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OVERSIGHT HEARINGS ON THE NEW  
COMMUNITIES PROGRAM

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HEARINGS  
BEFORE THE  
SUBCOMMITTEE ON  
HOUSING AND COMMUNITY DEVELOPMENT  
OF THE  
COMMITTEE ON  
BANKING, CURRENCY AND HOUSING  
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For example, the 60-year-term development loans for new towns used in Britain; per capita grants for community facilities for both existing authorities and new town corporations; rehabilitation and neighborhood improvement programs; the principles of development competitions and land price controls used in France.

As an American with much of my professional practice abroad, I have become increasingly aware of how much we have to learn from others in housing and community development. It is particularly notable that nearly all the advanced industrial countries and most of the developing ones, from Arabs and Australians to Japanese and Soviets and even the Tanzanians, have adopted specific national policies for planned communities and are enlarging their investments in them at the same time that we seem to be questioning and even curtailing ours.

It would be enlightening for the subcommittee to probe the reasons for this paradox in national priorities and to assess the approaches others are using. We might well learn from them.

Thank you, Mr. Chairman.

I, too, would be happy to answer the subcommittee's questions.

Mr. ASHLEY. Thank you very much.

Lastly we will hear from Warren T. Lindquist, personal assistant to David Rockefeller for development and public affairs.

Welcome to the subcommittee, and please proceed, sir.

#### STATEMENT OF WARREN T. LINDQUIST, PERSONAL ASSISTANT TO DAVID ROCKEFELLER FOR DEVELOPMENT AND PUBLIC AFFAIRS

Mr. LINDQUIST. Thank you, Mr. Chairman.

As you said, I am Warren T. Lindquist, and I am on the personal staff of David Rockefeller. I am testifying today as an individual, and the views expressed are my own.

When title VII of the 1970 Housing Act became law, I thought it was needed, creative, and constructive. I still think so, and am therefore very grateful for this chance to testify on its behalf.

The title recognizes new community development as an essential element of a national growth policy. Subsection (e) section 710 of part B of the title identifies the constraints to adequate new community development as follows:

The Congress further finds that desirable new community development on a significant national scale has been prevented by difficulties in (1) obtaining adequate financing at moderate cost for enterprises which involve large initial capital investment, extensive periods before investment can be returned, and irregular patterns of return; (2) the timely assembly of sufficiently large sites in economically favorable locations at reasonable cost; and (3) making necessary arrangements, among all private and public organizations involved, for providing site and related improvements, including streets, sewer and water facilities, in a timely and coordinated manner.

It is in my prepared text, and I would like to apologize for reading your language back to you. But I think it is so significant in the light of the rest of my testimony that I wanted to have it in and on the record.

Title VII alone has not been effective in removing these constraints, and, given the size and nature of the need, it cannot be. A quasi-public

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bank should be created to supplement the title VII tools in dealing with these constraints. In addition to and in fact as a part of participating in new community development financing, such an institution could be a link between the public and private sectors.

It could help with the economic feasibility evaluation of proposed new communities; it could advise with respect to the business environment which exists or could be created through judicious use of public resources; it could be instrumental in influencing suitable industrial and commercial commitments to insure an economic base and viability. And it could be a credible middleman between the new community developer and the Federal, State, and local governments.

When David Rockefeller suggested this idea in a talk to the Regional Plan Association in February 1971, he hoped it could be accomplished entirely with private sector financing. Under present circumstances this is not likely. It now appears that initially a relatively small amount of public startup money would be required, at most \$100 million and possibly much less.

Initially some guarantee with respect to the quasi-public bank's debt would probably be necessary. As the bank built credit confidence and earnings, its debt would be salable on its own credit—for example, as in the case of the port authority of New York and New Jersey.

In brief outline, the function, organization and financing of this community development bank might be as follows.

#### FUNCTION, LENDING

Land development loans would be made to developers of new communities as defined by title VII, Housing Act of 1970, on the following terms: Amount, total land acquisition and development cost, as defined in title VII, section 711(f). Rate, 2 percent above prime floating and compounded annually on balance outstanding; maturity, 15 years; debt service, 75 percent of positive cash flow, until retired or due; first to interest and then to principal.

#### OTHER LOANS

The bank would seek opportunities to plug financing gaps which inhibit constructive growth and development in support of the national growth policy.

#### UNDERWRITING

At its discretion, the bank would underwrite the acquisition cost of sites acquired by Federal, State, regional, and municipal public agencies provided such sites were to be used for development consistent with the national growth policy and were conveyed clear of zoning, building, or housing codes or other conditions which would inhibit new community development as understood by the 1970 Housing Act.

#### MARKETING AND PROMOTION

From among the major industrial and commercial concerns of the Nation the bank would seek advance commitments to lease sites within



Mr. ASHLEY. Well, we have some areas of agreement among the members of the panel, and I suspect some areas of disagreement.

I take it that all of you gentlemen, to some extent, are in agreement that there is an increased reluctance of long term debt investors to commit capital to new community development, whether it be private or public.

Now, Mr. Kummerfeld, it seems to me, takes, perhaps it could be said, the most pessimistic view, which is to say that there is not very much in the short term that is apt to happen or that can happen that would encourage a return to the long term development market.

Is that right, Mr. Kummerfeld?

Mr. KUMMERFELD. Yes; Mr. Chairman.

I want to qualify, perhaps, some of those statements. I do not think that I mean to imply that there is no chance under any circumstances of private investment in large scale development at all. I think that rather what I was suggesting is that on the terms and conditions that we have traditionally, at least in the last 5 to 10 years, expected private investors to put up money, that it is unlikely, in my opinion, in the next few years they are going to be willing to invest as long or for as little a rate of return, or on the basis of projections with as little substance to them, projections of cost and revenue, as was the case in the past.

On the positive side, I think we should turn our attention to figuring out ways to reduce the risks, to increase the credibility of the process, and share the risks so that the private sector is taking some of the risks, perhaps, but not all of the risks. Maybe we need something in the nature of the old Export-Import Bank guarantee program, where the Federal Government Export-Import Bank guaranteed the long maturities on the bond, but not the short maturities. That tends to answer some of the problems of the long-term investment, the risk of long-term investment.

I think coinsurance ought to be looked at. I am very reluctant to see the private market's risk-taking function eliminated.

On the other hand, I think it is unrealistic to think the private market will take all the risk in totally conventional financing. Therefore, I suggest what we are going to have to look for in the coming years is some kind of risk-sharing formula between the private sector, between the Federal sector, and, as I suggested at the end of my statement, perhaps the State and local governments have a role to play.

And, I know that there is a panel later on, next Monday, on the role of the State government, and I do not want to tread on their ground too much. But I think we may have assumed that only the Federal Government has an interest in the subject, and only the Federal Government has chips to put on the table, and I am not sure that that is an assumption I would accept.

Mr. ASHLEY. Well, I have been glancing at your statement over again, and you do identify three or four reasons why there is an increasing reluctance on the part of investors to participate in long term development markets. I gather that there is very little that can be done in the short term to answer the problems caused by the plight of New York City, the plight of the banks having investments in REIT's, and the understandable reluctance of lenders not to discount inflation, to go short term, where the future is at least somewhat more uncertain.

These are all factors which you identified, which seems to me make at least a *prima facie* case as far as the prospects for the longer term market being bleak. Now, where you come down is a little unclear to me. Obviously, to the extent that we can turn these factors around, we want to—that is, presumably, the object of monetary and fiscal policy and other policy decisions with the responsibility of government at various levels.

You read out the role of the Federal Government, it seems to me, rather quickly. And I may simply not have gotten the full import of your message, Mr. Kummerfeld. But given the market situations you describe, are there not means—is there not possibly an even greater responsibility on the part of Government to attempt to overcome the disabilities in the marketplace through Government action?

Mr. KUMMERFELD. Mr. Chairman, let me attempt to deal with that. What I was attempting to deal with was the all or nothing approach which is, I think, the way I would characterize the title VII-nontitle VII approach. You have a 100-percent Federal guarantee, full faith and credit of the Federal Government behind the bonds, as in the case of the federally guaranteed new community bonds—which I participated as an officer of First Boston in underwriting. Because of the full faith and credit of the Federal Government, there is absolutely no problem in raising the money. Since there is no risk involved. The investors do not really look at the viability of the new community. They only look at the full faith and credit of the Federal Government on the face of those bonds.

What I am suggesting is, we should not take the investor off the hook where the investor should make an investment decision and should take some risks. At the present time, he considers taking all of the risk, being the only investor and risk taker on a new community, is too great—and I agree; everything I have said, and the four reasons I gave, I think add up to the fact that today, conventionally financed new community development without the external backup of either a large corporation or the Federal Government, or somebody else, is not in the cards.

But, it seems to me that there is some point between these two extremes where you can ask the capital market, the private investor, to share in the risk, to take some of the risk, but not necessarily all of the risk. And I think that if we are looking for ways to share the risk between the Federal Government or State and local governments, the public sector and the private sector, that there are lots of ways of doing this.

Coinsurance is one. As I suggested earlier, perhaps dividing the time frame; and as I also suggested in my statement, perhaps the Government ought to be looking more at what it can do through grants, through assisting in the infrastructure of new communities, so that from an investment picture, the new community development or the large-scale community development, looks less risky to the private investor than it otherwise would.

In conversations with a number of new community developers—and I am sure yours—one thing that comes through very strongly is that the burden of providing all of the infrastructure of the public facilities up front is more than the process can bear. And perhaps what I am saying is, the public sector role ought to be to help provide those

facilities, and let the private sector take the normal risk of a commercial enterprise that is involved in any new community development, but help reduce those risks to a more normal level by easing the burden of having to create all at once infrastructures that are not capable immediately of paying for themselves.

Mr. ASHLEY. Do you think that Mr. Lindquist's suggestion is one that might be viable, the kind of an instrumentality that he has suggested to us?

Mr. KUMMERFELD. I think that the concept of a National Development Bank is a creative and useful part of the dialog. I think it was a lot more useful 3 years ago than it is today, the reason being, I think, that many of the factors I described in my statement were not then as severe. The skepticism of private investors toward this kind of development was less severe then than it is today. I am looking at \$100 million that has to come from the Treasury in equity, the Treasury backup for the bonds, and I am wondering where the role of the private investor in taking some risk is.

I do not see any such role in that bank, at least in the early years; and in fairness to the proposal, it is an evolutionary concept. But at the outset, this is title VII by another name, with the Federal Government putting up all the equity and taking all the risk.

Mr. ASHLEY. Well, I knew I could get a fight going if I stuck long enough at it.

Another thing you do, Mr. Kummerfeld, is to say that any reasonable hope of attracting long term, private debt capital is de minimus, at least until projections of cost and revenue are once again credible, significant profit from such development is realizable in a much shorter time span—say 5 to 10 years—than has been the case in the past, and real estate investment is once again generally popular.

Now, in terms of new community development, is a 5- to 10-year payback period realistic?

Mr. KUMMERFELD. I am not, as you know, an economist or a new community development expert. I read in the field widely, just as you do, I am sure; and the projections I have seen in those new communities we have attempted to help—you really did not see significant payback on the investment until you got out there usually beyond 10 years.

Mr. ASHLEY. Exactly.

Now; how do we bring about this improved picture that you indicate is desirable? How do we tell Mr. Rouse, who is coming in, that had he gone about it a little differently, or had there been means available to him through the Federal Government, that he could have reached a payback point sooner than he has? We know that Columbia has been on board about 10 years. It is a new community that will have somewhere in the neighborhood of 100,000 people. It was programed for, presumably, good and sufficient market reasons that you stress, to take something in the neighborhood of 20 years to reach fruition.

What are you telling us might happen, that would change this picture, as we all agree would be desirable?

Mr. KUMMERFELD. I do not have any creative ideas for changing the process, but I might suggest it may be possible to defer the point at which you ask private investment, or you bring in private investment,

until a point a little later in the process, a little bit closer to positive cash flow generation. It may be that the up-front cost of land assembly, land holding, and early development ought to be financed publicly. If there is going to be a division of this public-private relationship, it may be that the public sector input ought to be those earlier year inputs, which are further away from the point at which the investment pays for itself.

And then, you bring in the private sector investment a little bit further down the road, when the actual investment-producing construction is in the ground or ongoing. I think that is one practical way, perhaps, to reduce this inordinate timelag between investment and payback.

Mr. ASHLEY. Before I call on your fellow panelists, I would gather from Mr. Apgar's testimony that he has an area of disagreement with what you said. It seems to me, Mr. Apgar, that you talk in terms not only of looking at the European experience, where the payback period is very substantially longer—I mean, they simply program it on a 50- or 60-year basis. But your testimony says that perhaps this might be a useful area of consideration as far as our American development process is concerned.

Tell me how you feel about what Mr. Kummerfeld has said.

Mr. APGAR. Well, I both agree and disagree, because I think there are two dimensions on which you have to address the issue. For the very large scale, very long term, green fields new community of the type beyond the suburban belt of most cities, where an enormous amount of initial front-end land development and infrastructure investment is required, by definition the payback period will be very long. And what the British and French have done is to admit that they will be very long, and set up the financing accordingly.

On the other hand, for closer-in development, either new town in town, or satellite development in growing areas, where the growth is programed and where there is a reasonable probability that it will happen, then it is possible to bring forward the payback or cash break-even point to a much more considerable degree. For one thing, one of the lessons learned from the past 18 months in privately financed community developments, or planned unit developments, is that you do not plan the 10- or 20-year project; you plan that project in two 5-year increments, or four 2½-year increments, and structure your financing commitments accordingly.

In addition to your financing commitments, you structure your staff and planning and political commitments accordingly, so that you are not so exposed. And by that kind of stage door commitment planning approach, where there is growth occurring and where you do have a reasonable market, you can limit the exposure and reduce the payback period to a much more considerable degree.

So, you do have to distinguish between these two very different risk profiles, and I am afraid that is what most of the financing programs, in both the public and private sectors, have not done sufficiently in the past.

Mr. ASHLEY. Mr. McKinney?

Mr. MCKINNEY. Gentlemen, it is nice to have you here. I do not know, Mr. Kummerfeld; you made me a little nervous. I speculated

on Port of Boston bonds backed by the full faith and credit of the State of Massachusetts, and I get more nervous as every day passes in the State legislature. But, down to business.

Would all of you gentlemen agree that the greatest problem facing the United States today is an incredible capital shortage for the future? Would anyone disagree, let us put it that way.

Mr. KUMMERFELD. I would like to say, I think that capital shortage is the norm rather than the exception in the history of industrial civilizations, and it is always a relative question. I think we are spending capital for a lot of nonproductive purposes today, but this is a philosophical discussion in which you could go very far afield.

Mr. McKINNEY. That is the most marvelous comment you could have made. Now, we are going to get back to a pitch I was on this morning. It is my estimation—and I would love some of these HUD figures we have heard about, and so on and so forth—that for every residential unit in a new community, by the time you take in land purchase, roads, street lights, sewers—you name it—community centers, schools, et cetera, you are talking \$50,000 per unit. And yet at the same time, I hear that in the city of New York, we are abandoning 30,000 to 35,000 units a year.

Now, let us say that per unit in the city of New York, it cost us, since we already have our shell—which I am led to believe—and we already have our sewers and our streets and our transportation and our lights, and we have already got our public buses—you name it—let us assume that the per-unit rehabilitative cost of that area into an in town new town would, say, only be \$25,000 a unit; and that is really sort of guesstimation. But are we not throwing away an incredible amount of capital in this country by not rehabilitating, as the starting point, what we have already got?

In other words, even under my rough calculations, are we not, say, for any 30,000-odd units which would, say, be New York's "toss-away"—and I am led to believe by the way, that these are rehabilitatable units, not the ones that are past the course—are we not throwing away \$750 million worth of resources, plus confronting ourselves with \$1.5 billion worth of need for new capital just to replace them, so that we are in aggregate saying we are going to load the economy up with a \$2.25 billion capital need, where a \$750 million capital investment would probably handle the same desired impulse?

And I would say, in coming to Mr. Kummerfeld's point of not asking for outrageous risks on the part of private investment, but some risk; and, too, I believe your other points of not having to build a fictitious up-front or fictitious behind Federal policy, when you now—and this is what fascinates me about these conversations we have back and forth here at these tables—is that the only reason that all of this conversion is necessary is that the Federal Government is the prima facie force for the market being unrealistic, surrealistic, and valley and peak market.

I hope I made sense in that thing. I thought I did, but I would love any comments you have got on it. In other words, in a capital-shy nation, when the very Government we are talking about helping is the cause of the fluctuations of the market and the disreality of the market, and half the cause of the lack of capital, why are we at the

same time in a title VII talking about creating triple the need for new capital, when by using the resources we already have—and if you will pardon this corny expression, recycling—we could save ourselves both capital, human dislocation, Government interference, and investor risk?

Sorry about the sermon, but I would love any comments any of you have got.

Mr. APGAR. Did you write Mrs. Hills' speech to the Press Club last week?

Mr. McKINNEY. No. I see Mrs. Hills, and I hope she forgives me—I see her as being very unrealistic. But, you see, unfortunately, even sitting on this side of the aisle, Mrs. Hills is a product of an administration that does not believe in a growth formula.

Second, she is a product of this Congress and this administration, which believes in a landlord-owned world. I, in fact, believe in just the opposite; that the way for a stable society is for the private ownership of property; and should it be 2 months of welfare payments, 2 months of veterans' payments or 2 months of city something-or-other, let them have it. Then it is theirs. Then you have an ongoing society.

Well, that is another lecture.

Mr. APGAR. Let me respond to the capital question. I do not think there is any question that our form of development, our patterns of development since World War II, are anything but inefficient in either investment or physical terms—wasteful of land and wasteful of financial resources, because of the spread and the low density we have encouraged and permitted. The Europeans are particularly surprised, even though we do have a great deal of land and a great deal of money, that we have permitted this to go as far as we have; because they obviously have neither had the luxury of a lot of land or money.

The problem is a political one, however, not a financial one. I would suggest that until and unless the average American and his political representatives can agree that the ideal of a single-family, detached dwelling on *x* acres or square feet of land, and the associated spread of services required to support that form of development, is wasteful of energy resources, money resources, and land resources, you will never achieve that significant change. If it is coming, and if you as a political representative sense it coming, then I hope you are right, and we would not have to sit here today arguing this question about title VII; because the case for inner city recycling and suburban resource recycling would be just that much stronger.

Mr. McKINNEY. Without meaning to sound egotistical, it is impossible to represent 500,000 people in Connecticut; and I would suggest I was either sent down here to do what I think is right and be kept in, or do what I think is right and be thrown out. As an economic analyst, do you think we are getting close to the point where perhaps the American people are going to realize, whether they like it or not, that the single detached dwelling, despite all of the factors that you used, is just simply unaffordable?

Mr. APGAR. Yes; except in areas of the country in which those cost implications are not yet recognized. And it really is only in the urban areas, where the cost to the individual has become prohibitive for the traditional form, particularly for the middle income, and obviously

lower income, households. But that difference is not yet reflected in either the individual's private household account or, perhaps more importantly, the public account that has to support the investment in infrastructure required for new development versus recycling the existing resources that we have.

Mr. LINDQUIST. Mr. Chairman, could I make a comment on this?

Mr. McKINNEY. Mr. Lindquist, I would be delighted to have your comment.

Mr. LINDQUIST. With respect to the desire for every man to own his own castle and his quarter acre, people long had that desire. The FHA program, the other public programs which finally made it possible, did not create the desire. The desire was there, and then, in effect, it was the Federal Government, in many ways, that made this desire capable of accomplishment.

I submit that, given the capital shortages as well as the other problems we have, that we simply cannot continue to indulge this desire by Federal support; and without the Federal support, I do not think the single family desire can be indulged, because the costs will just be too high.

Mr. McKINNEY. Could I interrupt your train there for just a moment? This is a mistake we make in this country which I do not find made in Europe, which is: We discussed the single family desirability of ownership only in terms of the "box" in the middle of the lot, for the simple reason that we have never until recently, and now basically, only the wealthy or the upper class have we given the right of ownership in high density. High density in this country has always been the right of tenant and landlord, or the right of the landlord and the lack of rights of the tenant. It depends on how you look at it. Whereas in Europe, particularly in the Scandinavian nations, condominiumization or co-operatization—whenever you want to call it—is a way of life.

So that you combine the right of ownership and determination with the right, or with the high density, or the "higher" density; let us put it that way. Because I think we all realize we can go too far that way. Would you agree? In other words, when I talk about the right of ownership, I am not necessarily talking about what the FHA and the VA promoted, which was a box on every yard; but the fact that you cannot build a neighborhood without ownership, and that fine-priced tenants destroy expensive apartment buildings in Washington. And I have been in some of them.

Low-income tenants, who know that their right of tenancy is limited by their income, will be twice as eager to destroy it.

Mr. LINDQUIST. I agree with what you say, but based on a lot of market surveys, it appears that the present desire of the American public is still primarily for the box and the plot. I think it would be much better to go in the other direction; develop the means of the private ownership in greatly increased density, and I agree with you further. I think I agree with you because I think you are implying that as we had the programs that permitted the box on the lot, we could devote equal and much more productive attention now to programs which would perhaps develop the opportunity for owner-

ship in a much denser situation with kinds of development.

And this would be certainly much more economical with capital; it would be much more consistent with environmental objectives. On the basis of reason, there appears to be every reason to do it.

Mr. McKINNEY. One of the things that bothers me is I have one of the most notoriously bad public housing projects, though not as notorious as Boston's, for a smaller city, a city like Bridgeport, Conn., in a place called Father Panic Village. It has even had national notoriety by being written about—the highest crime, the highest automobile abandonment, the highest rate—you name it, we have it. And yet there is not a single official from HUD or any other governmental agency that does not say to us if we would not tear half of it down and turn that half into green squares, redo it and redo the commercial entities around it so there would be some type of place for these people to shop and do this that and the other thing, that it would be a very viable place to live; that its mistake was in its original design concept.

And yet when you return to the Federal Government and say is there any program, or when you turn to HUD and say is there any program by which we can do all of this, they say, of course not. And so what they are really saying to me, as a Congressman who supposedly watches after the taxpayers' funds, including my own, is it stinks and it does not work. So therefore we will abandon 600 living units and not even save 300 of them because there is no program, there is no concept, there is no interest in experimentation, no record-keeping or anything else. Let us just chuck the whole thing out the window, and what do we have left?

Which to me is a waste of capital and effort and time and everything else. And I think that what the chairman is getting at, in fact, I am sure it is not what I am getting at, is here we have a program that is meant to answer not obstruct problems. And here is a program that is meant to go where the Nation needs the effort, and it does not seem to be doing either.

Mr. KUMMERFELD. Could I make one comment on your original statement?

Mr. McKINNEY. Yes.

Mr. KUMMERFELD. I consider myself to be both a capitalist and a Democrat.

Mr. ASHLEY. You sound more like the former, I must say.

Mr. McKINNEY. There are those who question my party organization.

Mr. KUMMERFELD. One of the things that has become clear, I think, in most free societies where there is more or less a free capital market, is that housing, residential housing, is unable to compete successfully with other uses of capital in free, open, undisturbed competition. And this is not unique to our system.

Governments universally have to interfere with the free competition for capital to divert it into housing, or housing just does not get built. And this has to do with a marginal utility of capital which is always greater at some points in the cycle for business and profit-oriented uses than it is for homeowners.

Now coming back to your question of should we not minimize the amount of capital required. If we have to divert capital from this free competition, should we not minimize the amount of capital per unit, let us say, that is required. And I think that is what you are getting at in your discussion of rehabilitation which is less expensive certainly than new towns.

Mr. McKINNEY. Like someone saying should we not minimize the amount of capital we throw away, not that we require, but that we throw away.

Mr. KUMMERFELD. OK, that we divert in my simile.

I have thought about this and I am sure everyone who has worried about housing policy at one time or another and the use of capital has observed that the initial capital investment in new communities, large-scale development is very great. However, it is also true, I believe, that the living cost, if you will, associated with inner city living, particularly in very large cities like New York, Chicago, Philadelphia, Boston, are very much higher over time than living cost.

And I am not making any value judgments about whether it is better or worse to be in a smaller community, but I think when you look at the use of initial capital, you also have to look at the use of capital over time that is used up by very high living costs in very dense older cities.

Mr. McKINNEY. Mr. Kummerfeld, this is one of the things that brings us back to this morning's revelations that HUD does not give us the experience and I find that very hard to believe. As a 5-day-a-week of Washington, D.C., I find it immeasurably cheaper to live here than to live in a suburban community. No. 1, my heat bills are like a twentieth because I have walls on either side of me and I am only heating 18 feet at each end. I do not need the automobiles. I have to drive 4.5 miles for a pack of cigarettes in a suburban community. The school taxes in suburban communities have gone beyond the pale. My town is paying \$200 less per student than I pay in private schools for my kids, and so forth.

I am not sure these figures are valid anymore and that is one of the reasons I really question them. And I would love figures if anyone has concrete figures. Now, I would suggest, right, if you are going to live on the island of Manhattan or Beacon Hill it is not cheap. But I think the factors of fuel, gasoline, automobile costs, suburban community living is outreaching city living, if you use the facilities of the city, if you do not, if you insist on private schools, private cars, everything else, I agree.

But I do not think that is true. For instance, I see my congressional staff which did not have a single District of Columbia resident when I first came down here, and now, 5 years later, has almost all District of Columbia residents because they can leave their cars in the congressional garages and not use them. They can walk, they can ride a bus and so on and so forth. I wonder, that is one of the fallacies I wonder about. Is it cheaper to live in Rosslyn or Worchester Hills, or whatever you call it outside of Boston, or is it cheaper to live in Boston anymore?

Mr. KUMMERFELD. There may be a difference in what the individual pays and what it costs. This is one of the reasons for the financial difficulty of some of our citizens, is that they are not paying the full cost.

Mr. ASHLEY. Since we are focusing on the financing problems in large-scale development, I wanted to use as a point of departure for the next question or two that I have, a statement from page 4 of Mr. Kummerfeld's prepared testimony in which he says:

*Eliminating the discipline of the private capital market through Federal or State guarantees may be less useful and appropriate a role for the public sector than, for example, assistance in creating job opportunities, overcoming transportation problems, reducing public facility infrastructure burdens, assembling and holding land and resolving intergovernmental problems.*

He goes on to say:

*If and when Federal and local governments provide all the various kinds of direct assistance they are capable of giving to new communities and the private capital market still fails to make long term funds available for such development, then there may be a much stronger case for large scale federal guarantees than at present.*

Now that suggests to me several things. First of all, that you think that there is, if any, only a modest justification for large scale Federal guarantees under title VII. It further suggests to me that you are really raising two tests for public intervention in large scale development. The first test is in effect that there is in being a positive growth strategy because you do say that when all the various kinds of direct assistance are on stream. And then you identify those; assistance in creating job opportunities, public transportation problems, reducing public infrastructure burdens, assembling, and holding land, and resolving intergovernmental problems; when these are all being dealt with in a positive and coherent fashion then you meet the first of your tests.

Well, what you are really saying to me is that before there is any justification for governmental intervention—there has got to be a positive, active working growth strategy.

Then you come to your second, and it is not and/or, it is and. So that becomes the second test which is the failure of the private capital market to make long term funds available for such large scale development. That is a pretty tough double test that you are presenting, it seems to me. We dealt with this this morning. I might say, parenthetically, at least a part of it, in that the witnesses were of the view that absent any kind of coherent growth strategy, then the realities would require that large scale development be reduced in scale. That is where the witnesses came down this morning.

I do not know whether you echo that aspect of their testimony. What does concern me, and then I am going to ask the other panelists to comment upon it, is this double test. The second part of it seems to raise questions. Have we not discovered, and does not the entire thrust of your testimony suggest, that there has been, and that there is going to continue to be serious difficulty in attracting the private capital market to medium or large scale development? Have we not learned that since 1968? Why did we come up with title IV? Why in 1970 did we come up with title VII if it was not for that? And as I say, your testimony is most persuasive to the point that this situation for the variety of reasons you suggest is not likely to improve pronto.

Mr. KUMMERFELD. Let me just address that, Mr. Chairman. As usual, you state it far more eloquently than I did, but what I was attempting to get at was not painting a black or a white picture. I am

not willing to give up totally on the private sector, on the private capital market, and say forever or at least in the next 5 or 10 years, regardless of the kind of assistance that Federal, State and local governments can give to improve the profitability of the process, that in spite of that, no private, large scale or private investment in large scale community development is possible.

I am more optimistic. Maybe my problem is I am too optimistic because I am saying that what happened in my view, under title VII is we implemented only one part of the program, the guarantee. We took the risk. We, the Federal Government, for the moment, took the risk of investment without doing what was intended in the act and what was possible to make the thing succeed through the supplementary grants, through all of the other things that were authorized in the law that would have greatly improved the possibility and the probability that the investment in these communities would have turned out to be a prudent investment for a private developer even without a Federal guarantee.

Presumably, that is what we were trying to demonstrate. Presumably, we are trying to demonstrate that these were good investments and since there was skepticism on the part of the private investors, the Federal Government will at least, at the outset, make available its guarantee, not a subsidy, a guarantee. And that assumes that the Federal Government was making a judgment that these were going to be sound investments, carrying themselves, with adequate cash flow to meet the debt service capital.

And yet, in my view, the Federal Government did virtually nothing that it was possible to do under the act to insure that the projects would be viable and would turn out to be good investments. And that is the point I was getting at here in a very shorthand way, maybe in too subtle a way. But, stated bluntly, I think that that was the mistake. And what I am saying is let us turn it around. If we can only do one of the two things, let us do the former; that is the supplementary grants reducing the infrastructure burden, trying to speed up the process of development by greasing the skids of governmental problems, the intragovernmental problems. Do everything that is possible, short of replacing the private markets' risk taking factor.

And then, if the private market still is unwilling to make the investment, I think there is a role for Government risk taking through a guarantee, although I would hope it would only be a partial guarantee and not 100 percent.

So, I am not saying that there is not a role for a Federal guarantee program. I am saying that if we are going to do it though, let us do it in conjunction with everything else that we have in our arsenal to insure and improve the possibility and probability of success of the project; so that it will never have to go into default.

Mr. ASHLEY. Do you have any comment on that, Mr. Apgar, before I turn to Mr. Lindquist?

Mr. APGAR. No, I agree.

Mr. ASHLEY. Well, that is fine.

Now, before we take too much comfort in our areas of agreement, let us turn to Mr. Lindquist, who suggested a new instrumentality which was characterized by Mr. Kummerfeld, I believe, as emulating the notions of a national development bank. I believe he indicated

that this was simply another assumption of total Federal risk by the Federal Government a la title VII.

What is our rejoinder to that, Mr. Lindquist?

Mr. LINDQUIST. Well, in spite of the gentleness of Mr. Kummerfeld's remarks, I rather get the impression that he is not entirely enthusiastic about the bank. Except for his conclusions in his statement, I thought that he was coming out in support of title VII and in support of the need of the bank. So I am right with him until his conclusions.

I think we have to remember that title VII, the version that we are discussing today, concerns itself not with the whole, not with financing of the whole community in the community development. It concerns itself with that area of community development which had proved the one in which the private sector could not move, and that was land acquisition and land development costs.

Then Mr. Apgar said in his comments that we have an unconventional situation and we had only conventional financial mechanisms to meet it. I think that this is very true.

So what title VII tried to do, and what we have suggested not as a substitute but as a supplement for title VII, is a mechanism to get over that one basic constraint to new community development on a scale and where it should be.

Mr. ASHLEY. Let me ask you this before you proceed into further explanation of your proposal.

Would your development bank be a supplement to the title VII guarantee that does go to land acquisition and development of infrastructure?

Mr. LINDQUIST. Yes, I would say that it could be.

Mr. ASHLEY. Would it duplicate that role?

Mr. LINDQUIST. It should not duplicate the role; it should not be permitted to duplicate the role. But I can see that it could be a supplement with some flexibility.

Now, I do not know whether this flexibility would have to be achieved through legislation, or whether it could be by regulation.

Mr. ASHLEY. I think that we are in agreement that one of the purposes of your proposal is to make credit available for purposes which, at least up to the present time, HUD has not recognized as being sufficiently worthy to fund under the authorization of title VII.

Mr. LINDQUIST. That is correct.

Mr. ASHLEY. It seems to me what you are saying is, if HUD will, only do the guarantee thing but will not make use of the other avenues which Congress felt were necessary, then one way around that, without stepping on HUD's toes, is to go the route of establishing a quasi-independent bank which can make credit available.

Mr. LINDQUIST. I think what you say is true, except I believe a quasi-public bank such as I suggested could be a better instrument for making some of this kind of credit available than could a direct HUD instrument.

I would like to go back—

Mr. ASHLEY. Before you do that, we run into a problem of making credit available on a loan basis, as distinct from making grants available.

Mr. LINDQUIST. Correct.

Mr. ASHLEY. As under title VII. Are there not problems there in terms of getting to profitability?

It seems to me that what Mr. Kummerfeld is saying is that, in order to advance the profitability of a given project, you really have to go the grant route. And in his subsequent comments he has indicated that this, of course, has not been the policy of HUD, and it has been unfortunate that it has not.

Now, how do you attack that, Mr. Lindquist?

What do you say about offering credit for these purposes instead of grants?

Mr. LINDQUIST. I think that for certain of the kinds of supports required, it should be grants rather than credits. And, as a matter of fact, title VII contemplated that the Federal grants would be available and that subsidy support would be available to accomplish the kinds of things to which Mr. Kummerfeld alluded.

However, what title VII said and what happened were quite different, so that the grants were not available, and the kind of public support necessary to accomplish the social objectives was simply not there. And it was not within the private sector's capacity to raise the money to pay for the accomplishment of these objectives.

On a more fundamental aspect, and where I take exception with Mr. Kummerfeld when he feels that we are just removing all risks from the investor, I feel very strongly that it is the private sector's job to take business risks and the public sector's job to take public risks.

Another name for public risks is political risks. And it is the political process and the political decisionmaking process and the weight of the political attitude and environment which have made it so unattractive for the private sector, or has been a factor in making it so unattractive for the private sector, to assemble and prepare for development the large tracts required for new community development. It is going through the grinder of the public relations effort which is required to withstand the public pressures against large-scale development. It is the delays which are caused by the political sympathies with these pressures which have made it impossible for a private developer to put up the front money. He cannot afford and has no incentive to have that money out for the many, many years it may take before he can get all of the approvals necessary so that he can go ahead and develop the land.

That is one part. The other part of it is that we have our conventional means of financing and this is an unconventional situation. Where I see the private sector taking its due risks is in the conventional financing, after the land acquisition cost has been supported by these public guarantees and the land development cost has been supported by these public guarantees.

Then, indeed, the private sector should—and, in the past, before we came to our most recent mortgage credit crunch—has been capable of arranging in the private market all of the credit necessary for the buildout of the commercial and the industrial and the residential facilities. So that I think that this is a very, very important distinction.

So what I am suggesting is that, if we had this development bank, which could be the mechanism to finance this land acquisition and

development, its debt is entitled to the public guarantee that I am talking about. And then I believe that such a bank, as I indicated in my testimony, could be effective in, one, evaluating the feasibility from the go-off; and, two, in working with a prospective developer so that his plans are shaped so that a reasonable cash flow will be developed within a reasonable, financeable time.

And that then, having done that, again, this bank, as I set up in my somewhat elaborate organizational structure, would be a bank which would be run by bankers, although under the control of non-bankers through the board of governors. So that here I think you would have the bank able to apply a kind of financial discipline and a kind of planning discipline which HUD and which the political entities have been unable to apply.

There is apt to be such social pressure for amenities which cannot be financed privately that, under a political situation, those social pressures will prevail without a definition as to who is going to pay for them. The bank that I am talking about would say, in effect, well, here, you want these social pressures—excuse me—you want these amenities, they have to be paid for. And this is where title VII comes in, with the provisions that it made for the kinds of support which it provided. And it would be the bank's job to see that all of this came together, so that the project was a viable one.

Then, the next thing that I think the bank could do, which it is extremely difficult for any politically oriented agency to do, it could have continuity. It would not be as vulnerable to changes in administration, and it could have a flexibility.

The continuity is important, because frequently in a political situation, a few years after the legislation was passed, the programs were begun and administered, the people who made the deals on behalf of the Government are gone. And the people who have replaced them have very little sympathy for, and no sense of responsibility or very little sense of responsibility with respect to the deals that were made.

With the bank, you would have the same people, and you would have a continuing sense of responsibility.

The next thing that I think a bank could have would be flexibility. In the testimony this morning, someone said it looked very much as though HUD considered itself very much as a grant-reviewing agency and that that is all it had to do. The bank would be in it up to its armpits and would be responsible. It would have to, in the first instance, try to see that the loans it was making were really good ones.

And then, in the continuation of that, as the situation changed, as the developer's situation changed, as it inevitably would—I have been in a lot of deals on the private side, and none of them ever developed the way that we thought they were going to. And none of them ever came in at the budget, and none of them ever came in below budget. The things always changed, and the changes always seemed to be more expensive, and there may be very good reasons for that.

Many of these reasons will be entirely beyond the developer's control. However, if the bank has the autonomy, the independence to be flexible, it can work with the developer in seeing that his needs are taken care of.

In the private sector, when your budget is exceeded due to inflation, increasing costs, et cetera, you can figure that as long as all of the

bucks are going up, it is OK. And if you go to your friendly neighborhood banker and show him that your income is going to be sufficiently increased, as well as your costs, he will give you the additional credit. You can get it.

Going to the Federal Government or going to a Government agency, this is much more difficult because of the fear always, and understandably, that the Federal official will have that it is going to look as though he is making some kind of giveaway.

Mr. ASHLEY. If your bank had come into existence, let us say 3 years ago, and you put money out on the basis of 2 percent above prime floating, how many new communities would be in default at this juncture?

Mr. LINDQUIST. At this juncture none would.

Mr. ASHLEY. Well, I am talking about when prime gets to be 12 percent.

Are you talking about a repayment of 14 percent at that juncture?

Mr. LINDQUIST. Yes.

Mr. ASHLEY. Well, how do you project future cash flow on that basis?

Mr. LINDQUIST. Well, the fact is that there is not any free lunch. And in the event that interest rates really did go that high, it would mean that other costs in the country were presumably going that high as well. It would also probably be as a part of inflation, which would mean that the rents and the charges and everything else should be high enough to match.

And let me just point out—

Mr. ASHLEY. That is not my perception of what has happened in the last 24 months. People who were caught with a floating interest rate really got squeezed right out of business.

Mr. LINDQUIST. They got squeezed out of business because they had to pay current interest charges. The proposal that I am making, the bank finances the negative cash flow, which means that it is true that the interest rates rise, but then they also come down.

And we had quite a change. Indeed, the prime was 12 and now it is 8½ percent, and it was down to 6¾ percent. So the bank proposal that I am making and this kind of financing mechanism works on the assumption that, in the longer term average, the cost of money, the cost of services, the cost of labor, all of the elements that go into the community cost, as well as the prices which people will pay for their housing, factories, shops, et cetera, that also changes.

Mr. ASHLEY. That does not quite explain to me our recent experience with the cyclical nature of the economy. It seems to me that what we see is really a shambles that have been created, in which all but a very few large-scale developers have just plain gone down the tube.

Mr. LINDQUIST. They went down the tube because they had to meet current interest charges. They had to pay these interest charges currently.

Now, your title VII, as you know, provided a mechanism for the title VII beneficiary of the guarantee program to borrow the money to finance his cash flow. This was never implemented. Excuse me—to borrow the money to finance his interest payments, and this was never implemented.

Mr. ASHLEY. Well, what I have seen is a drying up on the part of home buying America. A lot of people that have been, as we know, left with very substantial amounts of inventory need legislation to try to and bail them out.

Mr. LINDQUIST. But that inventory is being worked off now. There are some 300,000 units, as you know, and that inventory is being worked off now.

Mr. ASHLEY. But it does take time, does it not?

Mr. LINDQUIST. That is exactly the difference, that it does take time. And that is why I think we need a mechanism which will permit time to work.

Now, if over time the economics do not work, it means that there is something wrong with economics, and that is a flaw not in the proposal that I have made, or not a flaw in interest rates; that is a flaw in the basic underlying economics.

Mr. KUMMERFELD. May I comment on this proposal, Mr. Chairman?

I think my earlier proposal, which was just kind of an offhand comment, probably was misinterpreted. I do not oppose a national development bank. As a matter of fact, if you asked me which I would rather have, title VII guarantee or the national development bank, I would much rather have the national development bank for several reasons that Mr. Lindquist has explained.

I think it has the flexibility to act as a banker, playing a banking function, which implies borrowing short, lending long, financing negative cash flows temporarily, the sort of backup that projects need, rather than having to be able to deal with unexpected negative economic consequences. The way the title VII program is set up now, the projects are highly leveraged with very little equity, no ability to come back to the Federal Government and get more money if it does not work the way they planned.

And for all of those reasons, it is a very risky situation. I think the national development bank with substantial equity—and I put the emphasis on equity, since it has been the basic problem of all of these projects. If we financed business manufacturing plants the way we finance real estate development, the country would be in a terrible mess, in terms of its business manufacturing capacity.

If you have 50-percent equity in a project and 50-percent debt, you can stand an awful lot of negative surprises and economic reverses and still come out. These projects do not, and the guarantee program based on a very highly leveraged equity, mostly debt, at fixed rates, is almost guaranteed to be susceptible to any negative economic consequences that will come along during the life of the development.

I think the bank, therefore, is a better solution, since it provides more flexibility. Hopefully, the bank would be committed to the projects and make additional money available when it was necessary. Therefore, I do not want to be cast in a position of saying it is not useful. I think it is.

Let me come back to the point that you and I were discussing a few moments ago. What concerns me is that the Federal Government would think that is the end of its responsibility, that that is the solution to the problem. And I think it is not the solution to the problem without significant inputs, what I have called direct assistance, or all of these

things we discussed earlier. And I would hope that the national development bank would not be a sole source solution, or looked upon as a sole source solution to the problem.

Mr. ASHLEY. I wanted you to comment, Mr. Apgar. Are we talking about an instrumentality here that has its counterpart abroad and if so, what has been the experience there?

Mr. APGAR. The instrument of a bank does not have a direct counterpart, but what does, and what I think needs reemphasizing is the need to distinguish between the marketable commercial components that are financeable on commercial terms of the community development concept, from the community components of the development concept. It is unfortunate that a very real fact of community development in this country carries a legacy of the traditional approaches to real estate financing and development. We have taken real estate financing and real estate products and we have enlarged them, and burdened them with a number of nonreal estate objectives.

Now, if on the other hand, we started, as the Europeans and most other countries have done, with programs that are similar, from the community end, and started with the social, economic, physical objectives of the community development concept and worked back, I doubt that we ever would have gotten into the problem that we are now debating of a financing instrument which itself is creatively designed to cope with the risks but perhaps would not have been structured in the first place, had we started with this distinction between the commercial financing requirements and risks and the community or public objectives and risks.

The bank, as I see it, is an important instrument in coping with that second component—which is perhaps the more fundamental one—of front-end community facilities of all types required to achieve the community development concept.

Obviously, as the proposal is outlined, it would work in complementary fashion with other traditional sources of financing. Some of the details could be debated, but the principle of the development bank, much as we accept and do not question the principle of the World Bank, for developing countries is, I think, unquestionable, and really needs to be recognized in the revision of the program.

Mr. ASHLEY. Gentlemen, I did not know that we would reach the kind of consensus that we seem to have in the 2 hours that we have been together. It has been a very instructive and informative, very helpful session. We thank you for your testimony.

The subcommittee will stand in recess until 10 o'clock tomorrow morning.

[Whereupon, at 4 p.m., the subcommittee adjourned, to reconvene at 10 a.m. on Monday, September 29, 1975.]

## OVERSIGHT HEARINGS ON THE NEW COMMUNITIES PROGRAM

MONDAY, SEPTEMBER 29, 1975

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON HOUSING AND COMMUNITY DEVELOPMENT,  
COMMITTEE ON BANKING, CURRENCY AND HOUSING,  
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m. in room 2128, Rayburn House Office Building, Hon. William A. Barrett [chairman of the subcommittee], presiding.

Present: Representatives Barrett, Sullivan, Ashley, Mitchell, Brown, Rousselot, and Grassley.

Also present: Representatives Reuss and Bauman.

Mr. BARRETT. The meeting will come to order.

I would like John B. Turner, James W. Rouse, and James W. Todd to come to the witness table.

This is the second day of our 3 days of hearings on title VII new communities program. Regretfully I was unable to preside over the opening day because of unanticipated travel difficulties. I hope that my absence was not interpreted as indifference to the subject matter, for I am deeply concerned about this program.

These hearings are intended to look at title VII to see how we can improve the program. In doing so, I hope that we can question, not only the effectiveness with which these programs were administered, but also the validity of the premises upon which these programs were designed.

The first day of these hearings were ably presided over by my good colleague, Mr. Ashley, who is rightly regarded as the father of title VII.

I understand that the various witnesses raised serious questions about the desirability and the feasibility of very large-scale development in today's economic climate. I also understand there were a number of questions raised about the proper role of the Federal Government in encouraging large-scale development.

For today's hearings, the morning session will be devoted to testimony of a number of developers of new communities. The first panel will consist of three developers who have carried out such activities without assistance from title VII programs. And the second panel will consist of four developers who have had title VII assistance.

In the afternoon session, we will have three distinguished commentators who, as long-term observers of title VII programs, will discuss the prospects for the future.