



# HUD NEWS

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TASK FORCE ON HOUSING COSTS

INTERIM REPORT

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## TASK FORCE ON HOUSING COSTS

### Interim Report

#### INTRODUCTION

By memorandum dated April 20, 1977, Secretary Patricia Roberts Harris asked Under Secretary Jay Janis to develop specific recommendations on what the Federal Government in general and HUD in particular could do to reduce escalating housing costs. Pursuant to this memorandum, a Task Force on Housing Costs was formed consisting of Donna E. Shalala, Assistant Secretary for Policy Development and Research; Lawrence B. Simons, Assistant Secretary for Housing - FHA Commissioner; Geno C. Baroni, Assistant Secretary for Neighborhoods, Voluntary Associations, and Consumer Protection; with William J. White, General Manager, New Community Development Corporation, as Chairman.

It is expected that the Task Force will be expanded to include up to 36 individuals from the private sector with expertise in housing. If this expanded Task Force is approved by the Office of Management and Budget, it will hold its first meeting in late summer. In the meantime, the Chairman assembled a Task Force staff and a Central Office working group to identify cost-reducing ideas and to prepare materials for an interim report to the Secretary. The working group met in several sessions from June 16 through June 22, 1977. The staff and working group members are listed in the Appendix.

The Task Force staff compiled a list of some 80 cost-reducing ideas including suggestions made by Departmental staff and recommendations derived from literature on the subject. The working group then evaluated these ideas and others using the following criteria:

1. Cost impact;
2. Feasibility;
3. Whether HUD could implement the specific idea now or whether action by Congress or another Federal agency was required; and
4. Whether the idea should be studied further.

This Interim Report presents the conclusions and preliminary recommendations of the working group, as modified by members of the existing HUD Task Force. It is not meant to be considered a definitive

work nor does it chronicle or discuss the economic reasons for cost escalation during the past few years. Rather, it summarizes some actions which HUD could take immediately and presents some ideas for further consideration.

Later this summer, the Interim Report will be sent to a second working group of HUD field personnel for their review and contributions. Their responses to the Interim Report and any further Departmental suggestions will be given to the expanded Task Force for its consideration. The Task Force will submit a final report to the Secretary at the conclusion of its deliberations.

#### LOCAL LAND USE CONTROLS (ZONING, SUBDIVISION ORDINANCES, GROWTH CONTROLS)

In recent years, many local governments have strengthened their land development regulations to gain greater control over the fiscal, environmental and social impacts of growth, and in so doing have contributed to the higher initial cost of new housing. Many of these regulations may confer benefits on the community which offset their costs. Therefore, in considering whether HUD should take action to ameliorate the cost effects of these regulations, it is necessary to distinguish arbitrary and excessive actions from those which are reasonable and defensible.

There are some regulatory practices which are generally acknowledged to be unreasonable. Zoning which allows only large-lot, single-family detached housing throughout a municipality denies land for higher-density housing such as smaller houses and apartments which can be developed at lower costs. Subdivision design requirements for street widths, curbs and other facilities are often excessive and unreasonably costly. Sewer tap-in fees may be much higher than what is justified in terms of sewer costs. Often, these high standards and fees are imposed strictly for purposes of increasing housing costs and thus for keeping out all but upper-income families. Also, a municipality may have what appears to be a valid growth-management ordinance but in actual practice may be using it for exclusionary purposes. An example of this occurs when a local jurisdiction will not permit new development in the absence of adequate facilities while it refuses to provide them at a reasonable pace.

Procedural delays also drive up the costs of holding and developing land. Arbitrary, capricious and inequitable enforcement of otherwise valid regulations can result in excessive processing time. Procedural complexity, e.g., multi-agency and multi-level reviews with conflicting requirements, can contribute to increased overhead, to uncertainty and to risk, as well as to sheer delay. Such improper enforcement actions and unneeded procedural complexity can be identified.

The Department currently is doing little to encourage local communities to eliminate obvious cases of excessive land use controls and protracted procedures. The Department should use existing statutory authority more vigorously and increase its reviews of local land use control policies and programs. Many communities could be persuaded to modify their standards and procedures to reduce cost-increasing effects and at the same time facilitate the development of low- and moderate-income housing.

Studies by such organizations as the Urban Land Institute and the National Association of Home Builders have found that local land use and growth controls add from \$1,500 to \$15,000 per housing unit. It is not possible, however, to determine what proportion of this cost is excessive because these studies do not agree about the standards for determining what constitutes an excessive regulation. It should be recognized that many local land use controls which generate higher housing costs have been carefully designed to be legally defensible as appropriate means to valid ends.

There are many examples of such defensible land use controls. For fiscal reasons, subdivision ordinances now commonly require the developer--and thus the consumer of new housing--to pay for all local streets, sidewalks, utilities, and parks and school sites directly serving the subdivision. High standards for street construction are often imposed to reduce public maintenance costs. Costly storm water management systems are now required as a part of subdivision development in many jurisdictions to avoid flooding, erosion, and danger to fish and wildlife. Sewer tap-in fees have risen rapidly to pay the capital costs of new or upgraded treatment plants, often required by Federal standards. An increasing number of localities are effectively discouraging new development in sections lacking a minimum level of utilities and community facilities. This tends to put a premium on the price of adequately serviced land, but it can be fiscally responsible. Several local governments and some states now require environmental and fiscal impact statements, especially for larger residential developments. These statements cost money, but so do Federal environmental impact reviews required under the National Environmental Policy Act, which influenced many such local requirements.

#### Recommendations:

1. HUD should develop clear, comprehensive and practical standards for reviewing the cost impacts of local land use controls and should notify all Community Development Block Grant applicants that they will be subject to such a review. Using such standards, HUD staff should determine whether the cost impacts of each applicant's land use controls so hinder the achievement of the goals set forth in the jurisdiction's

Community Development Plan and its Housing Assistance Plan that they must be changed. If such a finding is made, HUD should negotiate with the applicant to assure that action is taken to eliminate excessive controls prior to making a grant.

2. HUD should require all states and area-wide agencies receiving funds under the 701 Comprehensive Planning Assistance Program to survey and evaluate the cost impacts of local land use controls in their respective jurisdictions as a part of the Housing Element required under the 701 Program. The newly-developed HUD standards should be used. These 701 studies should be monitored by HUD staff and the results should be compiled and evaluated for national policy implications.

3. HUD should prepare and disseminate to state and local agencies model statutes, ordinances, regulations, and administrative procedures pertaining to land use and growth controls.

4. The newly-developed HUD standards should be applied as a part of any regional strategy which HUD may adopt to achieve national urban policies. If an area-wide certification process is pursued, reasonable land use controls should be required prior to certification.

#### STATE AND LOCAL BUILDING CODES

Many state and local jurisdictions add to the cost of housing by failing to adopt building codes which apply nationally recognized standards for building technology, methods, and materials. In 1969, the National Commission on Urban Problems (the Douglas Commission) estimated that this failure perhaps adds as much as \$640 to the cost of a conventionally constructed home, and as much as \$2,500 to the cost of a factory-built home.

In addition, poor codes administration contributes to excessive housing costs. Administrative practices with respect to a given building code differ from one jurisdiction to another. In some jurisdictions fees and charges may be unreasonable, while in others, code interpretation and enforcement procedures are unprofessional and inconsistent.

In the past, HUD reviewed local codes and persuaded local communities to upgrade them and the manner in which they were administered so as to reduce costs. Initially, HUD conducted its review under Section 2 of the National Housing Act of 1949 which requires the Secretary to encourage and assist "the reduction of the costs of housing without sacrifice of \* \* \* sound standards." FHA developed Minimum Property Standards (MPS) in part to encourage the use of cost-saving materials and methods.

These standards influenced the development of the Model One and Two Family Dwelling Code and some locally written codes, such as the Cuyahoga County Regional Code, the Chicago Suburban Building Officials Code, and Milwaukee's Southeastern Wisconsin Code.

Section 101(a) of the 1949 Act, which created the Urban Renewal Program, requires the Secretary to consider, in any contract for advances under this Title:

"the extent to which \* \* \* local public bodies have undertaken positive programs (through the adoption, administration, and enforcement of housing, zoning, building and other laws, codes and regulations \* \* \*) for \* \* \* encouraging housing cost reductions through the use of appropriate new materials, techniques and methods \* \* \* and the elimination of restrictive practices which unnecessarily increase housing costs."

Section 101(c) of the 1949 Act as amended in 1954, under which the Workable Program for Community Improvement was implemented, states that no locality will be eligible for Title I assistance:

"unless there is presented \* \* \* an official plan of action \* \* \* for effectively dealing with the problem of urban slums and blight and the establishment of decent homes for adequate family life \* \* \* and \* \* \* the Secretary determines that such a program meets the requirements of this subsection."

From 1949 to 1968, HUD staff reviewed the codes of local jurisdictions and encouraged these jurisdictions to amend and update their codes in accordance with the nationally recognized model codes. As a result, 4,000 jurisdictions modified their code provisions to conform to national standards or explained why local deviations were needed in particular instances. From 1968 to 1974, HUD staff reviewed only the deviations, but required that those which could not be supported with sound engineering data be replaced with the nationally recognized provisions. Approximately 1,000 jurisdictions had removed such deviations by the time the Department terminated these reviews following the enactment of the Housing and Community Development Act of 1974.

In 1969, HUD created the Operation Breakthrough program which was terminated in 1975. Under this program, HUD sought to create mass markets for factory-built housing. HUD persuaded 31 states to enact legislation providing for state review and approval of such housing systems. After such state reviews, developers could use these systems throughout the state, notwithstanding conflicting local building codes. As a result, in many instances local processing time was substantially reduced, with some cost savings to the developers.

There is language in the Conference Report that implies that the 1974 Act does not grant the Department authority to impose specific code requirements on jurisdictions assisted with Community Development Block Grants. However, there is nothing in the Act which requires HUD to accept local code provisions without question. Nor does the 1974 Act require HUD to refrain from exercising its responsibility under the 1949 Act to encourage code revisions which cut the cost of housing. Nonetheless, since 1974, HUD has ceased monitoring codes, has stopped giving technical assistance for code revisions and as a result costly deviations from national standards are reappearing in local codes.

The Community Development Block Grant program regulations under Section 104 of the Act do not provide for HUD review of building codes. However, just as HUD reviewed building codes under the 1949 Housing Act, as amended, it should still do so.

Recommendations:

1. Amend the Community Development Block Grant regulations implementing Section 104 of the Housing and Community Development Act of 1974 to provide for HUD review of local building codes and to require that communities applying for entitlement grants demonstrate that their local building codes support the proposed "comprehensive strategy" for meeting "identified community development needs." Specifically, the applicant should show:

- a. That such codes are revised periodically;
- b. That efforts have been made to eliminate inequitable and inconsistent interpretation of code provisions; and
- c. That any provisions which unnecessarily increase the cost of housing will be eliminated or will not apply to housing constructed with HUD/FHA-insured or assisted financing.

2. Formulate and implement a strong national policy to ensure that codes are administered and enforced in a professional and consistent manner. Under a current HUD research contract, training programs available to local code enforcement administrators and technicians are being evaluated and suggestions for improving such programs developed. In addition, a model code administration curriculum is being developed for national use. This research could be accelerated and, if necessary, supplemented to provide the basis for an effective national program.

#### HUD/FHA PROCESSING

This section pertains to HUD/FHA processing of applications for housing loan insurance and subsidy. It does not include HUD environmental reviews, which are covered in another section.

#### Recommendations:

1. HUD should better distribute, manage and train staff assigned to processing multi-family project applications. The Office of Housing estimates that a saving of 155 calendar days in overall processing time per project would result. Assuming a typical total development cost of \$3.27 million per project and an inflation rate of 8 percent annually, the 155 days would represent 42 percent of a year and thus save 3.36 percent of the 8 percent inflation rate. The savings per project (\$3.27 million times 3.36 percent) would be \$109,900. Multiplied by the total number of projects (1,800), it is obvious that the total savings would come to nearly \$200 million in development costs per year. This estimate does not include possible savings in holding costs and overhead.

Furthermore, if the total cost of a subsidized project is reduced, and the rents are therefore reduced, smaller subsidies will be required. One-half of the multi-family projects are subsidized. Assuming rent reductions of 10 percent of the development costs, annual savings would be just under \$10 million.

Savings in processing time would also yield ultimate savings in the HUD staff budget, assuming no additional staff and a constant volume of applications. It currently takes about 882 manhours to process a multi-family project application. The Office of Housing estimates processing time could be reduced to 774 hours. HUD would save the staff cost of \$12 per hour, multiplied by 1,800 multi-family projects processed each year, for a total of \$2.3 million annually.

In short, the total governmental and private saving which could be achieved through proper staffing is estimated to be about \$210 million per year.

2. Hire staff rather than outside fee appraisers. This would have saved HUD over \$4.7 million in 1976.

3. Strictly enforce HUD's instructions which require that multi-family project applications be complete before HUD will begin to process them. It is estimated that at least 50 percent of the multi-family applications processed by HUD are found to be incomplete, requiring HUD to seek additional information at all three stages of processing. Assuming that a minimum of one month is lost in requesting and amassing the missing information, the cost of the project is increased by about \$200/unit. (Assume an inflation rate of 1 percent per month on a typical per unit construction cost of \$24,000.) The resulting additional overhead costs, at about \$15/hour, come to about \$2,700 per project. In summary, the increased cost due to a typical one month delay caused by obtaining information missing from each of the approximately 900 applications processed in 1976 equals more than \$24 million. This figure does not include the interest on invested capital.

4. Eliminate that part of the processing pertaining to the subdivision (as opposed to the structures and their immediate site) when single-family or other infill housing is planned for vacant sites within completed subdivisions where streets and utilities are already installed. In these cases, review should be limited to the site covered by the application as is now the practice in fully built-out subdivisions.

Typically, it takes 180 days to process a subdivision. When a builder proposes to build in an existing subdivision, the entire time period could be saved. This means savings for HUD (18 actual processing days at \$12 per hour) as well as for the builder and consumer. Assuming a construction cost of \$30,000 per unit and a 12 percent annual construction cost inflation factor, the savings per unit come to \$1,800.

5. Amend HUD regulations and develop a standard affirmative marketing certification procedure for sponsors of housing in locations lacking an area-wide agreement. Currently, sponsors in this situation must submit plans to the field office Equal Opportunity staff. Requirements vary from one office to another so that a plan acceptable to one Equal Opportunity officer is not necessarily acceptable to

another. The cost of preparing these Affirmative Marketing plans runs from \$1,000 to \$5,000 per project. Assuming, for the purposes of a conservative estimate, that the cost is \$1,000 per plan and that 80 percent of all applications would be affected, the savings to the industry would be \$4.3 million (\$1,000 times 5,400 applications times .8 equals \$4,320,000).

6. Require that operating loss loans be computed from the day after the final endorsement date rather than from the day after the substantial completion date. This will provide an incentive for closing more quickly and will keep operating losses down. The Office of Housing estimates that this requirement could save between \$10,000 and \$20,000 per multi-family project. Assuming that 1,000 projects are completed per year, the total savings would be at least \$10 million.

#### HUD ENVIRONMENTAL REVIEWS

Pursuant to the National Environmental Policy Act (NEPA), HUD assesses the potential environmental impact of new housing and land development projects for which it is asked to provide loan insurance, housing subsidies or other assistance. Some of these reviews are time-consuming. In extreme cases, they can increase the overall project processing time by over a year. Delays are expensive because they increase the sponsor/developer's holding costs and because inflation occurring during a delay requires the sponsor/developer to spend more on materials and labor than was originally projected.

Depending on the size of the project and the Federal action involved, HUD undertakes one of three levels of environmental review: (1) normal, (2) special, and (3) preparation of a full Environmental Impact Statement (EIS). Normal assessments which require only a few days to complete do not present much of a problem. However, special assessments (prepared for housing developments of 200-500 units) usually require 30 days to complete, and approximately 520 special assessments must be prepared each year. The full EIS prepared for developments of 500 units or more involves approximately 750-900 man-days, translating to six months to two years of elapsed time, depending on the availability of staff. Full EISs are currently prepared for about 3 percent of all housing developments or about 155 per year.

The delay which accompanies the preparation of an EIS leads to demonstrably expensive delays to the sponsor/developer and thus increases the ultimate cost of each unit to the consumer. It also tends to deter developers from becoming involved in large-scale projects, which is another way of saying it discourages them from achieving cost savings by taking advantage of the economies inherent in large-scale development.

Recommendations:

1. Amend HUD regulations to provide for the acceptance of environmental reviews certified by other Federal agencies. When another Federal agency has taken the lead in a project, HUD should accept the results of that agency's environmental review without requiring its own as well. As it is, HUD accepts all the results of processing conducted by other Federal agencies except the environmental review. Thus, only a regulatory change stands in the way of HUD's passing along significant savings to the sponsor/developer and in turn to the consumer by accepting the environmental approval granted a project certified by another Federal agency.

For instance, every time HUD determined it need not conduct a special clearance, the 30 days saved would save the developer of a typical 300 lot project:

Interest on Investment:	\$2,000/acre times 100 acres at 10 percent
Interest for One Month:	\$1,667
Salaries and Overhead:	\$2,500
Inflationary Savings at 10 percent annual (for one month, \$33 per unit times 300 equals \$9,900)	
Total Savings:	\$14,067 or \$47 per unit

HUD Savings at \$12/hour times 80 times 520 equals \$499,200.

In the case of a full EIS, assuming an absolute minimum 180-day preparation time, the savings would be:

Interest on Investment at \$2,000/acre times 200 acres at 10 percent interest/6 months equals \$20,000	
Salaries and Overhead at \$2,500/month equals \$15,000	
Inflationary Savings at \$200/unit of housing to be built times 600 equals \$120,000	
Total Savings:	\$155,000 or \$258 per unit

HUD Savings at \$12/hour times 750 hours per EIS are 12 times 750 times 156 equals \$1,404,000.

2. HUD should work with other Federal housing agencies, such as the Veterans Administration and the Farmers Home Administration, as well as the Council on Environmental Quality, to develop a uniform method of reviewing the environmental impact of Federally-insured or assisted housing and land development programs.

3. HUD should accept environmental reviews prepared by state agencies which follow HUD-approved standards and procedures. In the past, the Council on Environmental Quality has not been willing to sponsor legislative or regulatory changes to permit the use of state-approved environmental impact statements. If adopted, this procedure would have an immediate impact on the costs of developments in states already having environmental impact review requirements such as Minnesota, Washington, Florida and California.

4. HUD should act immediately to develop standard documents and forms to speed up the preparation of EISs. This could save up to 30 working days in preparing a full EIS.

5. HUD should amend its regulations to eliminate the requirement that environmental assessments be conducted for single-family mortgage insurance applications in existing subdivisions (i.e., subdivisions with streets and utilities already in place). Normal underwriting procedures are adequate in such situations.

6. HUD should seek authority to eliminate the requirement that it conduct environmental assessments for multi-family projects which have already received environmental approval from a local government in conjunction with a Community Development Block Grant application. Pursuant to Title I of the Housing and Community Development Act of 1974, the Secretary of HUD delegates to the Block Grant recipient her responsibility for reviewing the environmental impact of projects funded with Block Grant funds. If a housing project has been reviewed pursuant to this procedure, HUD should not have to duplicate the effort when it receives a request to subsidize the project.

#### FINANCING COSTS AND THE SECONDARY FINANCE MARKETS

The consumer ultimately pays for all the developer's financing costs including the interest and fee payments on the land development loan, the interim or construction loan financing interest and fees, the commitment fees charged for permanent mortgage financing and the financing charges associated with settlement. These costs are paid at the time of settlement or over the life of the mortgage, if the

consumer is a buyer, or in a portion of each rental payment, if he is a renter.

Some of these financing costs could be reduced by amending HUD/FHA regulations. Others can be affected by changing certain policies and programs of the major secondary finance market agencies: GNMA, FNMA and FHLMC.

Recommendations:

1. Require limited dividend builder-developers of multi-family rental projects to pledge or place in trust a portion of syndication premiums to cover operations for up to five years. In the alternative, reduce the permitted 10 percent Builders Sponsors Profit and Risk Allowance (BSPRA) now computed in the mortgage loan amount to five percent or less. It is estimated that either of these requirements would yield a savings of approximately three percent of the total development cost of each dwelling unit.

2. Modify GNMA regulations and encourage FNMA and FHLMC to change their rules to enable all three agencies to purchase all types of secured loans relating to housing construction. By expanding the market for secured land development, interim and permanent loans, both those insured by FHA, VA and private insurers and those that are uninsured conventional loans, the availability of capital to public and private lenders originating such loans would be increased. Increasing the supply of funds should cause the interest rates charged for such loans to drop.

3. Modify GNMA regulations to expand the use of "wholesale" secondary market techniques, such as using mortgage-backed securities, to include conventional mortgage loans and secured land development and interim loans as additional collateral for such securities. This would allow access to additional sources of funds such as pension trusts and insurance reserves. Again, increasing the supply of funds should cause interest rates charged for such loans to drop.

4. Eliminate the Supplemental Management Fund contribution of \$100 per unit from the estimated replacement cost of housing developments or units constructed for leasing under Section 8.

LARGE-SCALE LAND ACQUISITION AND DEVELOPMENT

The Department's major efforts to encourage large-scale land development have been through the Urban Renewal, Title X, Operation Breakthrough and New Communities programs. Until 1974, under Urban Renewal municipalities were encouraged to employ a full range of

public powers to acquire and hold large tracts of land and make them available for development. Typically, the local renewal agency condemned or negotiated the purchase of land occupied by "blighted" residential, commercial or industrial structures and cleared it for new construction. The Title X program provides developers with short-term secured loan guarantees for the development of large tracts of housing lots, which then are sold to builders for housing construction. Many of the developments in the now terminated Operation Breakthrough program were large in scale including two with more than 1,200 housing units each. The New Communities program provides a wide variety of assistance to both public and private developers for land acquisition and development associated with large-scale, new-town development.

When the development is otherwise feasible and marketable, the economies of scale realized from large-scale development usually result in substantially lower costs per housing unit. Combining large-scale development with the use of new site planning techniques, such as those employed in planned-unit developments, will result in even lower development costs per unit.

Although precise calculations of cost savings are not available, some have estimated that cost savings from large-scale economies alone amount to approximately 3 to 5 percent of the land development cost, or 1 to 3 percent of the total development cost of each housing unit.

Similarly, site planning savings attributable to a reduction of street, sidewalk and utility rights-of-way may amount to 3 to 5 percent of land development costs alone, or 1 to 3 percent per dwelling unit. The cost savings resulting from the use of both approaches could be as high as 6 to 10 percent of land development costs, with a per unit savings of 2 to 6 percent. A \$30,000 low-rise, multi-family housing unit could cost from \$600 to \$1,800 less, were these combined economies realized.

HUD has generally not encouraged the development of large tracts of land for single-family or multi-family housing. The average size of a multi-family condominium, cooperative or rental project developed under HUD programs is approximately 112 dwelling units. Subdivision developments may be planned on large tracts, but usually are developed in smaller-scale stages, if HUD/FHA loan insurance is sought.

Many state housing finance agencies, such as those in Massachusetts, Michigan, New Jersey, New York and West Virginia, have done much more than the Federal Government to promote large-scale housing development.

Most of these developments are financed by the state agencies without the assistance of FHA loan insurance, although usually with some type or amount of HUD subsidy.

It has been suggested that the Federal Government's comparative reluctance to promote large-scale development relates to the statutorily imposed limit on the size of FHA insured mortgages. Although large tracts can be broken down into smaller parcels and mortgaged separately, the resulting difficulty in allocating acquisition and development costs among the parcels complicates the project's processing and auditing. However, this kind of allocation is managed in multi-family condominium and cooperative projects, even though the processing and underwriting procedures differ and, therefore, should not be dismissed as infeasible.

It is also alleged that market feasibility projections extending beyond two or three years tend to be unreliable. Fearing that long-term projects are consequently risky, the HUD field offices are likely to reject them or to insist that development be staged in separately mortgaged phases. In this regard, the Federal Government should note that the larger projects developed with state housing finance agency support have not experienced higher rates of failure than the more conventionally sized projects; indeed, the reverse appears true.

HUD can and should encourage large-scale land development activities through an expanded use of the Title X program and the New Communities program. The result should be a measurable and significant reduction in housing costs to the consumer.

Recommendations:

1. Make more effective, aggressive use of the Title X program, amending it as necessary. Focus on communities which are experiencing rapid growth and which have used 701 or Community Development Block Grant funds to develop acceptable local land use plans.

2. Amend Title X to provide loan guarantees or insurance to public agencies for the purpose of acquiring and holding land suitable for residential development. Any such amendment should mandate that land be sold for residential development within a reasonably brief time, at a price reflecting the cost of acquisition plus directly related holding costs.

3. Amend the regulations implementing HUD's various loan insurance programs and promulgate instructions to the field offices to facilitate the approval of applications for large-scale developments, where economic and market feasibility can be shown.

4. Increase Section 8 set-asides and make contract authority still existing under Sections 235 and 236 <sup>1/</sup> available to state housing finance agencies to assist them in supporting large-scale land and housing development activities.

5. Capitalize on the New Communities program; encourage the development of additional new towns, particularly "new towns-in-town."

#### SETTLEMENT COSTS

The term "settlement costs" customarily includes title search fees, title insurance charges, loan-related fees and charges including discount points, title recordation fees, transfer fees, real estate sales commissions and attorneys' fees. So defined, settlement costs typically add about 10 percent to the selling price of the individual house and lot, and in some locations, perhaps as much as 14 percent. Related expenses paid by the buyer at settlement include funds escrowed for future real estate taxes and for hazard insurance.

Real estate sales commissions of 5 to 7 percent of the selling price constitute the largest component of settlement costs. Although paid by the seller, they are factored into the selling price. Loan-related fees and charges, normally split between the seller and the buyer depending on local practice, constitute the next largest component of settlement costs and equal anywhere from two to five percent of the selling price.

HUD has initiated two research projects to respond to issues raised by the Real Estate Settlement Practices Act (RESPA). The first will examine and test cheaper and more efficient methods of land title recordation and develop model state statutes affecting title to land interests. This project should be completed in about two years.

The second research project will evaluate the impact of settlement cost notification practices now in use under RESPA and will assess the need for and feasibility of Federal action to reduce settlement costs. For example, one idea which will be studied is the "lender-pay" concept, under which the lender instead of the buyer and seller would pay all or most of the settlement costs. In theory, this would give the lender an

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<sup>1/</sup> Estimated to be about \$17 million.

incentive to use its power and expertise to reduce such costs to the minimum. Even though any payments the lender did make would likely be capitalized into the mortgage loan, the settlement cost to the buyer would be reduced.

With respect to professional fees and charges, the Federal Trade Commission has conducted investigations of real estate brokerage practices. One of the Federal Trade Commission's major concerns is the practice of denying access to multiple listing services to realtors who charge lower than the average brokerage commission. Some courts recently have ruled against local practices which establish minimum commission rates. In 1975, the United States Supreme Court held that the minimum schedules for legal fees established by state and local bar associations are illegal under Federal anti-trust statutes as price-fixing practices.

Recommendations:

1. Accelerate current research pursuant to the Real Estate Settlement Practices Act to find ways of reducing loan-related fees and charges, title search and recordation charges, title insurance charges, realty brokerage commissions, attorneys' fees and other settlement costs, and ways of improving the efficiency of land recordation practices.

2. Create a joint task force with the Federal Trade Commission to examine trade rules and regulations pertaining to real estate/brokerage practices.

IDEAS FOR CONSIDERATION

The working group proposed several ideas which it believed would result in measurable, substantial savings to the housing consumer, but which may require time to implement and to test. Some of these ideas could be implemented now, but their impact would be felt only in the long run. Others could be implemented effectively only after study or, in some instances, under new Federal legislation.

Recommendations:

Taxation

1. Amend the 701 and Community Development Block Grant programs to encourage states and localities to adopt property and income tax

laws which encourage the development of housing on currently unimproved land not required for parks, recreation or other such uses.

2. Study the feasibility of encouraging states and localities to minimize the impact of pyramiding sales taxation on transactions relating to land and housing development by granting reciprocal credits for tax payments or by accepting payments in lieu of taxes.

#### Release of Surplus Public Land

Expand Federal programs to encourage the release of surplus Federal, state and municipal property, in and around rapidly growing or already crowded urban and suburban areas, to increase the supply of land suitable for residential construction.

#### Local Planning and Design Reviews

1. Amend the 701 and Community Development Block Grant programs so as to encourage municipalities to simplify reviews for site and land planning, architectural design, and engineering for housing. Reductions in the time involved and the fees charged in connection with such reviews would result in cost savings to the developer which could be passed along to the consumer.

2. Reduce delays occurring in the A-95 review process by (a) requiring sponsors and developers to work directly with the state or area-wide clearinghouse prior to making application to HUD/FHA, and (b) enabling sponsors and developers to by-pass A-95 reviews if the development is planned and designed in accordance with an A-95 approved Housing Assistance Plan that has received environmental clearance.

#### Building Codes and Technological Reviews

1. Amend the 701 and Community Development Block Grant programs so as to encourage the approximately 19 states which have not done so to enact legislation providing for state review and approval of building technologies, methods and materials, whether factory-built or conventional. State-approved building technologies, methods and materials would be deemed acceptable for housing construction throughout the state, notwithstanding contrary local building code provisions. Similarly, encourage the states to reciprocally permit the use of building technologies, methods and materials approved in other states.

2. Study the feasibility of establishing a Federal certification program to certify building technologies, methods, and materials and of requiring states and local jurisdictions to permit their use in housing construction, notwithstanding contrary local code provisions. The standards incorporated into such a Federal certification program could be developed by HUD in connection with such organizations as the National Institute for Building Standards, the National Conference of States on Building Codes and Standards, the Council of American Building Officials, and the National Bureau of Standards.

3. Study the feasibility of modifying the FHA Minimum Property Standards and supporting regulations to:

a. Remove provisions now requiring the builder to comply with local building code requirements if they exceed those of the Minimum Property Standards, and

b. Require that all housing constructed with loan insurance or other assistance from HUD:

(1) comply with Minimum Property Standards, and

(2) be certifiable or otherwise eligible for occupancy, local codes notwithstanding.

4. Study the implications of HUD assuming an expanded role in promoting the metrication of the housing construction industry. Attention should be given to adopting, under Minimum Property Standards and other Departmental regulations, both approved units of metric measurement and newly-established preferred dimensional coordinates for major elements of building technology, materials and components.

#### Expanded Special Insurance Program

Study the feasibility of expanding the authority of HUD's Federal Insurance Administration so that it could insure titles to land and property and performance and payment construction bonds, when the private insurance industry will not do so.

#### Utility Services and Fees

1. Study the feasibility of strengthening Federal and state-agency control of water, sewer, electric, gas and telephone utility charges to assure that "tap-in" fees and charges are directly related to the capital costs of installing the utilities.

2. Increase research and information dissemination on the subject of permitting and encouraging the establishment of privately-owned water, sewer, electric, and gas utility systems in locations which cannot be serviced by existing public utility companies.

### Large-Scale Public Land Development Services

Study ways of encouraging state and municipal agencies to serve as large-scale land and housing developers.

### Loan Insurance for Experimental Financing

Study the feasibility of authorizing HUD/FHA to provide loan insurance at prevailing interest rates to public and private lenders willing to experiment with new financing techniques (e.g., that involve unusual security, credit, amortization, payment, and other features). Such a program would serve to demonstrate whether such new techniques would result in cost savings to the consumer.

### Interim and Permanent Financing

1. Study the feasibility of implementing a direct loan program providing interim financing for land and housing development at competitive interest rates in locations which are not served adequately by existing lenders. This would increase the capital available for such purposes and thus stimulate a reduction in interim-financing interest rates in the locality.

2. Study the feasibility of providing HUD/FHA support for state and municipal housing finance agencies' efforts to provide below-market interest rate interim and permanent financing for housing construction, through implementing such approaches as co-insurance and portfolio loan guarantees.

3. Study the feasibility of requiring permanent mortgagees to write permanent loan commitments at specific interest rates, to be honored at time of closing even if market rates rise.

4. Study the feasibility of making grants to lower-income homebuyers at settlement to reduce the size of the mortgage, with provisions for recapture of the grant amount plus reasonable interest at the time the home is resold or the mortgage prepaid. This system could serve as an alternative to traditional long-term interest reduction and principal subsidy programs.

### Labor Practices and Costs

1. Study the methods and means of achieving the most productive and efficient use of labor in the building trades.

2. Study the feasibility of increasing the access of minority owned and small business firms to housing development and construction through liberalized credit, bonding, and capitalization requirements.

APPENDIXHUD WORKING GROUP ON HOUSING COSTS

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