HOUSING

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Housing Administration Faces Radical Change

The Federal Housing Administration, long revered for its part in creating a middle-class lifestyle for millions of American households, is facing radical change or even complete elimination within the next year.

A feeling that the agency has become lumbering, wasteful and irrelevant is growing among a spectrum of opinion makers ranging from firebrand first-term Republican members of Congress to local housing activists.

And even the Department of Housing and Urban Development, which is fighting for its very existence against Republican onslaughts, has proposed changing FHA from an agency under its umbrella to a government corporation with fewer direct ties to federal housing bureaucrats.

Ironically, the staunchest champions of retaining the FHA as it is are normally found arm-in-arm with the Republicans they now confront — groups such as the mortgage bankers, Realtors and home builders. These groups, of course, have profited enormously over the years from FHA mortgage insurance that has stimulated the buying, building and financing of homes, particularly in lower-income areas.

But this Congress, with smaller-government zealots looking everywhere for federal programs to cut, appears poised to make far-reaching changes. And FHA's recent history of scandal and staggering losses in its multifamily programs — plus high single-family default rates in many poor, urban areas — makes the agency highly vulnerable. Proposals for reform range from just tinkering with the agency's structure to completely dismantling it.

One ambitious program being developed by a key Republican congressman, Rep. Rick Lazio of New York, chairman of a pivotal housing subcommittee, would put the FHA in a new cabinet-level department that would replace HUD and deal in an integrated way with a range of problems facing communities around the country.

The changes may not come until next year — and they may not come at all, given FHA's durability and the political crosswinds of a presidential election year — but they are almost certain to be given strong consideration.

"I see storm clouds forming and I hear claps of thunder, and that suggests an impending storm," said Michael Ferrell, chief lobbyist for the Mortgage Bankers Association of America. "How severe it will be, I just don't know."

The FHA was born in 1934 during the Great Depression, providing a government guarantee for long-term housing finance at a time when the few home loans that could be had required up to 50 percent down and had to be refinanced after 5 or 10 years. It was targeted to financing new construction as an economic stimulus measure.

The agency's heyday was in the late '40s and '50s, when FHA-insured loans were the money engine that powered the phenomenal growth of new suburbs across America, spearheading an increase in the homeownership rate from 44 percent in the mid-1930s to 62 percent to 1960.

The only criticism of the FHA's role during that era was that it; along with federal highway spending, may have helped spur white and middle-class flight from the cities.

To answer that complaint, FHA in the 1960s began making loans on existing homes in the cities along with new homes in the suburbs, a move that was initially hailed by housing activists.

But in the years that followed it became clear that unscrupulous real estate agents and lenders were using the 100 percent mortgage guarantee to entice people into homes they couldn't pay for, leading to widespread foreclosures in certain neighborhoods.

Meanwhile, FHA's program of financing lower-income apartment development ran into serious problems with mismanagement and fraud during the 1970s and 1980s.

While the FHA was taking these hits, the mortgage lending industry, under government prodding, developed into an enormous, sophisticated and flexible money machine that, more and more, is beginning to lend to the first-time, lower-income and minority home buyers that ostensibly have been FHA's main reason for being.

Supporters of FHA point out that in 1993 11 percent of FHA borrowers were African-American and 41 percent had incomes below 80 percent of median. In contrast, only 4 percent of borrowers using private mortgage insurers were African-American and 14 percent were below 80 percent of median.

Fannie Mae Expands Rural Lending Options

Direct home mortgage loans that provide no down payment financing for lower income rural residents will be more widely available through a partnership announced Tuesday between the federal Rural Housing and Community Development Services department and Fannie Mae.

By agreeing to purchase conventional first mortgages in conjunction with the department's issuance of subsidized second mortgages, Fannie Mae dramatically increases the availability of affordable rural loans to low-income borrowers.

The combined first and second mortgages can eliminate the need for a down payment, providing qualified rural borrowers with up to 100 percent of the financing required to complete a home purchase.

The effect of a conventional first mortgage at market interest rates and a subsidized, low-interest second mortgage gives borrowers 30-year financing with an effective loan payment that is below market rates.

Depending on final congressional appropriations, up to 20,000 rural households could receive 30-year fixed rate mortgages under the program.

Kids Are Skybound With Mentors

Continued from front

Warn Industries and members of Columbia Aviation fly as mentors for the day.

The effort is part of the Centers for Airway Science program, which steers kids away from dugs and gangs into fun activities emphasizing math, science and computer technology. Children ages 9 to 12 are enrolled.

The program is sponsored by the Warren Lee Strickland Foundation and the Columbia Boys and Girls Club. Strickland was one of three Arkansas blacks to attend college in the 1920s.

His son is honoring his late father's accomplishments in life by offering opportunities to youths who might not otherwise have them.