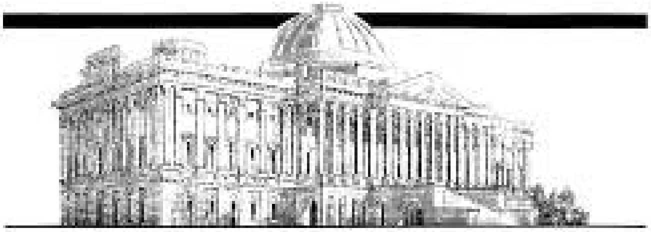

Feds to Sell FHA?

by Harlow Unger

In one of the most startling housing-related efforts to "get the government off our backs," the Reagan Administration is considering selling the federal Housing Administration (FHA) to "private bidders" by the end of the decade.

Combined with the recent abolition of federal "Minimum Property Standards" (MPS) and other policy changes the administration has in store for the years ahead, the move could effectively end all federal involvement in housing and eliminate the Cabinet-level Department of Housing and Urban Development.

Ironically, the FHA—which is credited with making the U.S. a nation of homeowners—is one of the few agencies that does not add to the gargantuan U.S. deficit. It produced a profit of $9.4 billion in 1984, the most recent year for which complete figures are available. As of Sept. 30, 1985, the FHA had insured about $185 billion of the $1.5 trillion in outstanding U.S. mortgages.

He notes that 70 percent of all FHA-insured loans are to first-time homebuyers.

Part of the New Deal legislation designed to end the Great Depression, the FHA was created by the National Housing Act of 1934 to provide mortgage insurance to American homebuyers. More than 51 million homebuyers have received FHA mortgage assistance since.

The FHA derives its income by charging 3.8 percent on the loans it insures, collecting all premiums and fees when mortgages are initiated. Assets are said to be worth about $3 billion.

Administration officials say they have not worked out procedures for selling the FHA or determined what would happen to its employees.

Not in an Election Year

Prospects for administration success in the move to divest the FHA are not exceptionally bright. Indeed, the idea is on hold for now, since this is an election year and Congress, which would have to approve the measure, is in no mood to alienate 50 million or more homeowners who form the vast majority of the voting population.

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Unlike the dismantling of the MPS, which the White House pushed through unilaterally Nov. 1 (see January *NEB*), the administration would need congressional consent to sell the FHA and to implement several other plans it has to end Washington's involvement in the home-building industry. Among those other proposals:

- Cancelling two-thirds of the $9.9 billion appropriated for housing assistance to low- and moderate-income homeowners.
- Requiring states and local communities to pay half the administrative costs of federal rental-assistance programs for low-income families. All these costs currently are paid by the feds.
- Ending inflation adjustments for federal housing subsidies.
- Selling federally funded or insured housing loans to private investors.
- Ending all urban development action grants (commonly known as UDAGs).
- Ending all rental-housing development grants, which the administration calls "a very expensive way to house the poor." The grants, which subsidize the construction and rehabilitation of rental housing in low- and moderate- income neighborhoods with severe shortages of rental housing, have played a crucial role in rehabilitating slums in major cities.
- Freezing federal subsidies at 1986 levels for the operation of local public-housing projects.

The Reagan proposals, which currently are under study by the administration, already have drawn considerable flak from mortgage bankers, construction officials and economists as well as housing-rights advocates. Critics contend that selling FHA would mean "selling the American homebuyer down the river," to cite Warren Lasko, executive vice president of the Mortgage Bankers Association.

Lasko says that 20 to 40 percent of those who now have FHA loans would have "considerable difficulty" arranging loans with a privately run FHA or a conventional lender.

In addition, Congress has not been excessively supportive of other efforts to shrink federal operations. An attempt to abolish the Department of Education, for example, was soundly rejected. And opposition within the mortgage-banking and construction industries is far stronger than the administration expected—both for practical and selfish reasons.

"With the private mortgage industry in such weak shape, it makes no sense on economic or business grounds," says Kenneth T. Rosen, chair of the Center for Real Estate and Urban Economics at the University of California-Berkeley. "It's an unwise move in terms of the national economy, because the private market couldn't pick up the slack."

Many bankers and economists disagree with Rosen, but only partially. They say that a consortium of mortgage-insurance companies and major banks could join, with a cash-rich automobile or oil company to buy the FHA, but that such a buy-out nevertheless would have disastrous effects on housing in general.

As one economist notes, such a "collection" of people would simply "skim the cream" off the FHA's most profitable programs and ignore the less lucrative ones, such as low-income housing for the poor and the elderly.

"I can appreciate the objective of trying to sell government assets to reduce the deficit, but this shows a complete lack of understanding of what the FHA has done and can do for would-be homeowners," says Raymond H. Lapin, former chair of the Federal National Mortgage Association and the Government National Mortgage Association. "FHA loans are very much needed in low- and moderate-income housing areas."

Within the building industry itself, builders of homes for middle-income families tend to agree that the move would "put us out of business, because most of our customers could not get mortgages without the FHA." •