " Economically Targeted Investment" programs ar housing -related, according to a study by the Center for Policy Alternatives.

State-wide public pension funds have at least 60 ETI programs to promot investment in underserved areas, the study found.

Mortgage securities are often a vehicle for ETI investment because the secondary market absorbs the credit risk and creates liquidity.

In addition, pension fund managers are familiar with the features of general MBS investment.

While affordable housing loans are typically co-mingled with other loans MBS pools, pools can be created that aggregate affordable housing loans and geographically targeted loans to suit the goals of ETI programs. Pension funds sometimes work with lenders to originate loans and then swap them for agency securities.

The secondary market agencies are actively promoting loan products with low downpayments and flexible underwriting and will customize programs for individual funds, co-authors Richard Ferlauto and Jeffrey Clabourn said in the report.

At least 14 state pension funds currently have ETI programs that steer investment to affordable, single-family housing.

Three state funds are are targeting investment to multifamily housing.

For example, a public employee's pension fund in Connecticut teamed up wi the Federal Home Loan Mortgage Corp. to offer at least $ 200 million in below-market interest rate loans.

The Massachusetts teachers fund participates in programs with the secondary market agencies as well to originate loans targeted to teachers and low-income home buyers.

67TH STORY of Focus printed in FULL format.

Los Angeles Times

January 10, 1994, Monday, Home Edition

SECTION: Part A; Page 1; Column 1; National Desk

LENGTH: 1839 words

HEADLINE: CLINTON SEEKS MORE PRIVATE FUNDING FOR INNER CITIES;
URBAN CENTERS: ADMINISTRATION OFFERS INCENTIVES. IT ALSO WIELDS THE THREAT OF REGULATORY PRESSURE.

BYLINE: By RONALD BROWNSTEIN, TIMES POLITICAL WRITER

DATELINE: WASHINGTON

BODY:

Increasing the flow of private investment to America's inner cities is emerging as the cornerstone of the Clinton Administration's strategy for revitalizing depressed urban centers.

Across the government, at least half a dozen major initiatives are being pursued with a common objective of attracting more capital from banks, pensior funds, insurance companies and private businesses.

The Administration is dangling several carrots for investors, including tax incentives for companies that invest in designated urban "empowerment zones" a federal seed money for a nationwide network of new community lending institutions. But it is also brandishing a potentially big stick in the form o stepped-up regulatory and legal pressure on banks and insurance companies to make more services available in inner cities.

"It is incumbent that we find a way to build a bridge between the variety o sources of capital and the needs of our communities," said Nicolas P. Retsinas assistant secretary for housing at the Department of Housing and Urban Development.

This focus on attracting private capital fits several of President Clinton broad policy and political goals. At a time of fiscal strain, it allows the Administration to supplement limited federal expenditures on cities with priva dollars. And it reflects Clinton's priority on bottom-up development, which attempts to enhance inner-city stability by bolstering community institutions and increasing the number of homeowners and small business owners.

While the emphasis on encouraging private investment and homeownership ech the themes of Clinton's Republican predecessors, his emerging strategy envisio a more assertive government role.

That role is evident in the pressure on banks to provide capital and the proposed creation of complementary public initiatives on job training, vocational education, crime prevention and, eventually, welfare reform.

But, like its disappointing predecessors over the last quarter of a century this latest attempt at urban renewal raises the question of whether any

81ST STORY of Focus printed in FULL format.

Pension World

December, 1993

SECTION: Vol. 29 ; No. 12 ; Pg. 9; ISSN: 0098-1753

LENGTH: 1711 words

HEADLINE: Putting a sharp pencil to ETIs: economic buoyancy or hopes about to pop? economically targeted investments; Cover Story

BYLINE: Ferlauto, Richard

BODY:

ETIs fill an identifiable capital gap resulting from market imperfections, and offer substantial corollary benefits to the state or regional economy.

Pension funds are increasingly being viewed by federal and state policymakers as a source for financing housing, small businesses and economic development projects that, although they may be sound financially and otherwise credit-worthy, cannot get financing from traditional lenders. This credit crunch has been caused by numerous factors, all driving commercial banks and Thrifts to more conservative lending practices.

These factors include: tightening of credit regulations due to the savings-and-loan crisis, new capital reserve requirements, the recession, the flow of bank funds to treasury securities rather than commercial loans due to interest rates, and the loss of small community-based banks committed to local business development.

The change is exacerbated by a major shift in the pattern of capital flowing to various financial intermediaries. For example, Federal Reserve data indicate that in 1972, commercial banks held 37.7% of capital assets available for development, by 1992 the level had fallen to 26.6%. In the same time period, pension fund capital grew from 17.3% to 30.9%.

This problem has become a front-line policy question at the White House and cabinet-level deliberations with discussions including a hard look at using pension-based " economically targeted investments" (ETIs) , an economic development strategy proven successful in many states. Discussions at the White House's National Economic Council involve using pension funds as part of a strategy for community lending; a strategy which includes revamping the Community Reinvestment Act and creating a national network of community development financial institutions.

ETIs are central to the Infrastructure Investment Commission's discussions of new ways to finance bridges, sewers and highways.

The Department of Housing and Urban Development has proposed a $ 1.2 billion urban revitalization program in conjunction with the AFL-CIO Housing Investment Trust, pointing to the fact that ETIs supply capital to neglected areas, affordable housing and small businesses, by overcoming barriers based on such non-financial standards as race, gender or location.

91ST STORY of Focus printed in FULL format.

Daily Report For Executives

November 5, 1993, Friday

1993 DER 213 d22

SECTION: REGULATION, ECONOMICS AND LAW, Section A; 213.

LENGTH: 1188 words

HEADLINE: Pensions, HUD SECRETARY URGES PENSION MANAGERS TO INVEST FUNDS IN AFFORDABLE HOUSING

BODY:

Secretary Henry G. Cisneros of the Housing and Urband Development Department urged public pension fund managers Nov. 4 to consider investments that would increase the nation's stock of affordable housing without sacrificing an appropriate rate of return.

In his keynote address to the Pensions 2000 conference, Cisneros cited a partnership between HUD and the AFL-CIO as a model for economically target investments that pension funds might consider. In partnership with the AFL-CIO Housing Investment Trust, HUD will issue $ 100 million in public housing vouchers to eligible low-income households, he said.

The AFL-CIO will invest up to $ 660 million in pension fund money over five years and private banks will invest an additional $ 550 million to construct multifamily rental housing. Fannie Mae, Freddie Mac, and state housing finance agencies will provide a guarantee on the investments.

"I understand the fiduciary responsibilities of pension trustees," Cisneros told conference attendees, which included managers of some of the nation's largest pension funds. However, using pension fund assets to achieve socia goals makes economic sense, he argued. "It is possible to build affordable housing in a way that is financially responsible," he said.

Cisneros said there are growing signs that the economy is beginning to recover from economic recession. At the same time, "poverty is on the increas he said, and "home ownership is a fading dream for too many Americans." According to the Census Bureau, 80 to 90 percent of renters cannot afford to b even a modestly priced home, he added.

HUD Seeks Partnerships

Like other government agencies, HUD's resources have been restricted under President Clinton's directive to reduce the federal deficit, Cisneros said. Therefore, to address the nation's housing needs HUD will seek partnerships with larger pension funds, university endowment funds, and the corporate sector, including the insurance industry, he said. The agency will soon begin discussions with pension fund advisors and consultants, he added.

Cisneros cited three examples of economically targeted investments by pension funds that were financially successful and also achieved social goal In Pennsylvania, state pension funds invested $ 788 million in activities

6TH STORY of Focus printed in FULL format.

Pensions & Investments

February 21, 1994

SECTION: Pg. 3

LENGTH: 781 words

HEADLINE: Housing incentive in budget

BYLINE: By Patricia B. Limbacher

DATELINE: WASHINGTON

BODY:

The Department of Housing and Urban Development has asked Congress for $ 514.3 million for fiscal year 1995 for financial incentives to encourage pension fund investment in low-income, multifamily housing.

"We're finally catching up" with institutional investors, said Marc Weiss, speaking for Housing Secretary Henry Cisneros in a speech at a Center for Policy Alternatives' conference. "We're ready to step into the arena (with institutional investors) and shoulder a share of the load."

The HUD plan -- Pension Fund Partnerships -- is included in President Clinton's budget, which must be approved by Congress. The plan calls for 5,0(15-year rental subsidies, and is expected to leverage $ 1 billion to $ 2 billi in pension fund financing for multifamily housing.

Pension funds and/or project developers would carry much of the responsibility, finding the projects and proposing them to the department for approval.

"HUD is not the developer of the housing, it is the facilitator," said Mindy Turbov, special assistant to Mr. Cisneros.

The $ 514.3 million allocated isn't large, but it's a strong start, said Michael Arpey, general counsel to Pennsylvania State Treasurer Catherine Baker Knoll. Pennsylvania is involved in a number of housing projects.

"It can really snowball," Mr. Arpey said. "Once (pension funds) get comfortable in multifamily housing, they're apt to develop a consistent cyc] of investments."

The federal subsidies would deliver steady payments, which would ensure pension funds get a return on their investment. Moreover, the subsidies wou help qualify a project's securitization by Fannie Mae, Freddie Mac or other housing agencies.

David Cardwell, manager of affordable housing at Freddie Mac, said it's t early to tell the impact of the proposal, but the agency is willing to work wi interested funds.

19TH STORY of Focus printed in FULL format.

Fortune

March 7, 1994, Domestic Edition

SECTION: MONEY & MARKETS/COVER STORY; Pg. 40

LENGTH: 7119 words

HEADLINE: THE RISK THAT WON'T GO AWAY

BYLINE: by Carol J. Loomis, REPORTER ASSOCIATE Erick Schonfeld

BODY:

TO ALL generally well-informed business people, a few words of semicomfort about financial derivatives: First, if you don't really understand what these are, don't fret. Most of your colleagues, top brass included, are equally baffled. Second, if ten years from now -- despite periodic booster shots from articles like this one -- you still can't keep these things in focus, then cheer! That will mean derivatives have not been forcibly brought to your attention by bad, bad news, in which they make headlines as a villain, or even the villain, in some financial crisis that sweeps the world.

That possibility must be entertained because derivatives have grown with stunning speed into an enormous, pervasive, and controversial financial force. Derivatives are contracts whose value is derived -- the key word -- from the value of some underlying asset, such as currencies, equities, or commodities; from an indicator like interest rates; or from a stock-market or other index. The derivative instruments that result -- variously called swaps, forwards, futures, puts, calls, swaptions, caps, floors, collars, captions, floortions, spreadtions, look-backs, and other neverland names -- keep bursting into the news, as they did recently when the Federal Reserve raised interest rates and share prices sank, costing some traders of derivatives huge amounts that in some cases surely ran into many millions. Derivative contracts also produce amazing statistics: growth rates, for example, of 40% a year. "These things," says one Wall Streeter, "are metastasizing." They demand superlatives, are measured in trillions of dollars, are quintessentially global, and are positioned on what wags call "the bleeding edge of technology."

Derivatives are fixtures by now in thousands of corporations, but you need a playbill to figure out the cast. The lead actors, small in number, are derivatives dealers: the big commercial banks, the major securities firms, plus an occasional outlander from insurance. For these players, derivatives have become an imposing source of profits, earned largely on the fastest-growing, most controversial instruments of all: customized, over-the-counter contracts written between a dealer and another party. A Citicorp executive goes so far as to call derivatives "the basic banking business of the 1990s."

The remaining roles in derivatives are played by the end users, who include the dealers themselves and just about anybody else capable of taking the other side of those contracts -- smaller banks, industrial companies, insurers and other financial services firms, pension funds, governmental units such as municipalities. These "counterparties" to the contracts customarily use them to hedge some business risk they don't want to bear, such as a jump in interest rates or a fall in the value of a currency.

21ST STORY of Focus printed in FULL format.

Fortune

March 7, 1994, Domestic Edition

SECTION: MONEY & MARKETS; Pg. 46

LENGTH: 401 words

HEADLINE: BIG BOYS IN A BIG BUSINESS

BODY:

Lists of the largest dealers in swaps or other species of derivatives are common. But to FORTUNE's knowledge, this is the first that totals all the derivatives contracts of each dealer and presents a worldwide ranking by "notional" values (that is, principal amount). Even so, the list may not be comprehensive: German banks and most Japanese banks (other than Mitsubishi, Nc 8) disclose no data about derivatives. Nor could we get up-to-date informatior in all cases, which is why the reporting date for each dealer is noted.

Banks are much bigger forces in this business than securities firms. Chemical, not usually thought of as a derivatives powerhouse, heads the list partly because it is a leader in short-term contracts done with other banks. Bankers Trust and J.P. Morgan have the big reputations overall in this busines and Citicorp is known for currency contracts. Among international dealers, the Swiss banks and the French -- Credit Lyonnais, Indosuez, Societe Generale, and Paribas -- are particularly prominent. The biggest securities firm on our list is Salomon, which ranks 12th.

The worldwide total of derivative contracts is estimated to be about $16 trillion. But the figures in this list exceed that amount because of double counting. If Chemical enters into a contract with Bankers Trust, the contract' notional amount shows up in the total of each bank. But when industry figures are compiled by trade associations and regulators, this double counting is eliminated because the data assemblers have access to the information needed t do that.

	DEALER	NOTIONAL VALUE Billions of 1993 dollars
1	Chemical Bank	n4 $ 2,416
2	Bankers Trust	n4 $ 1,982
3	Citicorp	n4 $ 1,981
4	J.P. Morgan	n4 $ 1,660
5	Union Bank of Switzerland	n3 $ 1,452
6	Swiss Bank	n3 $ 1,352
7	Societe Generale	n3 $ 1,209
8	Mitsubishi Bank	n2 $ 1,182
9	Credit Lyonnais	n3 $ 1,110
10	Chase Manhattan	n4 $ 1,042
11	Credit Suisse	n3 $ 1,017
12	Salomon	n3 $ 967
13	BankAmerica	n4 $ 964
14	Banque Indosuez	n4 $ 945
15	Merrill Lynch	n4 $ 918

7TH STORY of Level 1 printed in FULL format.

BNA Pension & Benefits Reporter

Vol. 21, No. 21; Pg. 1004

May 23, 1994

LENGTH: 257 words

SECTION: NEWS: IRAs.

TITLE: REPS. PICKLE, THOMAS PLAN TO INTRODUCE 'SUPER IRA' LEGISLATION.

TEXT:

House Ways and Means Committee members J.J. Pickle (D-Texas) and Bill Thomas (R-Calif) plan to introduce shortly legislation to restore the universal availability of fully tax deductible individual retirement accounts, according to a "Dear Colleague" letter.

The proposal, known as the "Super IRA, " would give taxpayers the option of choosing between tax deductible contributions to traditional "front-loaded" IRAs or contributions to a new "back-loaded" IRA, under which contributions would not be deductible, but earnings would not be taxed when they were withdrawn.

The proposal also would allow all spouses who work at home to make the same $2,000 contribution to either kind of IRA, and would allow penalty-free withdrawals from IRAs, as well as from Section 401(k) salary reduction plans and Section 403(b) government plans, for college education expenses, first-time home purchases, "financially devastating medical expenses, and during periods of long and unusual unemployment, according to the May 3 letter.

The letter, which requested co-sponsors, said the Super IRA proposal was aimed at addressing low U.S. national and personal savings rates, the lack of savings for future higher education expenses, and the inability of many young taxpayers to save enough for the down payment on their first home.

The proposal also would correct the imposition of tax penalties on people who must make unexpected emergency withdrawals from their IRAs in emergency cases caused by health costs and unemployment, the letter added.

LANGUAGE: ENGLISH

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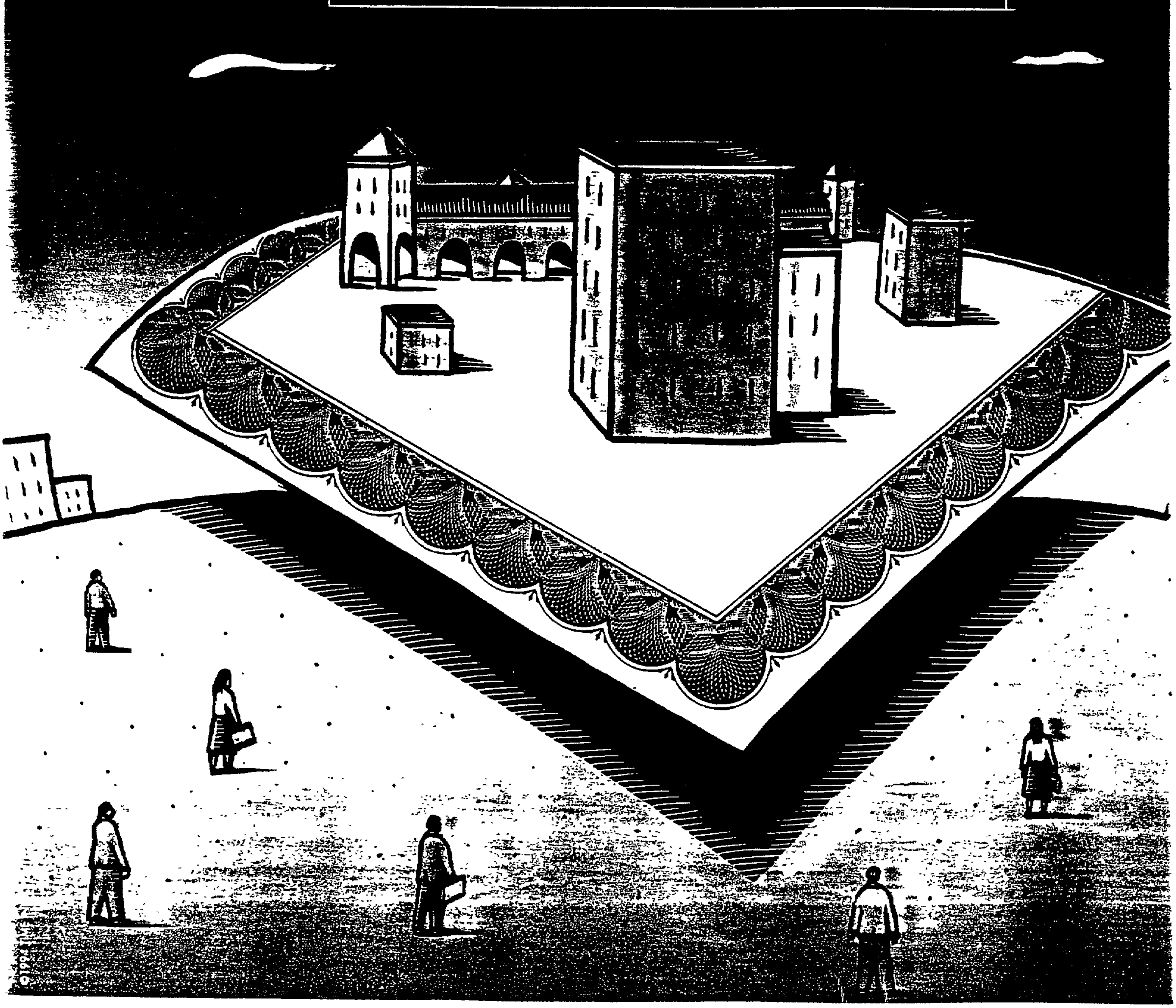

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1ST STORY of Level 1 printed in FULL format.

BNA PENSIONS & BENEFITS DAILY

May 25, 1994

LENGTH: 283 words

TEXT:

IRAs
PICKLE, THOMAS PROPOSE
"SUPER IRA" LEGISLATION

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LANGUAGE: ENGLISH

7TH STORY of Level 1 printed in FULL format.

Wall Street Letter

April 4, 1994

SECTION: WASHINGTON; Vol. XXVI, No. 13; Pg. 6

LENGTH: 529 words

HEADLINE: SUPER IRA TO RISE FROM THE ASHES THEN RETURN TO THE DUST

BODY:

The securities industry and other supporters of expanded Individual Retirement Accounts (IRAs) will try to resurrect the concept from its legislative death two years ago. Their prospects for success are, sources to: WSL, limited.

Senate Finance Committee members William Roth (R-DE) and John Breaux (D-LA) have said they will introduce legislation this spring that would make IRA contributions fully deductible, as they were before Congress limited their ta: deductibility with the passage of the 1986 Tax Reform Act. In addition, the bill would allow penalty-free early withdrawal of IRA savings for college education expenses, first-time home purchases, catastrophic medical expenses a long-term unemployment emergencies. The new savings vehicle would be called a Super IRA. "

Reps J. J. Pickle (D-TX) and Bill Thomas (R-CA) of the House Ways and Means Committee have indicated that they will introduce a companion measure in thei: chamber.

The bills mirror a measure that cleared both chambers of Congress in 1992 that was vetoed by President Bush. It was also introduced by Roth and include then Senate Finance Committee chairman Lloyd Bentsen as a co-sponsor. "We th: there is a very good chance that this will go through this time," said a Roth spokeswoman, "especially with Bentsen now at Treasury."

Privately, however, most observers -- including banking and securities lobbyists who strongly support the measure -- think legislation for a Super IRA will ever be enacted. In its last political incarnation, the Super IR: was championed as a vote-getting middle class tax break. But its enactment could cost the Treasury between $ 12 to $ 26 billion in lost taxes over five years and deficit-reduction laws dictate that revenue-losing provisions have - be offset by new taxes. Bush was not about to advocate new taxes in an elect: year.

The same concerns are likely to doom its enactment once again, especially since supporters no longer have the chairman of the Finance Committee's endorsement to spur reluctant members to sign on. Daniel Patrick Moynihan (D-N.Y.), the new chairman of the Senate committee, refused to sign on last t around and is unlikely, to support the measure this year. "Given the revenue concerns and over-ruling focus on health care, the chances of this passing ar(pretty slim," said one securities lobbyist.

All the same, the securities industry has indicated that they will push as hard this time around as they did in 1992. During a government relations conference in Washington three weeks ago, the Securities Industry Association passed out a paper with arguments that supported the measure and urged those attending the conference to meet with legislators to tell them of their suppo: Merrill Lynch in particular will be a high profile cheerleader for the enhanc IRA. A spokesman for the company said it plans to run advertisements in the next couple of months in Roll Call and other Washington publications touting legislation as a way to increase savings in this country. Other supporters include the American Banking Association and the Investment Company Institute

LANGUAGE: ENGLISH

LOAD-DATE-MDC: April 13, 1994

24TH STORY of Level 1 printed in FULL format.

Chicago Sun-Times

March 12, 1993, FRIDAY , LATE SPORTS FINAL

SECTION: HOMELIFE; HOME Q & A; Pg. 38; N

LENGTH: 591 words

HEADLINE: Don't Count on IRA for Home Purchase

BYLINE: Carla Lazzareschi

BODY:

Q. I have been getting conflicting information on using my individual retirement account as a down payment for a home purchase. I remember reading that the usual 10 percent early withdrawal penalty would be waived for first-time home buyers. But now I have been told this is incorrect. What is the truth?

A. The truth is that as yet there are no provisions to dismiss the 10 perc early withdrawal penalty for IRA disbursements used to purchase a first home. Congress has been talking about enacting such a provision for years, bu so far there's nothing on the books.

Perhaps the exemption to which you are referring is the one applying to 401(k) savings programs, which is not as sweeping or generous as you want.

The Internal Revenue Service allows taxpayers to withdraw funds from their 401(k) tax-deferred savings plans for certain "hardships" - a catch-all categ that includes medical expenses, the purchase of a principal residence, paymen of college tuition for spouses or children and payment of a household rent or mortgage where eviction or foreclosure is threatened.

Your company's plan may accept additional hardship claims, such as funeral expenses, legal bills and loss of family income because of disability or a spouse's layoff.

However, even if you have an accepted hardship case, taxpayers under age 5 1/2 who withdraw funds from their 401(k) plans are, with limited exceptions, automatically hit with a 10 percent federal penalty plus any applicable state penalty.

Buying a new home, whether or not it's your first-ever purchase, is not on of the penalty exceptions. So off the top, you would be forfeiting more than percent of your savings to the government.

In addition to the penalties, you would be required to pay state and feder income taxes on the amount withdrawn. Assuming you are in the highest state a federal tax brackets, a $ 20,000 withdrawal from your 401(k) plan would net you about $ 10,700 toward your down payment.

Perhaps your best bet is to consider taking out a loan against your 401(k) account. Some companies allow their employees to borrow against their account totals, a strategy that avoids both the penalties and tax implications of a withdrawal.

Q. My lawyer and accountant are giving me conflicting advice on how to compute the taxable gain from my home sale. Can you please resolve the matter?

Our original home was purchased for $ 80,000 years ago, and we recently got 550,000 for it after expenses. We are eligible to use the $ 125,000 one-time profit exclusion available to homeowners over age 55. Our replacement home cos $ 300,000. Do we have a taxable gain, and if so, how much is it?

A. This oft-asked question stems from continuing confusion over whether taxpayers are able to deduct both the original home's basis (in your case, $ 80,000) as well as the replacement home's cost ($ 300,000 in your case) from t sales price (in your case, $ 550,000). You may not. This is true whether the taxpayer is invoking the $ 125,000 senior citizen exemption or not.

This is how you should compute your taxable gain: Start with your $ 550,000 home sale gain and deduct the $ 300,000 value of your replacement home. From that remainder of $ 250,000, deduct your $ 125,000 exemption.

Your taxable gain is $ 125,000. The basis of your new home is the $ 80,000 cost of your original residence.

If you were not eligible for the senior citizen exemption, your taxable gai would be $ 250,000.

Carla Lazzareschi writes for the Los Angeles Times.

LANGUAGE: English

MDC-ACC-NO: 38HON031993

LOAD-DATE-MDC: March 31, 1993

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By Michael A. Stegman

The Twentieth Century Fund Press/New York/1991