

INTERVIEWER: DAVID G. McCOMB

INTERVIEWEE: PHILIP BROWNSTEIN

November 22, 1968

M: First of all to identify the tape and the interviewee. This is an interview with Mr. Philip Brownstein, who is the Assistant Secretary for Mortgage Credit. Is that the correct title?

B: Yes, and I have another hat --I am, also, the Federal Housing Commissioner.

M: Good. The interview is on November 22 (1968) at 9:35 a.m. in Mr. Brownstein's office at the Housing and Urban Development Building, Room 6100, and my name is David McComb.

Well, first of all, Mr. Brownstein, I'd like to know something about your background. When and where were you born?

B: I was born on Valentine's Day, February 14, 1917, in a little country town of Ober, Indiana.

M: What part of Indiana is that in?

B: It's the northwest part. It's about 35 miles west of South Bend. You will find it as a small dot on a large map.

M: Well, I was born in Kokomo.

B: Oh, well, this is not far from Kokomo.

M: So we're both Hoosiers, I guess. Where did you go to college?

B: I came to Washington in 1935 because, very candidly, I was unable to afford to go to college.

M: Those were hard times.

B: Those were very difficult times. I had an opportunity to come to work for the Federal Housing Administration, which was just then

coming into being, as an assistant truck driver at the munificent salary of \$105 a month, which afforded me an opportunity to go to night school. And this I did at George Washington University, and later on I studied law at Columbus University Law School, which now is a part of Catholic University.

M: How did you happen to get a job like that? Did you come all the way from Indiana to Washington?

B: Yes.

M: It seems a long way to go.

B: It seems a long way to go but if there are no jobs available in the particular area then the distances are somewhat reduced. It really happened rather casually. My father was rather active politically in Indiana--Democratically--when in that little rural area there were very few Democrats as a matter of fact. And he knew Senator Van Nuys and Senator Minton. Of course, Paul McNutt was governor of that time and he was a friend of my father's. But we happened, one day, to be in Indianapolis talking to Senator Van Nuys and he asked me what I was going to do and what I wanted to do, and I told him that I hoped to study law. And he asked me where I was going to go to school, and I explained my problem to him. He said, "Well, they're hiring people in Washington now in many of these New Deal agencies, and maybe you can get a job there. I'll look into it when I get back." And indeed he did, called one day and asked if I wanted this very important position in running the Federal Housing Administration. And, of course, I got on the bus and took the long trek to Washington.

M: Then you finished a law degree at Columbus in 1940, is that right?

B: I got my bachelor's in '40 and passed the bar that year, the District of Columbia Bar. And then I got my Master's degree the following year.

M: And you continued to work for FHA?

B: I worked for FHA during that period and continued until I went into the Marine Corps in February of 1944.

M: Did you move up in the ranks of FHA?

B: Yes, I did not continue as the assistant truck driver. I progressively moved up and, at the time I left, I was--I believe--a P-4, which is the equivalent of a grade 11 now, Attorney, I was in the legal division.

M: What kind of work were you doing as an attorney?

B: Well, various kinds. I was working on regulations, dealing with the home mortgages as well as in the home improvement program, and drawing instruments, dealing with satisfactions of mortgages. Just the journeyman kind of lawyer that the FHA would use at that level.

M: Then you went into the Marine Corps, where did you serve?

B: It was all stateside service. Well, it was North and South Carolina principally.

M: Did you serve as a lawyer for them?

B: No, no, I went in as a big private and came out as a large sergeant.

M: Then, I think you went to work for the Veterans Administration didn't you after that?

B: Yes, when I came out of the Marine Corps--which was in June of 1946--the GI loan program was just getting underway, and this rather intrigued me. And one day I just went over and talked with the head of that program and asked him if he had any job openings. I was hired.

- M: And did you continue to serve in that capacity, working with GI loans for the entire time, or what?
- B: No, I progressively moved up and, in 1958, which of course was during the Eisenhower Administration, I was asked if I would head the GI loan program. And I wound up as Director of the loan guarantee service. Then, in 1961, was made Chief Benefits Director of the Veteran's Administration, which included all benefits programs.
- M: The whole thing!
- B: All of the benefits programs. This is compensation and pension, the GI loan program, the education program, the guardianship program, insurance--most of it as a matter of fact other than the medical program.
- M: You continued in that capacity until what--1963?
- B: Yes, until 1963, when I was appointed by President Kennedy to be the Commissioner of the Federal Housing Administration.
- M: I see. Were there any particular problems with the Veteran's Administration while you were in that agency--in that organization?
- B: Were there any particular problems? There are always problems in any federal agency.
- M: Any ones that are outstanding?
- B: Well, I guess I came into that agency at a time--I mean as the head of the GI loan program--at a rather difficult period. We were undergoing a series of Congressional investigations based on some hanky-panky on the part of some builders and some very poor construction. And there were members of Congress who thought some of our GI's were not getting the kind of treatment that they were entitled to. And I'm happy to say that by the time I left it had changed in fact and image.

M: The textbooks always say, about this kind of organization, that there's very little resistance or opposition to helping veterans. Is this true?

B: I think, essentially, that's correct. I think unquestionably the Veteran's Administration gets a good a reception on Capitol Hill as any department or agency of the Federal Government and I think that it's due to a combination of things. First, there is the matter of the veterans who have served that are indeed entitled to consideration and Congress has been generous in recognizing this. I think that it's due, at least during the time that I have been identified with it, due to a very dynamic, understanding, really powerful Chairman of the Veterans' Affairs Committee in the House. And he is a Texan and a very good friend of mine--Congressman Olin "Tiger" Teague, who has done, I believe, an outstanding job there the last several years. Well, during most of my tenure there I think that the agency has been well administered. I don't think that there's been a waste in this because a very small percentage of the total, really, is not in direct veterans benefits of one kind or another. And, of course, now I believe that the VA is headed by one of the most competent administrators that I know, and again a very close personal friend of mine, Bill Driver.

M: Did you have anything to do with the placing of veterans hospitals?

B: No.

M: Well, that apparently has some political angle to it. There in Congress, when they're getting ready to build a veterans hospital there's sometimes fighting over where that's going to be.

B: Well, I was not identified with the medical program, I just can't give

you any meaningful information.

M: Okay. In your work with the VA, did you have any contact with Lyndon Johnson?

B: Not much direct. I met him. I think I met him for the first time when I was with the VA. And I met him a time or two when he was in the House and I met him a few times when he was in the Senate. I'm sure he would not remember any of those meetings with me.

M: Were these just casual meetings, or were they on business or what?

B: Inquiries, perhaps, on something which he or a constituent may have been interested in. Then too, when he was Majority Leader, I met him because by that time I'd advanced within the hierarchy to the point where I was quite involved in legislative programs.

M: You had to work with him some then on legislation.

B: Yes, but again it was quite casual from his standpoint. His dealings, obviously, would have been more direct with the head of the agency.

M: I see. Then in 1963 you were appointed by Kennedy to head FHA. Why were you selected by Kennedy? Do you know? Other than being obviously a competent person.

B: You said it! The job was open. They were looking for somebody whom they thought could handle it. As a matter of fact, when I was asked if I would take it, I did not know that the job was going to be open. And I had headed the GI loan program for many years, had been quite closely identified with the field of housing. I was handy and I guess some people thought I could do the job.

M: So somebody recommended you?

B: Yes, and I'm sure one of those who recommended me was the now Secretary of this Department, Bob Weaver. He was then Housing and Home Finance

Administrator.

M: And FHA was part of this operation.

B: It was a constituent agency then. At that particular time HHFA was made up of five constituents, each of which was--well some of them--FHA, particularly, somewhat autonomous. For example, the statutory delegations were all to the FHA Commissioner and not to the Housing and Home Finance Administrator.

M: Did you have anything to do with the formation of HUD?

B: Oh, yes.

M: Were you in on the formulation of the bill, or any of the task forces involves?

B: Well, I was in on reviewing the proposed legislation. I was not on any particular formal task force, but yes, I was.

M: You were a consultant about the effect of HUD on FHA?

B: At all points.

M: Did you have any objections of becoming part of HUD?

B: Quite to the contrary, I was totally convinced that this was the right move, that there ought to be a Department of Housing and Urban Development, and I did everything that I could in order to promote it.

M: Why do you feel this way?

B: Well, I think, in part at least, that for too long the cities had been neglected. We are not in the kind of shape from the standpoint of our cities that I think any of us would like to see. We did have a good many programs, but there was too much fragmentation

even though Bob Weaver brought a cohesiveness into the Housing and Home Finance Agency. It really was inadequate because there were inadequate tools with which to work.

M: These are statutory powers or what?

B: Well, it's not totally statutory. It's partly that, but in addition there just is not the substance in an agency as there is in a department with a cabinet officer. And I think that now it has the stature and the status that it deserves and should have gotten much earlier.

M: So you would look upon the formation of Housing and Urban Development as almost necessary.

B: Indeed so, I think the only unfortunate part of it is that it was so long delayed.

M: I see. You're speaking of the trouble Kennedy had in promoting this? Or beyond that?

B: Even prior to that. There has been talk of this for a long time. There was conversation I remember. During the Eisenhower years they were talking about having a department of Urban Affairs, or something of this nature.

M: Did you work for the promotion of the department, legislation, as it went through Congress?

B: Yes.

M: Did you contact congressmen and try to persuade them?

B: I did that. In addition, I talked with our own constituencies outside, which would be those interested in residential construction and home

financing and these kinds of things, and solicited their support.

M: Was there any opposition from your constituents?

B: Some.

M: What was their objection? First of all, who objected and why?

B: Well, at one point or another, I guess practically everybody objected and then they started falling into line. And I think probably in the forefront of those who got into line early were the mutual savings bank's association. They were very helpful. Then the National Association of Home Builders got into line. U.S. Savings and Loan League was helpful. The Mortgage Bankers Association, I guess, had the greatest reservations, as did the National Association of Real Estate Boards. The latter group I think still opposes it, and still talks about creating an independent FHA.

M: Why do they object to this?

B: Oh, I think that they believe that FHA is getting somewhat obscured in this labyrinth and that it ought to concern itself with the private market totally and not be involved in social programs. And, of course, I could not agree with this at all. I think the principal problem is coming to grips with the social programs.

M: There is some--

B: Excuse me. The Mortgage Bankers Association has differed from this. They wanted to be certain of the preservation of the FHA identity and the certainty, also, that FHA would continue functioning on a sound basis. Actually, as a concession to those who were concerned about FHA becoming obliterated in the process and totally obscured in this, the law itself provides that one of the Assistant Secretaries-- Well, first, it says that there will be within the Department a Federal Housing Administration

and one of the Assistant Secretaries will also be the Commissioner of the Federal Housing Administration, and that's why I said at the beginning that I wear these two hats. This is the only instance in which I know that moonlighting is made compulsory by statute.

M: There is general criticism of agencies like the FHA, that they have been captured by their constituencies and constituencies almost run them and almost tell them what to do. So it's necessary to break this control and put them into a department, such as HUD or the Department of Transportation, where the same sort of phenomenon occurred. Now is this true? Was the FHA before HUD controlled by the constituencies?

B: If I were to agree with that I would be making a horrible confession, and I do not believe this in the slightest. I think that it depends on how an agency is run. What are the objectives that are being sought, and whom do you serve? I think that FHA has, at least during the last 6 years that I've been here, become much more consumer oriented. This is not to say that we have not had a concern, and a real concern, about the second largest industry that this country has, which is the home building business. This is important, and I think that we know as well as anybody in the United States the problems that face the industry. But, we have had, I believe, an excellent relationship. Certainly we've not always agreed on everything. I don't think you can in this kind of business, but there has been a mutual understanding and I believe a mutual respect.

M: When you say FHA has become more consumer oriented, who do you mean by the consumer? Who is the consumer?

B: Either the home buyer or the home tenant.

M: You're not speaking of the industry involved?

B: No, no.

M: Well that's an intriguing statement. My understanding is that the original purpose of FHA was to increase home ownership. This is back in the 1930's.

B: Actually, there were two purposes of FHA back in 1934 when it was created. And having come in and having been throwing mail bags around during that period, I can speak with considerable authority. But the two basic purposes for the creation of FHA--and bear in mind that we were in the throes of a deep depression and there were foreclosures by the hundreds of thousands and lenders were sitting on their money. They had it in vaults and did not want to lend it because they were just afraid of more foreclosures. So the first purpose, really, of FHA was to encourage lenders to loan their money to people who wanted to buy homes and to get it out of those vaults and secondly, it was to upgrade housing standards. Now, I think that we have come a long way from that and this no longer is the principal purpose of FHA. There are some who believe that this ought to continue to be what FHA's all about. I don't agree with that. I think that FHA has to advance with the times, as indeed it has. And it's because of the effectiveness of this organization and it brought with it the amortized mortgage--you pay so much every month now--this had not been the case before. One of the reasons for the foreclosures back in those early days was that everybody had a mortgage but you'd go in every six months and pay your interest. And then if you happened to hit a jackpot somewhere maybe you'd pay a

little on your principal, but there was no orderly reduction of principal. And the principal was due on demand in many cases, and the reason that there were those foreclosures was because the banks who were being pressed by their depositors for money had to call those notes and say "we're making demand." So the poor home owner didn't even know that this kind of a thing existed, he thought he could go on ad infinitum and pay his interest every six months. And this is how all those foreclosures came about and this is what then brought into being the Homeowners Loan Corporation. The Homeowners Loan Corporation bought up these mortgages from banks and other lending institutions and reamortized them, but they--with FHA--brought in amortized mortgage which typifies the home buying area today.

M: You say the purpose of FHA has changed. Now, would you explain that?

B: Yes, when FHA started out we had an 80% mortgage and everybody thought, "Horrors, you're going to have nothing but foreclosures on those horribly liberal terms." Initially the loan-to-value ratio was 80% which means that the home buyer had to make a 20% down payment. The term of the loan was 20 years, and everyone thought that these were terribly liberal credit terms and that FHA would wind up someday owning half the real estate in the United States. Well, what are the facts? Right now you can get conventional loans--non-FHA--as much as 90% of the value and up to 30 years, and FHA has even more liberal terms; up to \$15,000 our loan-to-value ratio is 97%, which means a 3% downpayment. Also, you may go up to 35 years and in some cases, as long as 40 years on the loan terms.

M: But you have a limit of \$15,000?

B: No. It's just that the down payment increases above \$15,000.

It's 97% of the first \$15,000 and then 90% of the next \$10,000 and 80% of the excess.

M: It's a graduating--

B: Yes. So, you have conventional loans now on very liberal terms and it's because of this that FHA's share of the new housing market has declined to about 16% of the aggregate of new housing starts. So, we are now serving a lower income group, which is as I think it ought to be. We are also getting into programs which involve subsidies of one kind or another. The first of these was in 1961 with the 221D3 moderate income housing program. This is for people who are in the gap. Their incomes are too high to make them eligible for public housing and too low to compete in the private market. So this is a program to make up that difference. Let me add one other thing here and let me go back to the very liberal terms of FHA, and what this has done, and how it would bankrupt the taxpayers. What have really been the facts? Since FHA started in 1934 we have insured something over 115 billion dollars in total mortgages and, even in these days of big numbers, that's a rather impressive total. We have paid all of our losses. We pay all of our employees' salaries. We don't operate on appropriations. Congress never appropriates money to us. They just authorize us to spend our own money. We operate under a spending limitation. Congress tells us how much of our own money we can spend every year.

In this beautiful new building we pay \$5.06 per square foot to Lawson Knott at GSA.

M: So you're paying rent.

B: Not only here but in our 76 insuring offices around the country and

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in our six regional offices. And after making all of these payments, and after paying all of our losses we still have a tidy little reserve of over a billion two hundred million dollars.

M: So you're in good shape.

B: We're in good shape.

Now, where do we get our money? Well, in the first place, we charge a fee for processing the loan and then we charge an insurance premium of a half of one percent per year; it's actually paid by the borrower, but the lender pays us for this insurance. The insurance is something that often is confused. Many home owners think that because FHA insures the loan that they can expect their home to be insured. In fact guaranteed to be free from all defects. Well, this just isn't the case. Yes, we do inspect during the course of construction. We do have minimum property standards. We do our best to see that these are met, but this does not insure that the house is going to be totally structurally sound, although we hope it will be. And when we say insure, we mean we insure the lender. That if the borrower defaults we insure the lender that he won't lose because of it.

M: There's some criticism that the closing costs for FHA loans are too high. That you charge the seller, too, a fee. Is that correct?

B: We don't charge anybody except the processing and premium fees I mentioned. And closing costs will vary from state to state, and place to place and it's entirely up to the particular area. This is something over which we have no control.

M: Are there any great differences between a VA loan or insurance mortgage, and an FHA?

B: The principal one is that the half of one percent that I mentioned

that we charge is not charged to the VA borrower.

M: That half of one percent is charged to the borrower?

B: Yes, through the lender.

M: It would not be a charge to the seller of the house?

B: No. I think I know what you mean. When you get into a period of tight money, when financing becomes hard to come by you often will find that discounts--point--are charged. Now the borrower cannot pay these, so the seller has to absorb them. Discounts are used as a mechanism to increase yields on fixed coupon securities. And a lot of people don't understand this and they get terribly distraught when they get to a closing and they find they're going to have to pay 3 or 4 points in addition to their broker's commissions and other fees. And I don't blame them. It's a pretty disturbing kind of a thing. What can they do about it? Well, they can see if they can find another kind of financing of some kind, where there will be no discounts. This usually would result in a higher interest rate of some sort, maybe a greater down payment, also, and this is where the trouble comes in. Because with the greater down payment they reduce their demand, narrow their market, and maybe, can't sell their house. So they just have to balance it, and decide whether they're willing to pay this discount, and effect a sale, or try and shop the market and find somebody who can finance otherwise and not have a discount.

M: There's some criticism, too, that your standards are unrealistic. Now--

B: In what way?

M: Well, for example, arrangement of rooms.

B: We have modified our minimum property standards greatly in the

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last several years. We're really working more toward a performance standard instead of fixed, rigid criteria. And I think this is important. I believe that much of that criticism has evaporated. But let me add another thing here. I don't care what kind of an agency you're in, if you're totally working with the public as do we, you're going to have criticisms. You're going to have criticisms that your standards are too strong, or too weak, or too liberal or too conservative. You name it, we're going to have it. The question is, you're going to have to be able to take the criticism. Look to that criticism which is constructive and which is valid and do something about it. The other you pass aside.

M: Do you have freedom to change your standards?

B: Total.

M: Within the agency, you don't have to worry about Congress or Secretary of HUD, or anything else.

B: No. Complete freedom.

M: Do you have freedom to insure mortgages as you will, or does this have to be okayed by the Secretary?

B: We have the complete delegation on this within the statutory limits. The limitation is, and FHA will be up in this coming session of Congress for an extension of its authority. Its authority to insure mortgages expires on October 1 of 1969.

M: But this is delegated by Congress.

B: Yes, this will take an extension by Congress.

M: Therefore, FHA is still very independent in its operation, that is correct. It's not really subjected to a departmental control.

B: Oh, sure it is. The Secretary has complete responsibility over everything,

but he has delegated the operational side of FHA to the Assistant Secretary for Mortgage Credit.

M: What I'm driving at, I'm trying to find out just how independent your operation is and whether you have to have an approval from the Secretary for your operation.

B: Well, let me put it this way. We insure, probably, over a million mortgages a year. I don't approve them myself. They're approved at the local insuring office level.

M: How about policy changes? Does the Secretary have to be in on those?

B: Well, it depends on what the policy is. I have had the good fortune of working very closely with Bob Weaver, both when he was HHFA Administrator and when he was Secretary of HUD. I think that he has had a good deal of confidence in me. He has not restricted my activities in any way. I, on the other hand, have followed a practice of keeping him fully informed--everything that is going on, discussing with him policy matters that were of some significance and those, particularly, that are of a sensitive nature. In this business practically any action that you take is going to be hailed on one side and damned on the other, and I've always wanted to be sure that he knew--

M: Where those hails and damns were coming from.

B: That's right. This has always been done. So in the formulation of policy, certainly he's approved it. We've talked about these things before they're done and sometimes it's a matter of timing. But again, perhaps I'm a little immodest, but I've been around this town a long time and I know how important timing of things is. And I think I kind of know when you can do things, and in what kinds of

climates you can do them, and how far you can go, and what really ought to be done. And this is how I've tried to operate.

M: Well, then to get back to this earlier question we've been playing with, the purpose of FHA now is to help lower income groups--

B: And bring back the central city.

M: And bring back the central city.

B: We have brought FHA, which traditionally had been out in the suburbs, back into town. There is no area now that is red-lined. There's no area into which we will not go.

M: You're no longer a suburban, middle-class operation.

B: That's right. This is not to say we're neglecting that. We're still doing our job there. But, as of right now, we are insuring at the rate of 1600 to 2000 mortgages a week in what our office has termed "blighted areas in central cities."

M: Now did this shift in purpose and target, you might say, for FHA, did this come in the 1960's or when?

B: It's come within the last few years.

M: Last few years. And the reason for this being what?

B: Well, [the] principal reason is need, and the necessity of getting adequate financing into the central city. It had been kind of a chicken and egg proposition. FHA didn't go into the central cities because the lenders wouldn't make loans there. Lenders wouldn't make loans there because FHA wouldn't insure mortgages. We have, or had, in the statute, and indeed still do, an economic soundness requirement. Well, this is a word of art to an appraiser. Economic soundness automatically implies stability of good neighborhoods, and this is important. Oh, going back three or

four years, I started sending out letters to the offices saying, "Go as far as you can go because there is a great need here." And they started doing some, but again, they were faced with the statutory mandate that said "economically sound" and there are people looking over their shoulders all the time with the omniscience of 20-20 hindsight, who look at every failure that they have and say, "Oh, my goodness, how could you possibly have insured this ridiculous kind of a mortgage." In the housing legislation of 1966 there was an authorization which would permit the waiver of economic soundness in riot, or riot-threatened areas. And we were trying to figure out what riot-threatened areas were and we got to about mid-'67. By August it was pretty clear what a riot-threatened area was. And we had no trouble at all saying that any core city area is a riot threatened area. And that's when we got out our initial instructions saying in effect, "no more red-lining, we will waive economic soundness in all of these places." And then, in the Housing Act of '68, Congress did the right thing. They took out the riot, or riot-threatened, and made it blighted areas.

M: Is this part of the same movement that created Model Cities?

B: Purposed in this direction, yes.

M: And this, of course, is all part of the general War on Poverty, too.

B: Well, I think it's all a part of the movement created by the Great Society. I think that it's more than just the War on Poverty, because it's aimed, as well, at all income levels in the inner city. I don't think we ought to keep the inner city for just our poverty stricken.

M: Did Secretary Weaver have a great deal to do with your shift, or your

increased emphasis, on the central city?

B: Well, he certainly encouraged me in all of the steps I was taking. And I knew his thinking, which paralleled my own.

M: Yeah, apparently, he has the thought that ghetto areas or slum areas ought to be rehabilitated, rather than cleared. Does this fit into your program?

B: Oh, yes. As a matter of fact, there has been more in the way of rehabilitation in the last few years than in the preceding 30 years.

M: I'm interested in just how this need to help the central city was arrived at. Did you get instructions from upstairs, from the White House, or the Secretary, to move in this direction, or were you part--

B: I think it was just a part, a joint effort of all of us--. Nobody said to me, specifically, "Look you've got to do this kind of a thing." I think we were all sufficiently perceptive to recognize just what had to be done. We're all moving in the same direction.

M: Now, in the central city you would be interested in the ghetto rehabilitation. Would you be interested in insuring mortgages of apartment houses?

B: Oh, yes.

M: Low income housing projects?

B: Sure.

M: Are you connected with rent supplements?

B: That's our program.

M: So, that's part of everything you're into.

B: Yes.

M: Have you had anything to do with that pilot program in Austin?

B: Everything to do with it.

M: That's, I guess, kind of a touchy point.

B: No, not touchy with me.

M: It's just getting started, is that right?

B: No, it's finished, practically.

M: Practically finished now. My understanding is that the idea there was to test a number of different types of housing. Is that correct?

B: Well, this goes back, really, to a meeting that we had nearly a year ago--January. We were over at the White House with the National Medical Association group, and were announcing a very exciting undertaking that they were involved with. And they were telling the President about it: to sponsor nursing care, extended care facilities, group medical practice and so forth. And the first one was going to be here in the District. HEW had authorized a grant for them and this was being announced, and the President thought that this was a very worthwhile undertaking. And I was involved in it because we would be insuring the mortgages on the nursing home and the group medical practices facility. And I was sitting there fairly complacent I guess and all of a sudden he looked over at me and he said, "And another thing, why can't you produce a low-cost house? A real cheap house?" This was just kind of out of the blue and I said, "Well, Mr. President, we have been working on that." And he said, "I know, everybody's been working on that for years and years and years, and the time has come when we ought to stop working on it and produce some houses. Now I'd like to see you do this kind of thing." And he went on at considerable length about his feelings in this direction. And I must say I had considerable

misgivings about the ability to do this, but when you get a pretty direct instruction from the President of the United States, you respond!

And I got back to the office--that was on a Saturday--and I got back and I called some of my top people together and I told them what the problem was, that I was going to have to report back to the President on what we did. And it's really rather amazing what you can come up with if you're directed to do something by the President of the United States, because we did produce some very low cost housing. We got one going at Ashburn, Georgia and another one in West Virginia, one in Parsons, Kansas, one in Alachua, Florida, and all of this was housing that was being produced for around \$7,000 or less, per unit. And when you think of this housing you have to think of it, not in terms of whether this is what you and I want to live in, but what are the people coming out of who will be occupying this. And if you look at it in that kind of focus and that kind of perspective, it makes a lot of sense.

M: Now these other projects are not pilot programs?

B: Well, they were experimental, yes, and we kept the President advised on what we in HUD were doing in response to his direct order. Then, I was asked about the possibility of taking this surplus land in Austin and having a pilot project of several different designs. I believe that it was in September that I was told that the land could be made available.

M: This is September of '67?

B: The current year.

M: '68.

B: Yes. Secretary Weaver had been told by the President that this land

would be available for some very low cost housing. And I was asked, "what kind of a timetable"--this was early September--what kind of a timetable could I provide, and I checked around with some producers and with my own people, and I said, "Well, if we can get the land by X date in September, we'll break ground in October, and complete the project by the end of the year." All that sounds great. So we undertook this. And then the President decided he wanted to accelerate the timetable and, "Why can't you finish it by Thanksgiving?" And we are pretty well finishing it by Thanksgiving, nine of them are now completed. There is one of the ten that will not be.

M: Now this is a variety of designs, variety of materials,--

B: Yes. Maybe we ought to put in the record at this point the brochure that we have that describes each of these units.

M: Yeah. If you give me a copy of that for the file.

B: It's ten different producers, from the West Coast to the East Coast.

M: Using different materials.

B: Using different materials, different technologies. The maximum price--. I gave them one maximum price of no more than \$7,000. Also, I don't want something here where you're going to be absorbing \$5,000 or something, I want a house that can be reproduced in volume at this kind of a figure.

M: And have the builders still make a profit.

B: That's right, otherwise we're proving absolutely nothing. This is why the University of Texas has been given this grant. And they have people now in the factories studying the costs. They're, also, going to study the social side of this project.

M: Did you produce at Austin Oaks truly low cost housing?

B: Well if you call a four bedroom, bath and a half, house on the site for \$7,000 low-cost housing, yes.

M: This doesn't include the cost of the property?

B: The cost of the land is excluded, that's right. But there is a house with 960 square feet. That's the biggest one and most expensive one.

M: Now there are other problems in low-cost housing--not just producing the house.

B: There are indeed, you've got problems of code. You've got problems of zoning.

M: You've got problems of land use, where you're going to put this stuff.

B: You can't pay \$5,000 for a lot and put on a \$6,000 house. You have to be able to find land that is suitable. You can't do this kind of thing in the central city.

M: Well, now, this ties also into major urban problems. Where do you put low cost housing? Do you want to put it in the suburbs and will this accelerate a congestion problem--traffic, air pollution, everything else. Is that really the answer?

B: No, I don't think that you say you're going to put it all in the suburbs. I think you have to get a balance. I think you have to put some in the inner city. You have to rehabilitate that which is rehabilitatable. You have to build new where you clear and you get your land costs down through urban renewal write-downs so you can build some low cost housing.

M: But you don't want necessarily a single unit on a plot of land as a total answer for low cost housing, do you?

B: I certainly don't.

M: You have land limitations.

B: Yes, you have, also, consumer preferences and you have groups of people who can't assume responsibilities of home ownership--who at least initially have to be tenants, or should be tenants.

M: So this is only one facet of the problem of low cost housing. And am I correct in saying that you have already moved into low cost housing and rehabilitation of neighborhoods, and that sort of thing?

B: Yes, we had the project in Boston. I don't know whether you've heard of this, which is the largest rehabilitation project that I know of that's ever been undertaken. It sounds as though you may need an analgesic but we call it BRP, Boston Rehabilitation Project. And what we wanted to demonstrate there was that you take a sophisticated developer and give him the incentive to go forward. And he can produce, and produce rather quickly. And, here, not quite a year ago--it'll be a year next month, that Secretary Weaver and I went up and announced this. Twenty-four and a half million dollars we authorized for this project, and in the initial package it was 2041 units and adding to it a rent supplement project and two other projects that subsequently come into it, there are now over 3,000 units in the total package. And this I would recommend to anyone who is interested in REHAB to go and take a look at. It demonstrated, also, some other problems, some of which we anticipated and some of which we did not.

The ones that we did anticipate. We knew it could not be announced prematurely because when you do, you have price escalation on your existing units and we knew that the developers had to get these under option at no more than \$4,000 a unit before the prices started

going up.

Secondly, we knew that you had to have indigenous workmen on these jobs and including subcontractors. We put that in as a condition.

M: Is this to help the neighborhood?

B: Well, it's to help the neighborhood, but also it's to face the realities of life and what is right. You just can't go into black neighborhoods with white workmen and have all of the work done there when you've got unemployment in these neighborhoods. It's wrong, in my judgment, from every standpoint. But on those jobs they had over 50% of their workmen--and I'm now talking of their supervisory groups--. At the labor level it was practically 100% black, but the trades supervisors were over 50% Negro. But the thing we did not anticipate, or at least I didn't, was when we went there to announce it just before the Secretary spoke, some man jumped up in the room and he said, "This is a travesty on the black people of Roxbury. Here you have these white owners coming in and taking all the money, bleeding all the black people of Roxbury out of their money." And then what, really, they were talking about was entrepreneurship, the ownership. And we met with a group of very responsible neighborhood businessmen--Negroes--and said to them, "Look, this certainly is not a mutually exclusive kind of an undertaking. And if you can put something together, we'll work with you on it."

Incidentally, Eastern Gas has played a very prominent role here. They own 10% of this project--and they too worked with a black group, the first black group. And Satch Sanders of the Boston Celtics headed a group and put in the seed money, and we issued

a commitment to them and they're proceeding with it. It's about a million dollars. Subsequently, a second Negro local group has put together another one for about a million and three quarters. There are still problems. There's the problem of relocation that we finally met and this is very difficult in rehabilitation. One of the developers there operated in a very interesting fashion, He rehabilitated around the families. He didn't even move them out.

M: He just came in--

B: He would tell them, "Now today I'm going to rehabilitate the kitchen. And this is going to mean you're not going to have any water in the kitchen today and you're not going to be able to cook here today, so you'll have to make other arrangements. You will have water in the bathroom, and then tomorrow I'll do the bathroom. And then when I do the bathroom you're not going to have water here, you'll have some in the kitchen. Here's the key to the bathroom down the hall." And my understanding is that the people were quite happy because he handled it very well. He used good psychology. He had pictures blown up showing what their apartment was going to look like after they got through this traumatic period. And as far as I know he got through it with very little flap.

M: Are you moving fast enough in low cost housing?

B: No.

M: The population's going to drown you one of these days?

B: Well, one of the problems, one of the big problems is you've got about 6 million families that need some form of subsidy if you're going to get them into decent housing. I don't care how low cost you make the houses. And you can talk in terms of tax incentives,

or anything else you want to, and it's still going to cost you "X" amount to produce this housing, which in turn means the rents will have to be sufficient to amortize the mortgage. And the incomes of these families is inadequate to pay those rentals unless there is some kind of a subsidy either in the form of rent supplements or through reduction in interest rate. And we just don't have enough authorizations for those.

M: What's the solution?

B: Well, I think there has to be a bigger commitment on the part of the American people, translated, of course, in terms of congressional appropriation.

M: Is the negative income tax a possibility?

B: I don't know. I have some ambivalence on this, whether that would translate into getting people into decent housing or whether they would continue living where they're living. I think that perhaps, at least in the initial stages, it has to be more direct into the housing field. This is not to say that maybe this is something that isn't worth a shot at somehow on an experimental kind of a basis.

M: I'm impressed with your seeming deep concern for the social impact of your program. Is this also a fairly recent development of FHA, or has it always been part of the program?

B: It has not always been part of the program. I think that this is one of the greatest concerns that all of us ought to be involved with. As a matter of fact just putting people into decent housing is not an answer unless social services are provided along with this. I don't think we found, or

are even coming to grips with the solution. And up until the last several years FHA, I would have to agree, was quite oblivious to the social problems.

M: What's caused the change? Was it again the Great Society?

B: Well, what's caused the change? The same kinds of things that have caused bringing about much social legislation. The kinds of things that caused many of our industrial giants to say "What can I do?". A recognition of the explosive nature of the situation today and a recognition on the part of some of us, I would think all of us in government, that government has to lead the way.

M: So this is really a part of a multi-faceted approach to an over-riding social problem in the United States.

B: Yes--

M: Low income people, city problems, housing problems, education, this is all a part--

B: Job training, entrepreneurship, everything is tied into this.

M: Would you say that this multi-faceted approach to the problem is a phenomenon of the Johnson Administration, or is it a phenomenon of the 60's reaching back with Kennedy, or further?

B: Well, I think it's been somewhat of an evolutionary thing. I think that it started, perhaps, under Kennedy, but I think that the pace really picked up tremendously under Johnson. Now this, in part, probably was due to Johnson's ability during those early halcyon days to get some very significant legislation through.

M: As far as you're concerned what does this legislation consist of?

B: Well, the civil rights legislation for example. A good deal of what was pending there came through--

M: HUD itself, I suppose.

B: HUD itself.

M: Did you have anything to do with the defining of the position you're now in in the formation of HUD?

B: Well, no, not really. Because, you see, the position I am now in is pretty much the old FHA, plus the broadened responsibilities of the mortgage credit aspects that go somewhat beyond this. It was rather clearly defined. As I said, the legislation itself in large measure put the ground rules on this.

M: How did you happen to be selected for this position? It was 1966, was it not?

B: Yes.

M: You were head of FHA.

B: I was head of FHA before and, I guess, somebody decided I had done an acceptable job.

M: Was this an appointment by the Secretary or appointment by the President?

B: By the President.

M: How were you informed of this? Did they just call you up and tell you, ask you, or what?

B: Well right after the Secretary was named, I was named, and the Secretary told me that I would be named in this.

M: Since the Secretary is a Negro, was there ever a question of racial animosity in the formation of HUD? In your case, did it make any difference to you whether Robert Weaver was a Negro or not?

B: Oh, good Lord, no. In 1940 I lived in a mixed neighborhood in Washington. I rented a garage across the street from where I lived from a Negro. I have always looked at people as

people. I have always deplored the discrimination that has existed and that still exists. This is part of our root trouble, maybe most of it.

M: Have you had anything to do with the shift in Fanny May, Federal National Mortgage Association, to a private organization?

B: Oh yes, I've been involved in that because this is an area in which I have some responsibility.

M: Is this a wise shift from being a government agency to, in effect, a private agency?

B: Well, it's wise in recognition of realities because it was done, frankly, in very large measure in order to get Fanny May out of the budget. When you consider that the time that Fanny May is most sorely needed is usually the same time that the poor harassed and harried Budget Director is looking for ways and means of finding places to reduce budgetary expenditures, this is really about the only way it can function effectively.

M: Will Fanny May be able to operate under its new status the way it should? I mean, it has a public interest.

B: I think so. Assuming, as I have no reason not to assume, that you get a Board of Directors with social objectives, recognition of social needs, and a Secretary who exercises the regulatory authority, which he will maintain even after Fanny May is totally private, I think that clearly it can and will. It cannot be concerned solely with earnings. It has to view the mortgage market in general from somewhat a different perspective than that. But neither can it be oblivious to earnings. After all you've got private stockholders. Again, delicate balance is the answer.

M: Have you had any unusual personal dealings with the President in all this time?

B: I wouldn't say I've had any unusual ones.

M: You've been there on a number of conferences and so forth?

B: Yes, that's been the extent to which my personal dealings with the President get involved. I've been there for a good many meetings with him.

M: Do you have any general impressions about his performance as an executive. Has he given you the support you needed when you needed it?

B: I think that he has. Well, he's a very unusual person. He's a very demanding person. He expects performance and he expects results and he sometimes gives you missions impossible, or so it seems, but then they get achieved somehow. In my judgment, he has done a tremendous job. He has gotten social legislation through that I'm not at all sure otherwise could have gotten through if there hadn't been Lyndon Johnson around. He is probably one of the most effective people in small groups that I have ever known and I have remarked several times that if he could bring the voters in 25 at a time and put them down in the Cabinet Room and talk with them, he'd probably get 75% of the popular vote because I've never known anyone who could be more effective in a small group of that kind.

M: Now I've heard this before. What makes him effective? What is there about him that can charm and persuade a small group?

B: I guess he projects sincerity that he doesn't project if you don't see him or don't know him this way. But a real concern

about the things--. He tells it like it is in those small meetings.

And he's a real hypnotizer, I'll tell you.

M: Well we've ranged over a broad array of questions, a great variety. Do you have anything, or can you think of anything that I should ask you about your operation, about your career?

B: No, not really, I think that you've covered it quite well.

M: Then, I thank you for taking the time for the interview.

B: I enjoyed it.

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By Philip N. Brownstein

to the

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