

LES AUCOIN
1ST DISTRICT, OREGON



CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

August 15, 1980

Dear Colleague:

When HR. 7262, the Housing and Community Development Act of 1980, is considered by the House, an amendment will be offered to strike a carefully crafted provision of the 1979 Housing Act and once again allow developers of government subsidized housing to engage in a massive ripoff of taxpayer dollars. As members of the Housing Subcommittee, we strongly urge you to oppose the amendment.

Last year during consideration of the 1979 Housing bill, the Banking, Finance and Urban Affairs Committee became aware that developers of Farmers Home Administration rental housing projects were prepaying their loans with increasing frequency. The prepayments, which were occurring only 8 to 10 years after construction of the project, allowed developers to sell their projects or convert them to condominiums. The result for the developers is a rate of return often as high as 70 percent, not including tax benefits flowing to wealthy investors. But for the taxpayer it means a doubling of the cost of providing low income rental housing. For low income elderly persons and families it means displacement and increased rent burden.

For this reason, the Committee adopted, and the House approved, a provision to stem the outflow of units by limiting the ability of developers to prepay loans. The provision now in effect applies to both existing loans and to new loans. It does not prevent prepayment. In fact, under the new law, Farmers Home Administration has approved a number of prepayments. But the provision does establish rules under which prepayment is allowed.

The prepayment provision of the 1979 Housing Act was necessary because Farmers Home Administration was not following the intent of Congress in establishing the Rural Rental Housing Program. Farmers Home has been providing developers with below market interest rate loans to construct low income housing. After only a few years of ownership, however, FmHA was allowing developers to prepay loans and sell their projects or convert them to condominiums.

The author of the amendment to HR. 7262 argues it is unfair to apply the restrictions on prepayments to loans obtained prior to enactment of the 1979 housing bill. Unfair to whom? To the taxpayers who expect the federal government to protect their interests? To low income tenants who are displaced because the units they live in become condominiums?

The clear intent of Congress in establishing the Rural Rental Housing Program was that these projects be available to low and moderate income elderly persons and families for the entire original term of the loan. Developers who participate in the program recognize this as evidenced by their willingness to enter into agreements which limit occupancy to low income persons for the full mortgage term. They know the rules when they sign on the dotted line. The basic purpose of the program is frustrated when developers are allowed to prepay loans.

Congress never intended for taxpayer dollars to leverage massive windfall profits for private developers. Please oppose this amendment when it is offered on the floor.

Sincerely,

THOMAS L. ASHLEY
Member of Congress

STAN LUNDINE
Member of Congress

LES AUCOIN
Member of Congress