NON-PROFIT SPONSORED NEW HOUSING UNDER 221(d)(3)

This program was authorized by section 221(d)(3) of the Housing Act of 1961. It was intended to produce housing for those who are too poor to rent or buy standard housing but not poor enough to be admitted to public housing.

The non-profit sponsor of a 221(d)(3) project obtains FHA approval of the project, including a land appraisal and approval of the building plans. The FHA agrees to insure the construction advance at 100 percent of value for non-profit associations.

The sponsor obtains a commitment from the Governmental National Mortgage Association (GNMA) to provide permanent mortgage financing for the completed project. The sponsor pays a one percent fee to GNMA for this commitment.

The sponsor borrows money from a private financial institution to pay for the construction of the project. The construction loan is short-term and bears interest at the market rate.

When construction is completed, GNMA pays off the construction loan of the private lender and issues a mortgage to the sponsor with a term up to forty years and an interest rate of 3 percent. The sponsor makes mortgage payments directly to GNMA.

"This interest subsidy cuts the costs of mortgage debt service by approximately 40 percent, and permits rent reduction of about 25 percent."

Program Requirements:

Upper income limits for eligibility are set by HUD and depend upon family size and geographic area. Usually the upper limit is set at the median income level of families in the area.

221(d)(3) projects must be located in communities which have workable programs.

Results:

"By July, 1967, FHA had given commitments to proceed with a total of 73,000 units in 569 projects." 33,300 or 46 percent of the units were under the sponsorship of limited-dividend corporations.

Problems:

A. Lack of technical experience and know-how on part of non-profit sponsors.

B. Complexities and bottlenecks in processing applications by FHA. Processing time to start of construction estimated at 376 working days.

C. Upper income eligibility limits claimed to be too restrictive.

Administration:

Most of the program administration is handled by the local FHA Insuring Office. The Regional Offices of HUD play a minimal role in this program. At the HUD National level, program responsibility is with the Assistant Secretary for Mortgage Credit, Federal Housing Commissioner. Responsibility is further delegated to the Assistant Commissioner of Multifamily Housing of FHA.

The 221(d)(3) program is currently being phased out and brought under section 236 of the Housing and Urban Development Act of 1968. The program remains basically the same with the primary difference being that the permanent mortgage is held by the private lender and mortgage subsidy payments are made to the financial institution by the Federal government. Under 221(d)(3), the mortgage is held by GNMA and mortgage payments are made directly to GNMA.