
CHAPTER 4. POLICY STATEMENTS CONCERNING AVOIDANCE OF
SURPLUS HOUSING CONDITIONS, PROCESSING
PRIORITIES AND REVIEWS

- 4-1. COLLABORATION WITH VA REGIONAL OFFICES IN CONTROL OF LOCALITY SURPLUSES OF HOUSING. In the administration of the HUD-FHA mortgage insurance programs it is the responsibility of the Field Office to utilize the HUD-FHA programs so as to make an effective contribution to the improvement of housing standards and conditions in individual localities and for maintaining sound market conditions. The creation and maintenance of a surplus housing supply in a locality would create a danger to the soundness of mortgage market conditions in that locality by undermining the value of the inventory of existing construction and the marketability of new housing.
- a. Desirable Market Conditions. The continual exercise of sound judgment by Field Offices is required in the administration of the HUD-FHA insurance and production programs in order to assure that a desirable middle course in market conditions is maintained, resulting in neither maintaining a tightness in the market so as to impede the consumers in a suitable opportunity for exercising selection in the choice of housing accommodations nor, on the other hand, developing such a surplus condition that the soundness of mortgage and property investments or the vigor of the home production industry is impaired. Responsibility for maintaining surveillance of market conditions for the guidance of office directors is shared by the Director of Operations and the Director of EMAD for Area Office Directors and by the Chief Underwriter and the Area Office Director of EMAD (or Insuring Office Market Analyst) for Insuring Office Directors. An analytical report should be requested from the Area EMAD or Insuring Office Market Analyst in any situation in which either a market shortage or marked surplus of housing appears to threaten the market area.
- b. Related Responsibilities of HUD-FHA and VA Towards Local Market Conditions. In the field of home residential construction, the Veterans Administration Home Loan Guaranty program involves Federal Government interests and responsibilities which are in many regards closely related to the interests and responsibilities of the HUD-FHA. Since both agencies are of substantial influence in local housing production and market conditions, and since both agencies are responsible for Federal Government programs, it is essential that at the field office level both agencies' programs be administered with a common

understanding of local market conditions and with administrative actions which are consistent between the two agencies.

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- (4-1) (1) In HUD-FHA operations there are several methods by which HUD-FHA can substantially influence trends of new home building and sales market activity. Among the methods which may be utilized are the prohibition of conditional commitments or CRV's for speculative construction in mortgage programs; or limitations on conditional commitments for speculative construction of homes, in terms of total units in the housing market covered by outstanding conditional commitments or total units per builder in outstanding conditional commitments (or both types of limitations); or the prohibition of rental housing commitments entirely or making provision for commitments only in connection with particularly meritorious applications, or commitments on rental projects might be limited to specific rent ranges or distributions, to housing for particular segments of the market, to projects of limited size, or to projects in particularly favorable locations.
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- (2) It is to be noted that no general limitations are to be applied to the issuance of firm commitments for owner-occupant mortgagors, although such commitments may be limited in amount as a consequence of reduced value under conditions of housing surpluses.
- (3) If a Field Office concludes, with respect to any locality condition Office Guaranty over within its jurisdiction, that a housing surplus exists, it will be the responsibility of the Field Director to communicate immediately with the Loan Officer of the VA Regional Office having jurisdiction

representatives the same locality in order that responsible
of the two offices shall meet together to exchange
judgements concerning market conditions in the locality
and to discuss what, if any, local market restraints by
HUD-FHA and VA might be appropriate.

(4) If agreement is reached between the two Field Offices as
to the character of the local housing market situation
and
the nature of administrative actions, if any, which are
necessary, an immediate report should be made to the
Regional Administrator with jurisdiction indicating the
specific housing market conditions requiring attention,
and the agreements reached with the VA Regional Office
regarding administrative actions to be taken by the two
agencies.

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(5) At such time as the surplus situation occasioning
controls in a locality has been substantially improved
or eliminated the HUD-FHA and VA Field Offices should
agree upon a timing and procedure for the modification
or termination of these administrative controls.

(6) In the event that discussions between HUD-FHA and VA
Field
Offices reveal such differences in opinions concerning
the market conditions or concerning the desirable
administrative controls that the Field Offices may be
unable
to reach agreement on these matters, the Field Office
Director shall immediately report to the Regional
Administrator the essential elements of the HUD-FHA
Judgment
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specifically
on the locality and the points of disagreement with the
Regional Office. This report should indicate
the measures which the Director feels should be put into
effect with respect to HUD-FHA operations in the
locality.
by
Upon receipt of proper instructions from the Regional
Administrator, such administrative action may be taken

undertaken HUD-FHA even though concurrent actions are not
by the VA Regional Office. The matter of reaching
agreement on related VA actions will be taken up with VA
at headquarters.

- (7) It is particularly to be noted that the identification of surplus situations requiring HUD-FRA/VA collaboration in the establishment of administrative controls is to be a continuing function. Discussion with VA Regional Offices should be initiated concerning localities which currently have surplus housing situations, if any. Additional discussions should be initiated whenever additional surplus situations come to the attention of the HUD-FHA Field office.

4-2. RESPONSIBILITY OF FIELD OFFICES TO AVOID CONDITIONS OF SURPLUS HOUSING.

a. HUD-FHA Obligation and Responsibility. HUD-FHA has a threefold

obligation and responsibility to maintain a sound mortgage insurance operation. Foreclosures and acquisitions resulting from the over-extension of building operations in a soft market are a negation of HUD-FHA responsibility:

- (1) To conserve HUD-FHA insurance funds and, indirectly, the funds of the United States Treasury.
- (2) To protect the equities that mortgagors have built up in their homes.

- (4-2) (3) To insure sound mortgages, thereby minimizing the mortgage lender's servicing and default problems.

b. HUD-FHA Control of Housing Supply. HUD-FHA should exercise control of the mortgage insurance program so as to discourage housing oversupply. Continuing observation of the housing market and the relationships between the supply and the demand is required of each Field Office if far-reaching adverse consequences of oversupply are to be avoided.

c. The Responsibility of the Field Office. It is the responsibility of the Field Office Director to employ those measures set out in paragraph 4-1.b.(1) of this Chapter when conditions in any part of his jurisdiction indicate a if "soft" market or the presence of surplus housing. More importantly, the Director should use every means at his disposal to avoid the development of such undesirable conditions in the first place. Prevention of oversupply is better than attempting to control it after it appears.

d. Rental Housing. Consideration should be given to rental housing separate from that given to housing built for sale. It may be that a satisfactory market could exist for rental projects even though an oversupply of houses for sale is impending or exists. Conversely, a satisfactory market for houses for sale may exist even though there may be an over-supply of apartments in rental projects. Consideration also should be given to the possibility that offerings for sale in some cases may be so attractive as to pull tenants out of rental projects to a substantial degree.

e. Items of Consideration. The analysis will take into consideration such items as inventory of unsold houses, marketing time, price declines, unusual sales promotion methods, rent concessions, increase in vacancies, and increases in defaults and foreclosures.

f. Utilization of the Cancellation Clause. In addition to conditions set forth in paragraph 4-1.b.(1) above, recommendations for utilization of the cancellation clause when construction has not started within 60 days may be made. In some instances, rejection of conditional commitment applications with a counterproposal for model home conditional commitments may be warranted if there is reasonable doubt or difference of opinion as to marketability of the proposed dwellings.

(4-2) g. Erroneous Concept. The view that unlimited conditional commitments can be issued freely because HUD-FHA has no mortgage insurance liability is an erroneous concept. It fails to recognize the depressing effect of surplus housing upon the entire market. Unsold housing can increase

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risk for HUD-FHA in connection with outstanding firm commitments

and insured mortgages by weakening market prices and jeopardizing the equities of mortgagors who are required to sell their homes. In extreme cases, this can proceed so far that foreclosure and acquisition of properties result.

h. Conditions Leading to Surplus Housing. Experience has shown that when certain conditions in the housing market become apparent, the likelihood of a surplus housing condition arising is great. It is the responsibility of the DO/CU and the Director of EMAD to detect and report the presence of

such

circumstances to the Director for his consideration. Both General Information relating to overall economic and housing trends in a particular state or city and Specific Information depicting strictly local housing and mortgage market

conditions

contribute to an appraisal of housing market conditions.

(1) General Information is usually in the form of publications

of federal, state, or local agencies or organizations. HUD-FHA rental housing occupancy surveys come under this heading. Material published by the U.S. Bureau of Census or the U.S. Department of Labor

revealing

fluctuations from the normal population and economic trends are also examples of this type of data. Real Estate Boards, Chambers of Commerce, Utility Companies, and Boards of Education frequently compile and make available valuable information which will be significant in predicting housing needs. Material from state and local highway departments and planning groups can prove to be very valuable also in the effort to avoid surplus housing.

(a) The EMAD in each Area Office and Market Analysts (if any) in an Insuring Office are responsible for continuing surveillance and analysis of source data from these various agencies.

- (4-2) (b) The general information mentioned above, because of its nature, will be continually accumulated, reviewed, and analyzed by the EMAD. Significant facts disclosed in this information will be communicated to members of each Field Office to assist them in their normal processing work. This material is also important in keeping informed of any potential surplus housing areas.
- (2) Specific Information refers to conditions that are not discernible from a review of the General Information discussed in the preceding paragraph. It is detailed information involving circumstances more local or limited in scope such as trends or unusual fluctuations within the confines of a unit as small as a neighborhood.
- Examples of this type of information that may indicate a softening of the market would include:
- (a) The presence of a larger than normal inventory of unsold new and/or old houses.
- (b) A lengthening of the time required to sell homes built on a speculative basis.
- (c) Repeated instances of new dwellings selling for less than the original asking price can be indicative of a "soft" market.
- (d) Use of certain types of promotion to stimulate sales, such as the offering of "gifts" as an added inducement, equity accumulation plans, and unusual trade deals such as those involving thin equities. (The Mortgage Credit Section can assist in reporting these conditions.)
- (e) Unusually low rent being asked for residential units or concessions being offered prospective tenants, may indicate an oversupply of housing is developing.
- (f) The ratio of vacancies to the total available living units in the area often increases prior to a decline in the demand for housing. Constant watch must be

normal

kept to ascertain if any fluctuation from the vacancy ratio is occurring in 1- to 4-family homes as well as larger rental projects.

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employment

- (g) Special attention must be given those areas that are relying on a single industry for employment. All information regarding the activities and welfare of that industry should be accumulated and analyzed constantly so that any future decrease in its needs can be anticipated by the Field Office.
- (h) An unusual number of vacated houses which had been previously sold and occupied.
- (i) An upward trend in the number of defaults and foreclosures in any particular neighborhood.
- (j) A larger than normal number of unsold houses of a particular size, age, or other common characteristic may indicate commitments involving this type of property should not be issued.
- (k) The proposed construction of a substantial number of living units without the benefit of HUD-FHA financing may foretell a surplus in an area that at present enjoys a well-balanced housing market.
- (l) Increasing number of refusals of secondary market to purchase insured mortgages in an area can be significant.

NOTE: The collection of the specific information referred to above will be primarily the responsibility of processing appraisers. They should look for significant signs during appraisal trips within

their

jurisdiction for referral both to the DO/CU through appropriate supervisors and to EMAD and the Insuring Office Market Analyst (if any).

- i. Reporting Procedure. To assure communication of these findings to the Director, the following reporting procedure

should be followed. When valuers observe specific conditions in the field that indicate an impending or actual "soft" market, they should prepare a memorandum to the Chief Appraiser setting forth the circumstances in detail and the reasons for their concern. The Subdivision Appraiser will prepare a memorandum to the Chief Appraiser pointing out incipient trouble spots and he should also keep a running account of rates of absorption in Subdivisions in terms of:

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- (4-2) (1) Number under construction and unsold,
(2) Number completed and unsold, and
(3) Length of time to sell completed houses.

j. Memoranda Identifying Soft Market. The Chief Mortgage Credit

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Examiner will prepare memoranda identifying marks of a "soft" market in a particular locality including information

obtained from Administrative Personnel in the office and the Property Disposition Section involving:

- (1) An increasing proportion of purchasers submitted for mortgage credit analysis possessing minimal credit characteristics,
(2) An increasing number of requests for commitment extension reflecting a growing inventory of unsold houses, and
(3) Increases in defaults and foreclosures, and forbearance agreements on home and project mortgages.

k. Routing. The memoranda prepared by the Appraisers, Subdivision Appraiser, and Chief Mortgage Credit Examiner should be routed to the Data Appraiser for organization and comment, He will turn them over to the Chief Appraiser. Upon receipt of such memoranda the Chief Appraiser will review and consider this specific information and other general

information already in his possession. He will relay to the Director

copies

of EMAD and the Insuring Office Market Analyst (if any)

of any materials which might be of significance to them.

receipt

1. Frequency. At least quarterly or sooner if necessary the Director of EMAD will prepare for the Director and the Chief Appraiser will prepare for the ADSF/CU memoranda reporting whether or not any unfavorable market conditions appear to exist. If a "soft" market is impending, or oversupply is present in the area specified, the memoranda will set forth the pertinent facts and the reasons for concern. Upon

any

of such a memorandum the DO/CU will review the facts and conclusions, as stated by the Chief Appraiser, and will make

advising

additional investigations he deems necessary prior to

the Director. The memorandum from the DO/CU to the Director should suggest the use of measures covered in paragraph 4-1.b.(1) which may be necessary to correct or control the oversupply or the trends toward "soft" market conditions, as the case may be.

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- 4-3. MILITARY IMPACT AREAS. Due to the varying degrees of military impact that may be encountered, it sometimes becomes necessary for the Central Office to participate in the formulation and direction of underwriting policy in a particular area. The special procedure set forth here is needed in order to carry out Policy considerations in areas affected by military, atomic energy or space installations.

- a. Applicability. Reference (1) of the Foreword describes the degrees of military impact that may be encountered throughout the nation: from major metropolitan areas to small or remote communities. In a major metropolitan area military population,

even though fairly numerous, may represent only a minor part of the total population and it may be stabilized so that the effect of military activities presents no underwriting problems. At the opposite extreme, the housing demand arising from an isolated or remote military installation may be temporary in character and present a degree of mortgage risk too great to warrant the use of HUD-FHA's Title II mortgage insurance programs. Between these two extremes

there is a wide diversity of military impact. The procedure described herein is concerned with those areas of military impact where the use of Title 11 is considered marginal and Central Office assistance in the formation of underwriting policy is prescribed.

- (1) The term "military" as used in HUD-FHA includes atomic energy and space installations and personnel associated with these installations. "Military-connected civilian personnel" means all civil service and other civilian employees of the military service or Federal agency and all employees of contractors and sub-contractors associated with the military installation.
- (2) Marginal situations of military impact within the scope of Reference (1) of the Foreword are identified by the Field Office Director and his staff and submitted through the Assistant Regional Administrator for HPMC to the Director, Office of Field Support. The

submission

shall include the data and information developed by the Field Office as well as the Director's recommendation for a suggested underwriting policy for the area under consideration.

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- (4-3) (3) The ARA for HPMC shall review each submission from the Field Office and indicate his concurrence or nonconcurrence therein, plus such additional comments as he may desire to add.

b. Central Office Procedure. Field Office requests for an underwriting policy determination are forwarded to the Director, EMAD for evaluation.

- (1) The Director may obtain such additional data and information as he considers essential. This supplementary information may be obtained from the Field Office Director, the military department concerned, or other appropriate sources of economic and market data, including field conduct Of a market analysis, if necessary.

- (2) Upon conclusion of his analysis, the Director will

prepare a summary report together with a recommended underwriting policy for the community. This report and recommendation is in the form of a memorandum to the Deputy Assistant Secretary for HPMC, from an Ad Hoc Committee convened to review the findings and recommendations of the Director, EMAD.

- (3) The Ad Hoc Committee consists of the following persons or their designees plus other Central Office officials with responsibilities specifically related to problems at hand.
- (a) Director, Single Family Underwriting Division.
 - (b) Director, Multifamily Underwriting Division.
 - (c) Director, Office of Field Support.
 - (d) Assistant Regional Administrator for HPMC.
 - (e) Director, Economic and Market Analysis Division.
 - (f) Director, Research and Statistics Division.

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- *(4-3) (4) When the Director of EMAD has completed his analysis and recommendations, the Ad Hoc Committee will convene to consider its report to the Deputy Assistant Secretary for HPMC. As a rule, unanimous agreement on recommended policy should be attained within the Ad Hoc Committee. In the event of disagreement on one or all of the recommendations, the undetermined issues will be referred to the Deputy Assistant Secretary for HPMC for further instruction. All members of the committee will sign the report. Usually, the Assistant Regional Administrator for HPMC will not be present to participate in the meeting.
- approval
- At the conclusion of the meeting the Director, Office of Field Support, will telephone the Assistant Regional Administrator and discuss the report and recommendations. The ARA may immediately express his and authorize his signature on the committee report or he may request that the report be sent to him for review and signature.

- (a) If the ARA is not in agreement with the recommendations, he shall prepare a memorandum setting forth his objections and any suitable alternatives for further consideration by the Ad Hoc Committee.
- (b) If upon reconsideration, the Ad Hoc Committee adopts an alternative proposed by the ARA, the committee report will be appropriately revised.
- (c) If the Ad Hoc Committee disagrees, the committee report, signed by all members except the ARA, together with the ARA's memorandum, if any, will be sent to the Deputy Assistant Secretary for HPMC.
- (5) The Deputy Assistant Secretary for HPMC may either accept the recommendations as presented or he may amend or modify them. The recommendations, when approved by the Deputy Assistant Secretary for HPMC, become the official underwriting policy of the Field Office for the community under consideration. The file is returned to the Director, Office of Field Support.

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- (6) The Director, Office of Field Support will duplicate the approved report and forward copies to all members of the Ad Hoc Committee and to the Field Office directly involved. Also, he shall prepare any necessary replies to Congressional or public inquiries, letters to the military services, etc., when necessary. The signed original report is returned to the Director, EMAD.
- c. Established Underwriting Policy. The underwriting policy thus established by the Deputy Assistant Secretary for HPMC is binding upon the HUD-FHA Field Office and may neither be waived nor modified by the Field Office Director. It is expected that the Director will maintain close and continuing surveillance over the local housing market and will be alert to any changes in the degree or extent of military impact. When the Director identifies a change in local market conditions or other factors affecting a previously adopted underwriting policy, he may request that existing policy be reconsidered and revised to reflect the changed conditions. The Director's request will be prepared and submitted through

the ARA to the Central Office, where it will be evaluated and handled in the manner prescribed above for new or initial submissions.

4-4. PRIORITIES IN PROCESSING - UNSUBSIDIZED HOUSING PROGRAMS.

- a. Encourage Production of Unsubsidized Housing Programs. The publicity attendant upon the subsidized programs has had the unplanned effect of pushing the long-established market rate programs into the background. While every effort should be made to satisfy the housing needs of lower income families by placing continued emphasis on them, a substantial and growing market exists for unassisted housing. An increase in the housing supply benefits both markets. A tight rental or sales market forces up the price of housing, pushing the price of many units beyond the financial capacity of moderate income families.
- b. Industry Must Be Encouraged. Industry must be encouraged to use nonsubsidized multifamily and low downpayment single family programs, and appropriate steps should be taken by way of industry meetings to stimulate such construction in order that the national housing goal may be achieved.

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- c. Field Office Personnel. Field Office personnel are urged to point out to developers the benefits of market rate programs. Likewise, when subsidy funds are not available, sponsors should be encouraged, wherever possible, to resubmit under an unsubsidized program. Processing efforts should be directed towards those proposals regardless of program identification which show the greatest promise of coming to fruition within the shortest period of time.

4-5. SPONSORSHIP OF LOW AND MODERATE INCOME HOUSING BY CORPORATIONS AND BUSINESS ORGANIZATIONS. It is the policy of HUD to encourage national and other firmly-based business, industrial, and financial organizations, not normally participating in housing development, to become involved in solving housing and related problems in their communities. Such companies have proven management capability, and can provide the strong leadership necessary to see a housing project through to successful completion.

Furthermore, their involvement in housing sponsorship should result in the important side effect of deepened company awareness of and involvement in the housing-related social and

economic problems in their communities.

- a. Sponsors Strengths must be considered in making selections for funding among competing projects that are, otherwise, equivalent in feasibility factors. The inherent strengths of national companies and other firmly-based business sponsors make them specifically desirable as participants in the creation of housing; consequently they would receive a high rating in sponsor evaluation.
- b. In Processing and Funding a project sponsored by such companies, every effort should be made to assist the sponsor in putting together a proposal that will conform to the selection criteria for a successful project. In evaluating the merits of proposals which may have equal ratings on evaluation forms, careful consideration should be given to proposals being sponsored by these companies, because of their strengths as potential sponsors.

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- 4-6. ELIMINATION OF REGIONAL FEASIBILITY AND OTHER REVIEWS. Project feasibility review and other regional case-by-case reviews or approvals are no longer required and are supplanted by a supervisory function. These other reviews include precommitment review, approval of nonprofit sponsorship and consultants, and review of workable program or local government approval requirement for rent supplements; also, approval of mortgage increases and cost certification review. Field Office Directors have the authority to make these determinations.

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