North Carolina's Housing Finance Agency: Can it be More Effective?

President Carter's national urban policy address included, for the first time, provisions for the participation of state governments in an attack on our nation's urban ills.[1] Historically, states have not dealt with urban issues and have left these problems to be confronted by local and federal governments. The national urban policy reflects the realization that "state governments have both money and power which can be marshalled in the battle to bring suitability and vitality back to our cities."[2] While the federal budget deficit has continued to escalate to a 1976 high of $66.5 billion (U.S. Department of Commerce 1977) state governments maintained an historical trend of budget surpluses (Albright 1976). In addition, state constitutions and statutes are the origin of all municipal powers relating to urban development, taxation, and annexation. Consistent with these determinations, the President has proposed that federal incentives be provided for states to implement comprehensive urban policies and strategies.

North Carolina and forty-one states already have one mechanism in place for implementing strategies consistent with the proposed national urban policy: a state housing finance agency (HFA). However, the degree of past effectiveness and the potential for performing a critical role in implementing national policy varies widely among HFAs.

This article examines the potential for North Carolina's HFA to take on an expanding role in addressing this state's housing problems. First, a brief history of North Carolina's agency is chartered. Following that, the agency's performance is evaluated. The article concludes with proposals to increase the agency's capability to meet the state's housing needs.

Nature of State HFAs

With respect to housing, states have, until recently, limited their roles to the enactment of enabling legislation permitting local governments full participation in federal housing and community development programs. In response to the 1968 Housing and Urban Development Act, which gave state HFAs preference in the allocation of housing subsidy funds and allowed HFAs to finance deep interest subsidy in housing projects without Federal Housing Administration (FHA) mortgage insurance, states began to become actively involved in the provision of housing to needy residents. HFAs were created to deliver new supplies of housing at below-market rents by acting as mortgage bankers, making and servicing low-interest rate, long-term mortgage loans, and administering and coordinating federal housing subsidy programs.

Another incentive for state HFA establishment came in 1974, with the creation of the federal Section 8 Housing Assistance Payments Program. This program "sets-aside," or reserves, funds specifically for use by state HFAs. In 1976, the HFA Section 8 set-aside amounted to $225 million or one-quarter of the program's total budget (Hance and Duvall 1976).

The mid-seventies also saw a major economic recession, which limited the amount of capital available for housing construction and contributed to a sharp rise in shelter costs. State HFAs came to be seen as a mechanism to prevent or respond to credit tightenings in the housing market. An HFA

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provides a state with its own secondary housing market and can spur economic development through the additional jobs and revenue it can generate. HFAs were also seen as having beneficial impact on states' building trades and construction industries.

Not surprisingly, most HFAs were presented to state legislatures as costless entities designed to funnel federal subsidies to communities requesting assistance, provide cheap mortgage money during times of tight credit, and stimulate building industries. By and large, HFAs were not politically accepted as a state effort to provide shelter for low-income residents.[3]

The Housing Corporation

North Carolina's first state level endeavor in publicly assisted housing came in July, 1969 when the legislature passed the North Carolina Housing Corporation Act. The act created a public corporation within the Department of Administration governed by a nine-member board of directors. The corporation was charged with functions consistent with other HFAs in existence at the time and could: purchase federally insured mortgages; make or participate in the making of federally insured construction and mortgage loans; provide technical assistance to builders and developers; advise people seeking to improve their housing; and promote research and development in the low-cost housing field. A separate Housing Development Fund (HDF) was also created and could provide temporary development cost loans to qualified builders, sponsors, and developers of low-income housing; provide loan assistance to qualified families to help meet down payment and other closing costs on home purchases; and provide, under special conditions and with participation of private lenders, uninsured loans to cover land development and construction costs of lower-income housing projects.

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Corporation bonds were not to be general obligations of the state and carried relatively little security. The legislature appropriated only $300,000 for a general reserve fund. Unlike many other states, North Carolina did not pledge its moral obligation to the corporation's bonds. The corporation's revenue bonds were to be secured only by federal insurance, a capital reserve fund from the bond proceeds, the small general reserve fund, and the corporation-financed housing. In addition to the $200,000 appropriated for start-up costs, the corporation was designed to be economically self-sufficient based on the point spread between the lower tax-exempt bond interest rates and the higher rates which the corporation would charge (Stegman 1972).

The Housing Finance Agency has provided mortgage financing for low-cost single family homes.

Photo by Rob Nichols

During its four years of existence, the Housing Corporation issued no bonds and financed no housing. The requirement that its operating costs be covered by the spread between bond and mortgage rates, in combination with the higher rates the corporation would have had to pay due to its infancy and relatively unsecure bonds, kept the corporation out of the long-term bond market (Stegman 1972).

The Housing Finance Agency 1973

In 1973, after eliminating the housing corporation, the legislature created a new housing finance agency. The North Carolina Housing Finance Agency could: participate in any federally assisted lease program for lower-income people, providing that the locality where such a project to be located requests and approves; make or participate in the making of loans to sponsors of residential housing; and establish an existing mortgage purchase program and a forward commitment program.

Because the agency was designed to operate with maximum participation by the private sector, and because the legislature believed that an inexperienced agency could not administer construction loans or a Housing Development Fund (Report of Legislative Committee 1973), these functions were not retained in the new legislation.

The HFA was placed within the Department of the Treasurer to take advantage of its strong relationship with private financial institutions and the investment community. The relationship between the Department of the Treasurer and the HFA was not designed to be permanent. The department was to nurture the agency during its early years, and after demonstration of its capacity for independence and broader functions, the agency was to be relocated (Report of Legislative Committee). The agency board of directors was also altered. It was expanded to twelve members and included legislative representation for the first time.

Another significant alteration approved by the legislature was the establishment of a general reserve fund. This was necessary to assure the marketability of agency bonds at rates sufficiently low to serve low-income residents. A bonding capacity of $100 million was sought because, based on other states' experiences, that amount represents the minimum level of activity producing a cost-effective operation in terms of staff, overhead, and marketing costs. Such a bonding capacity would have required a minimum reserve of $8 million (Report of Legislative Committee). A compromise was reached which resulted in the agency receiving a $4 million reserve fund and a bonding limitation of $40 million. It was felt that once the HFA successfully utilized its initial bonding capacity, it could return to the legislature for an increase (Currin 1978).

The HFA was also permitted to use up to one-half of the annual interest earned from the reserve fund account for operating expenses. This was in addition to funds it would receive from the point spread on its mortgages. The agency could also purchase privately insured and uninsured mortgages, as opposed to the previous legislation requiring federal insurance. Authority to establish a mortgage insurance program was granted, but an initial insurance fund was not capitalized by the legislature. Finally, the new act included language which established the purchase or rehabilitation of single-family homes as an agency priority.

> "It is obvious that the legislature took away some of the corporation's powers in return for provisions which would make the agency operable."

1977 Legislative Amendments

During the summer of 1977, legislation was approved to transfer the HFA from the Department of the Treasurer into the newly reorganized Department of Natural Resources and Community Development (DNRCD). The purpose of the bill, proposed by Governor James B. Hunt, was to locate the agency in a department whose major focus is community development.

The approved compromise bill transferred the HFA to DNRCD, but retained bond approval authority with the Local Government Commission in the Department of the Treasurer. A futher change saw the Secretary of DNRCD become an *ex officio* member of the HFA Board of Directors with the power to fire but not to hire the agency's executive director.

With these changes the HFA must now operate in one department, whose mandate is to provide socially desirable services to the state's poor, and simultaneously satisfy another department's objective of protecting the fiscal credibility of the state. The transfer of the agency to the DNRCD was a political and bureaucratic move that required extensive fence mending when completed. HFA activities were brought to a near standstill for almost one year.

North Carolina's HFA: Evaluation Criteria

Because North Carolina's HFA must walk a very narrow line between two very different objectives, low income housing delivery and fiscal credibility, performance standards should be established for each of these categories. First, the agency must initiate and maintain its credibility in the bond market. Without such credibility the agency cannot be effective. Financial credibility can be measured by: the financial stability of its housing programs (number of mortgage defaults); the security backing its bond issues; the successful utilization of all of its bond proceeds in a timely manner; the professionalism and capability of its staff; and the quality of the track record established in the investment community (bond ratings and interest rates) for future bond offerings.

Secondly, and just as importantly, the HFA must satisfy a public purpose test. Without serving a socially desired public purpose, the agency has no authority to expend public monies in the form of tax-exempt bonds, general reserve funds, or Section 8 federal rent supplements. Satisfaction of public purpose objectives can be measured by: the number of dwelling units constructed or financed compared to the need; the socio-economic characteristics of the program recipients; the participation in the creation of a statewide housing plan and the targeting of agency programs to implement such a plan; the depth of the housing subsidy delivered and the costs of such subsidy; the importation of out-of-state mortgage capital; the amount of federal subsidies captured, and an aggressive approach towards the establishment of innovative programs to meet the state's housing needs.

Evaluation of The 1976 Bond Issue:

In July of 1976 the North Carolina HFA floated a $16.16 million bond issue with an effective yield to investors of 6.75 percent. The bonds received an excellent Aa rating by Moody's because they were secured by FHA/VA mortgage insurance, a general reserve fund, and a capital reserve fund. This rating, combined with North Carolina's tradition of fiscal conservatism, resulted in an additional benefit to the agency in the form of a $420,160 bond discount assigned to the issue by the underwriter (Saloman Brothers 1977).

The proceeds from the bond sale were used to fund an existing and forward commitment mortgage purchase program for 650 single-family homes. As determined by the agency, an eligible applicant for a loan was limited to a gross annual family income of $12,850 or less. There were no geographic targeting requirements included in the program. The maximum term of the mortgage was 30 years with a maximum principal of $30,000. The loan-to-value ratio was effectively 97-100 percent after all associated fees and points were accounted for. Interest rates to the mortgagors varied between 7.5 and 7.75 percent.

The agency's first bond issue was a success from a financial perspective. Although some difficulties were encountered in closing all the transactions within the six month commitment period, the entire committed mortgage amount was eventually purchased. The bond rating was sold and the bonds were marketed at two points below the market rate. The bonds were perceived to be so secure by underwriters that they assigned nearly a half-million dollar discount to the issue. To date the agency has had to foreclose only eight mortgages out of 650 (Currin 1978), a very successful foreclosure rate of just over 1 percent. A competent staff continues to administer the program. With the 1976 bond issue, the HFA established a sound track record with the investment community, paving the way for future bond offerings by the agency.

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Because the HFA must fund its operating expenses from the mortgages that it purchases, the 6.75 percent cost of borrowing translated into a mortgage interest rate of 7.5 percent to 7.75 percent. This rate was approximately one point below market rates at the time. The monthly debt service on the average loan of $22,400 at 7.75 percent over thirty years is $160.50. That debt service is $16 less per month than a conventional loan would have cost at the market rate; this equals a 9 percent HFA subsidy resulting from its tax-exempt financing. Given a standard rent-to-income ratio of 25 percent, the subsidy lowered the annual income requirement for ownership of a similarly priced home by only $800. The real benefit of this program was not the monthly subsidy, but the low down-payment requirements and the availability of mortgage money for moderately-priced homes.

The agency was able to have an impact on a relatively low-income population group for a homeownership program. The median income of an agency borrower was $5,000 below that of an FHA Section 203(b) borrower (N.C. HFA Report). The typical agency borrower was a young family, with little available equity entering the homebuyers market for the first time.

The inefficiency of tax-exempt bonds in general, however, can be illustrated with North Carolina's first bond issue. The first payment due on the bonds was $195,000 of the principal and 3.75 percent interest on the entire $16.16 million (Saloman Brothers 1977). This amounts to an addition to the aggregate investors' incomes of $606,000. Assuming that all of the investors are in the 50 percent tax bracket, $303,000 of revenue was lost to the U.S. Treasury. Put in other terms, it cost American taxpayers $466.15 to subsidize one single-family North Carolina HFA home buyer $188.75 over the past year.

Another potential problem is that the agency initiated its mortgage purchasing program without the benefit of a generally accepted statewide housing plan. Therefore, the agency's first bond issue did not require any geographic targeting. As a result, HFA mortgages were originated by private financial institutions, not necessarily by where the greatest needs were, but consistent with conventional private sector mortgage activity. Loans could have been made that were counter-productive to the planning and development activities of other state agencies such as economic development, transportation, and agriculture.

The HFA's bond issue successfully attracted long-term debt capital from outside of the state, with approximately half of the bonds sold to out-of-state investors (N.C. HFA Report, 1977). The HFA's actions resulted in a net increase of $8 million in mortgage monies to the state. Because there are only limited federal housing programs for single-family home purchases, the HFA was not able to leverage any federal housing subsidies. As a result, tax-exempt subsidy of HFA financing was the only subsidy available under the program.

"Target groups are in need of housing services precisely because they have been underserved by the private sector in the past."

Evaluation of Other HFA Programs

The North Carolina HFA is a Department of Housing and Urban Development (HUD) designated statewide public housing authority for the purpose of administering Section 8 federal rent supplements. The HFA has a cumulative set-aside of nearly $3 million in Section 8 New Construction/Rehabilitation contract authority. The agency does not finance Section 8 projects, as most HFAs do; it merely administers them. This involves soliciting and assisting the development of housing proposals. The criteria for HFA project selection includes financial feasibility, availability of permanent financing, location, size, design, and compliance with HUD requirements. The HFA can only select projects upon the request and with the approval of the local government. The agency has some limited control, therefore, over the geographical location of Section 8 developments. The agency's policy, based on its perception of the state's needs since it has no formal housing plan, is to select small projects in rural areas of the state where technically qualified local Public Housing Authorities (PHAs) do not exist (Pou 1978).

Thus far almost 100 percent of the agency-sponsored Section 8 projects have been for the elderly. This is a result of national program deficiencies that make elderly projects disproportionately more popular than family ones. Elderly housing is easier to syndicate, has higher fair market rents, and is, therefore, easier to develop. In addition, elderly housing does not stir local opposition which would prevent North Carolina HFA involvement.

Because the HFA does not directly finance Section 8 housing, it is not maximizing the use of the federal subsidy. If the agency made permanent loans at tax-exempt rates to Section 8 housing developers, rents in those projects would be lowered. The HFA would use less of its contract authority in subsidizing the difference between 25 percent of each tenant's income and their unit's rent. This would free additional Section 8 funds and permit more of the state's low-income residents to benefit from the program. If the HFA financed projects, the HFA would have more control over the projects' impact on the state's needs through location and tenant selection criteria. The making of Section 8 construction loans to developers would be even more desirable, as discussed later.

"Without serving a socially desired public purpose, the agency has no authority to spend public monies . . ."

The HFA also administers the Appalachian Housing Fund, which was established with a grant from the Appalachian Regional Commission. The fund is designed to stimulate the development of low and moderate income housing in the western region of the state. The HFA acts as the technical review agency for all fund applications and awards grants or loans based on staff recommendations. The fund provides assistance for project planning loans, site development grants, off-site improvement grants, and technical assistance grants. The fund has utilized housing sponsors in conjunction with HUD's 202 program for the elderly and the Farmers Home Administration's rural housing programs. Loans are the favored vehicle of assistance to maintain the revolving nature of the fund. The agency is applying for an additional grant from the Appalachian Regional Commission to increase the size of the fund and the agency's flexibility in using it.

Additionally, the HFA is involved with the State Energy Conservation Loan Guarantee program. Regulations for the program have only recently been circulated. Private financial institutions are responsible for placing the loans, which the agency will guarantee against default. Because of the small amount ($1200) of the maximum loan to be guaranteed, savings and loans have shown no interest in the program. A few commercial banks have indicated some interest but the response has not been overwhelming.

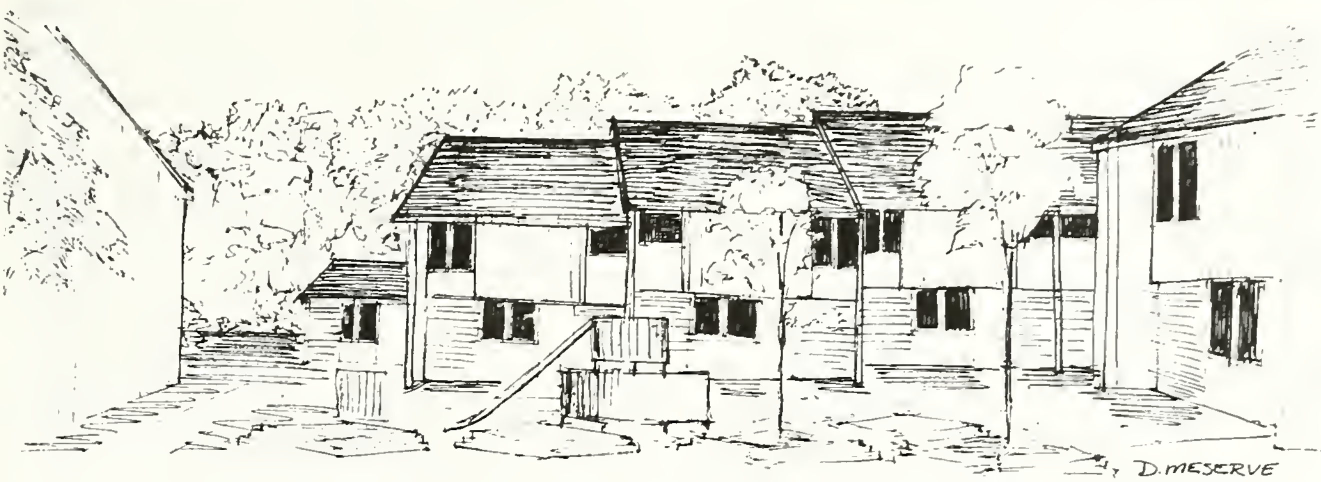
Other Constraints on Operating Performance

One constraint on operating performance is the current method of financing internal operating costs. The agency is caught in the dilemma of needing to expand its volume of activity to generate additional operating income, but not having the staff to do so. The current HFA staff of seven is financed with 50 percent of the interest accruing from the general reserve fund. The one point spread between the bond interest being paid and the mortgage rates purchased covers a three-eighths of one percent servicing fee to the originator and the agency's overhead resulting from the program.

Because the agency utilizes the private sector to implement its programs, it must pay servicing fees. If it bypassed the private sector and dealt directly with developers, it could charge fees for services rendered, and in turn increase its administrative capacity. With increased staff capacity, it could expand its program and serve a larger number of low-income people. Restricting itself to a single-family purchase program, which requires a point spread to operate, leaves the issue of an expanded agency staff at the discretion of a fiscally conservative legislature.

A second constraint is the legislature's preference for strong private sector involvement in HFA activities. In the enabling act the legislature declared that the private sector had not ". . . been able to produce, without assistance, the needed construction of decent, safe and sanitary residential housing at low prices or rentals which persons and families of lower income can afford or to achieve the urgently needed rehabilitation of much of the present lower income housing."[4] It also states that "loans shall be made only upon the determination by the agency that mortgage loans are not otherwise available wholly or in part from private lenders upon reasonably equivalent terms and conditions."[5] The act proceeds to create powers for the HFA which can be implemented only through the private sector—the same sector which the legislation acknowledges has not done the job. Ironically, the HFA finds itself in a position responsible for satisfying the needs of those unserved by the private sector, with only the vehicle of the private sector to carry out such a mandate.

The remainder of the article addresses this



Various subsidies are possible for multi-family public housing projects.

Drawing by Don Meserve

dilemma. The HFA can initiate some changes to expand its role in meeting the state's housing needs without legislative action. But other, more fundamental changes will require the legislature to recognize the benefits of an aggressive HFA and create, through amendment, such an agency in North Carolina.

Proposals Not Requiring Legislative Action

A statewide housing plan, consistent with and adopted by all branches of the state government, is desperately needed by the HFA to assure that its activities conform to and support state and local efforts at land use, environmental, transportation, and economic development planning. Because of the absence of clearly established and agreed upon priorities, the HFA's minimal impact has not necessarily been targeted to the greatest of North Carolina's housing needs. Such a plan should be more comprehensive and specific, and have wider political acceptance, than the current '701' Housing Element Draft.

To carry the needed political clout, authorization for the preparation of a housing plan must come from the Governor's Office. The HFA has neither the staff nor the mandate to prepare such a plan, but the agency should have significant input into the plan's preparation. The Community Housing Division within DNRCD is the most logical office for the drafting of a housing plan. The Division should perform largely a coordinator's role, soliciting proposals from all other branches of government. This will assure a final product which has broad-based appeal and one in which the HFA can play a significant role in implementing.

The housing plan should identify target population groups and locations. These targets can be identified based on local Housing Assistance Plans and regional and statewide housing and population characteristics. In addition, means of housing delivery, building types, construction techniques, and relevant design criteria should be assigned to each target population. These statistics should be collected with recognition of trends in economic development, transportation improvements, industrial location, and future job centers. Factors such as opportunities to encourage additional public and private investment should also be weighed. Those areas which are racially or economically restricted must be identified for public intervention. Finally, this information should be integrated into the State's overall land use and capital improvements planning to prevent areas from being overbuilt or neglected.

The HFA should use the housing plan to establish high priority population groups and geographical areas, and give preferential treatment to the development of low-income housing for those targets. Such actions as accelerated processing and preferential access to agency programs and federal subsidies would encourage development for the targeted needs. The first step toward implementation of the statewide housing plan is the attachment of priority locational requirements to all future agency bond issues and financing activities. As long as the agency restricts itself to single-family mortgage purchase programs, it will be difficult to target subsidies. Under those programs the HFA is dependent upon the private sector to deliver HFA programs. Target groups are in need of housing services precisely because they have been underserved by the private sector in the past.

This inability to meet the state's housing needs through the private sector is the major reason why the agency should utilize its authority to make direct loans to developers and sponsors of low-income housing. This would allow the agency to bypass private financial institutions and finance low-income housing in neglected areas of the state. In addition, by lending directly to developers of low-income housing, the agency could make mortgage money available at approximately the same low rates that the HFA borrows at in the tax-exempt bond market. This can be done by charging developers servicing fees rather than paying such fees to financial institutions. The agency could fund its operating costs by collecting fees for such services as site evaluation, appraisal, financing, and servicing the loan. The developer can include these fees in the mortgage amount and thereby minimize their impact on the cost to low-income occupants. Several federal housing programs, both multi-family and single-family, could be combined with HFA direct loans to developers to deliver low-cost housing to needy North Carolinians.

"The history of North Carolina's Housing Finance Agency has been characterized by the Agency's inability to achieve its full potential."

As discussed earlier, by making direct permanent loans to developers of Section 8 multi-family housing, the HFA could stretch the benefits of its annual set-aside to more low-income households. Direct loans would put the agency in a position to better target its housing subsidies and lower the costs of development. The agency could pool Section 8 development and go to the bond market with one large bond issue. This would cut the administrative costs of bond preparation and, more importantly, allow the HFA to spread its risks over a number of projects. Portfolio diversification would permit the agency to finance a range of projects, from rural to urban, moderate-income to low-income, new construction to rehabilitation.

Without a multi-family loan program, the agency will not be in the position to capture its fair share of federal subsidies. For example, under the recently formulated Neighborhood Strategy Areas (NSA) program, HUD has allocated nationally 20,000 units of Section 8 Substantial Rehabilitation. Of that amount, one-half will be set aside for use by state HFAs having multi-family loan programs in place (U.S. Conference of Mayors 1978). As a result, North Carolina's HFA currently will not qualify for any of this set-aside (Zimmer 1978). In addition, if the agency were aggressively financing the traditional Section 8 program, it might receive greater amounts of left-over contract authority at the end of each fiscal year. Initially, HUD must allocate Section 8 contract authority based on a statutorily defined fair share formula. Each year the amount that is not utilized by various states and agencies is redistributed based on demand and past performance (Cahoon 1978). If North Carolina can develop an efficient and productive track record for financing Section 8 projects, the state would be in a position to receive additional subsidies.

A single-family program that North Carolina should consider, which is underutilized by most HFAs, is the federal Section 235 interest subsidy program. By utilizing this program, the HFA could accomplish what it has done under its mortgage purchase programs but at an increased subsidy to low-income homeowners. The agency should make direct loans to developers or sponsors of Section 235 housing. With the combined subsidy of agency tax-exempt financing and federal interest subsidies, the HFA could assist more lower income households. It would also be able to lower development costs and stretch the federal interest subsidies just as was outlined in the Section 8 proposal. An added benefit would be the agency's ability to target this single-family program to priority groups and areas; the HFA cannot do this under its present mortgage purchase program.

In addition to making direct permanent loans to developers of Section 8 and Section 235 housing, the agency needs to make construction loans for these projects. Without the ability to make construction loans, the agency is still dependent on private financial institutions to assist in the delivery of its programs, although not to the degree that it is without permanent financing. By making construction loans, the agency would increase the benefits of lowered development costs and leveraged federal subsidies discussed above. The agency could expand its staff through the increased servicing fees resulting from the originating construction loans.

The HFA does not have the explicit authority to make construction loans. This authority, available to the Housing Corporation, was eliminated in the 1973 HFA act. On the other hand, in *Martin v. N.C. Housing Corporation,* the N.C. Supreme Court acknowledged that construction loans were an important part of an integrated program to produce low-income housing.[6] The question of the HFA's ability to make construction loans is probably political rather than judicial. If the agency can increase its activities to the point where it has the track record, staff capability, and political base of support required to make construction loans, it may not need specific legislative authority to perform that function.

If it is determined that the agency is not authorized to make construction loans, as outlined earlier, the legislature should pass specific legislation to enable the HFA to make these loans. This authority would allow the agency to carry out its legislative mandate — to fill the low-income housing void left by the private sector.

Proposals Requiring Legislative Action

At the end of Fiscal Year 1978, North Carolina has accumulated a state budget surplus of $183 million (Dorman 1978). In May of 1978, the state legislature took actions to expend that surplus during the 1979 fiscal year. Unfortunately, while the legislature chose not to allocate any of the surplus to the state's only housing delivery mechanism (the HFA), the state's housing needs continued to grow. According to the latest projections, by 1980 31 percent of North Carolina's households will have inadequate income to support a standard dwelling unit. Approximately 300,000 units of substandard housing are expected to exist by 1980 (N.C. Division of Housing 1977). With this degree of housing need, some of the state's surplus should have been appropriated to housing and particularly to the HFA. A surplus in the state budget is not uncommon in North Carolina, and in Fiscal Year 1979 the surplus could reach $160 million (Wheeler 1978). In the future, the legislature should allocate some of the surplus budget to the HFA. The following proposals would require appropriations of $9.2 million which, in turn, could be leveraged into hundreds of millions of dollars in housing benefits to the state.

First, the legislature should appropriate four million dollars to the general reserve fund as it indicated that it would in 1974 if the agency properly used its initial four million. If the HFA offers another single-family mortgage purchase bond issue this fall, as expected, it will have exhausted its statutorily established bonding capacity. By increasing the agency's general reserve fund to eight million dollars and expanding its bonding authorization to $100 million, the legislature will permit the agency to continue to serve the housing needs of the State.

"Without a multi-family loan program, the agency will not be in the position to capture its fair share of federal subsidies."

To allow the HFA more flexibility in delivering programs, the legislature should also permit the agency to use up to 100 percent of interest accruing from its general reserve fund for its operating costs. Currently, the HFA can only use 50 percent of the interest. Such action would free approximately $175,000 of idle funds for HFA use. This interest accrues annually from funds appropriated in 1974 and would require no further appropriations. These funds could supply the agency with operating expenses for programs that benefit very low-income residents and cannot be self-supporting.

Second, to permit the agency to expand its activities to direct loans to developers and implement the proposals outlined below, the legislature should make a one-time operating fund appropriation. A direct appropriation of $200,000 would enable the HFA to expand its administrative capacity and start-up additional programs and services. Since these programs would be largely self-supporting in terms of operating costs, only an initial appropriation is needed. All or part of this appropriation could be repaid depending upon the success of the agency's programs.

Third, to initiate the HFA's authority to establish a mortgage insurance program, the legislature should appropriate four million dollars for a mortgage insurance fund. With this fund the HFA could establish a program modeled after Maryland's program. For example, the agency could fill the gaps left by FHA and private insurance programs. A range of middle-to-low-income mortgages, with varying loan-to-value ratios could be insured. This would result in a sound and diversified portfolio of mortgages to cover the risks of other agency activities. These activities should include mortgage insurance for rehabilitation, economically integrated multi-family projects, urban neighborhoods, rural regions, and energy conservation. Integration of the Energy Conservation Loan Guarantee program with the general mortgage insurance fund would permit the agency to offer better terms with less risk.

Finally, the legislature should reinstate the Housing Development Fund (HDF) included in the original Housing Corporation. One million dollars would allow the agency to develop a statewide program along the lines of the Appalachian Housing Fund. This could further assist those areas and groups not adequately served by the private sector. Such a fund could provide loans and grants for predevelopment costs, technical assistance, and downpayment or equity assistance. This would permit the development of non-profit groups, unserved by the private sector, to sponsor their own housing developments. The HDF could develop the professional capabilities of group sponsors to take advantage of other HFA and federal programs.

Conclusion

The history of North Carolina's Housing Finance Agency has been characterized by the agency's inability to achieve its full potential. In comparison to other states and this state's housing needs, North Carolina's agency has achieved only minimal results. Despite its low production record, the agency has achieved some positive objectives. It has established a good track record for future bond offerings and has successfully administered its own financing program and a federal subsidy set-aside. These are important achievements for a young agency and are necessary for future expansion.

The state's housing needs still persist. The HFA is the state's primary instrument for direct involvement in subsidized housing development. The agency's public purpose mandate necessitates expansion of its role and powers beyond the satisfaction of purely investment community objectives. The agency must significantly address the state's housing needs. The agency must also fully utilize all its present authority to initiate its own programs and to capture federal subsidies for the state's benefit.

The state government is in an excellent position to assist the agency's improvement and expansion.

Recent budget surpluses and the likelihood of future surpluses indicate that North Carolina has financial resources available to address its significant housing problems.

Some may note that political realities in North Carolina indicate little likelihood that significant state commitments to housing will be forthcoming. There are three responses to that argument. First, the HFA thus far has had very little impact on the state's housing needs and therefore has garnered very little political support. If the agency can expand its operations and thus its impact, it can broaden its political support. As the ill-housed become aware of the HFA's ability to provide low-cost housing, they will demand more. Also, as financial institutions and the construction industry observe the agency's ability to attract out-of-state mortgage capital and increased federal housing subsidies, they will support its expanded role.

Secondly, as the state's population continues to grow, and housing costs continue to climb, more residents will require the benefits available to them from an expanded HFA. Finally, the federal government, with its expanding budget deficit, appears ready to turn over many of its responsibilities for social services to the states. This is especially true in the field of housing and community development. The President has promised increased incentives for states to accept a larger burden in this field. As the federal government alters or diminishes its involvement in housing, North Carolina will be left with serious and wide-spread housing problems. An HFA that can capture available federal subsidies and leverage them as far as possible will have broad political support. These factors may precipitate a change in the political climate which will permit the expansion of the HFA's capacity to provide housing services to North Carolina's ill-housed.

Notes

1. Because this paper deals with housing, "urban ills" as it is used here refers to housing problems. In addition, the term includes both urban and rural housing for the purposes of this paper.
2. Jimmy Carter, *The President's Urban and Regional Policy Group Report: A National Urban Policy,* March 1978 (Washington, DC: US Government Printing Office).
3. As Stegman (1974) notes, this is an important issue to keep in mind when evaluating an HFA's success at achieving legislative objectives. It was often the case that HFA bills were designed to assist low-income households but were approved by legislatures only after much rhetoric was voiced concerning the financially self-supporting nature of the proposed agency.
4. North Carolina General Statutes, Chapter 122A as amended.
5. Ibid.
6. Specifically, the court said (Martin v. N.C. Housing Corporation, p. 56) that,"temporary loans from the HDF for development costs are the first step in an integrated program, the second step being a construction loan, and the third step being permanent financing."

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