Stimulus for R. I. housing

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It was the single largest bond issue in the state and one of the largest in the nation. The Rhode Island Housing and Mortgage Finance Corporation (HMFC) has sold $163 million of tax-free bonds, $142 million of which will be made available at below market interest rates to persons with annual incomes up to $30,000, to buy homes in Rhode Island. This will have a sizable impact on the local real estate market and increase housing opportunities for many prospective home buyers.

Undoubtedly one of the successes in this state, HMFC is described as a quasi-public entity. The five year track record of this "public instrumentality" has been impressive. Established in October of 1973 with a state appropriation of $250,000 which was to be repaid in 10 installments, starting in 1978, HMFC has quietly and effectively gone about its task of financing the purchase, construction and commitment to construct over 16,000 single and multifamily housing units.

HMFC sells tax-free notes and bonds on the open market to raise its money. It is important to note that the state of Rhode Island does not back these offerings, rather it is HMFC first mortgages, private and publicly insured mortgages, and their own reserves.

Money raised by HMFC is then distributed to local banks wishing to participate in the program. In this month's offering nine banks will receive money, process home mortgage loans as they do for conventional mortgages, using HMFC criteria for eligibility, and receive a small fee for their services. Money repaid by the borrower is used to pay off HMFC bonds. To the borrower receiving a $50,000 maximum mortgage with a less than 9 percent interest rate, compared to the current market rates approaching 11 percent, the potential savings is approximately $28,000 over the 30 year mortgage period.

Who could fault a system like this? A quasi-public entity sells bonds throughout the country, the money raised provides lower than market rates on home mortgages, home ownership is increased, and HMFC continues to provide for an increasing number of people with even higher incomes. It would appear that everyone comes out a winner.

But questions have been raised by some banks because this money will now be used for persons with incomes up to $30,000. Does the non-profit HMFC contribute to inflationary pressures because of more people bidding for these houses and does it provide unfair competition to banks which normally service this income population? Although banks have raised these questions these same banks have opted to participate in the program.

Although recent income data are not available for local areas, the U.S. Census Bureau determined for 1977 (applicants for HMFC funds may use 1977 income until April 15 after which 1978 income will be used) that 70 percent of the nation's 76 million households earned less than $20,000 annually and 19 percent earned between $20,000 and $30,000. (Past income data place Rhode Island at the national average so these national figures may be assumed to apply here.) Perhaps HMFC can sell its bonds with their appeal to this type market and justify the economics of it. But does a state organization have a social responsibility to those of lower incomes, try to do more for them, and perhaps devise innovative programs for these 70 percent of households?

A second and perhaps more important question relates to the distribution of these mortgages: Are cities getting their fair share of this mortgage money?

The last annual report of HMFC lists the distribution of single family home mortgages (one to four units per structure) by city and town from its beginning to July 1978. The 4,224 mortgages have quite evenly followed the pattern of population distribution in the state with 34 percent in our three central cities, 60 percent in our 27 suburbs, and 6 percent in the nine non-metropolitan communities. (Population is 36, 57 and 7 percent respectively in these areas.) But is this distribution appropriate in terms of our needs?

Federal, state and local governments have various programs that are targeted toward those areas needing most help. Should HMFC also make efforts in this direction? For example, could not financial incentives such as an 8½ percent mortgage be given for houses purchased in cities with 9½ percent mortgages for suburbs? This practice would not likely affect bond ratings, and at the same time it would be a means to help cities and utilize existing housing stock begging to be reconditioned, especially by an income group that would lighten city tax burdens.

Also, only 15 percent of this current available mortgage money may be used for new houses and those to be rehabilitated. Why cannot more of this money be allotted for reusing houses needing repair, with the amount of the mortgage to provide both for the purchase and rehabilitation of the structure?

HMFC is firmly established and has a solid foundation. Through July 1978, the 4,335 Section 8 and 236 multifamily units it has financed are divided approximately equally between central cities and suburbs and, as previously detailed, single family units have closely followed population distribution. And since the last annual report an additional 8,000 units are being constructed or committed. Although it is investigating other types of programs, HMFC now seems to be at the stage to initiate some bold innovative programs designed especially for low and moderate income persons and that will help troubled cities get back on their feet.

If HMFC feels that economic constraints prevent these bold actions to help cities in the state then perhaps the state government needs to work more closely with them to provide guidelines for such programs.

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