

12/27/88
Magazine - Nov. 27, 1989

Government

HOUSING

AUSTIN FITTS BETTER BE GOOD WITH HAMMER AND NAILS

The former Wall Streeter has to shore up a shaky FHA

As an investment banker at Dillon Read & Co., C. Austin Fitts had an unusual specialty: devising ingenious ways to bail out ailing government agencies. These days, she's applying that Wall Street savvy to her own agency—the troubled Federal Housing Administration.

The 39-year-old Fitts, who came to Washington after working for George Bush's 1988 election campaign, must deal with scandal-ridden programs that lost \$4.2 billion last year. And she's taking on an additional task: helping her boss, Housing & Urban Development Secretary Jack F. Kemp, push the \$4 billion housing program that President Bush unveiled on Nov. 10.

The FHA chief argues that the Administration's market-oriented plan will fare far better than the big public housing projects that have blighted the inner cities. It calls for \$2 billion in matching grants to cities, states, and nonprofit groups to rehabilitate housing that would then be sold to lower-income tenants. Nearly \$1 billion more would go to house the homeless and directly to the poor to buy subsidized units.

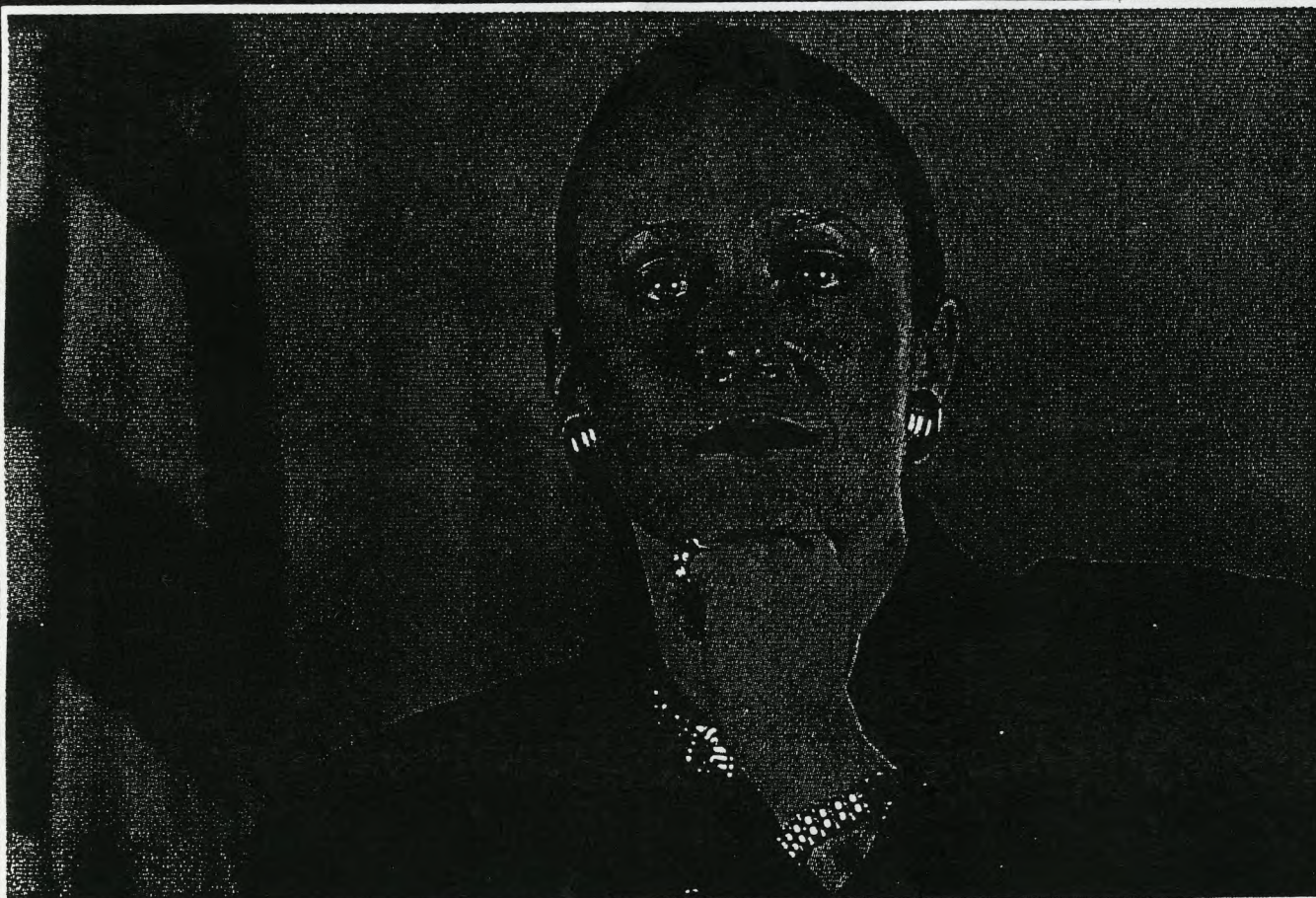
The middle class would get some breaks, too. The program would let first-time homebuyers withdraw money for downpayments from Individual Retirement Accounts without a tax penalty. Fitts also backed a new law that increased the FHA loan limit from \$101,250

to \$124,875. Under the current limit, "we serve the fireman in Alabama, but not in New York City," she says.

The stakes for Fitts are high. The housing initiative will determine whether the government can help bring home ownership within reach of the poor. And it is critical to the Republicans' drive to broaden their electoral base. The GOP must "stop being viewed as the party of the rich," says Fitts, who herself lives in a tony part of Washington.

FARE DEAL As a protégé of Treasury Secretary Nicholas F. Brady, a former Dillon Read chairman, Fitts has long been involved in urban finance. In 1982, she masterminded a novel bond sale to help revive New York City's creaky subway system, persuading wary investors to buy billions of dollars of transit bonds backed by subway fares.

She has used her Street smarts to begin a needed overhaul at the FHA. The "co-insurance" program, designed to shift some of the risk of mortgage insurance to lenders, produced a \$940 million loss in 1988. And the agency, which insures \$300 billion in mortgages, understated losses by 80% because it kept its books on a cash basis instead of the



FITTS: "WHEN I CAME IN . . . MONEY WAS JUST FLOWING OUT THE DOOR"

accrual basis used in the insurance industry. "When I came in, I knew we had a large financial institution that was in bad shape," Fitts says, "but I didn't know the extent of it. Money was just flowing out the door."

Soon after assuming her post in August, Fitts halted four programs that were rife with abuse. She ordered up

computer models of the economies of the FHA's 10 geographic zones so its regional offices can adjust faster to local market conditions. And to reduce losses, she plans to raise the portion of a mortgage that lenders must co-insure from the current 20% level.

Right now, Fitts earns points on Capitol Hill and with housing advocates as a

relief from the Reaganites, who savaged the federal housing budget. Her personal diplomacy has helped as well. Fitts has invited everyone from mortgage bankers to advocates for the homeless to her home for Sunday morning skull sessions over lox and bagels. Even the National Low Income Housing Coalition, a harsh critic of Reagan's policies, gives her high marks for trying. "Fitts isn't just paying lip service," says spokesman Richard S. West.

RENT WHERE? But if Bush's proposals don't deliver, this happy state could come to an abrupt end. Critics already are complaining that the Administration hasn't said how to pay for the program, and they fear that it focuses too much on home ownership and not enough on renters and the homeless. Since the plan has no money for new construction, homes that are bought can't help but shrink the number of rental units for low-income tenants. Moreover, "when the poor can't even afford to rent," says a skeptical House staffer, "how is a plan for home ownership possible?"

In the months to come, Fitts will have to field such tough questions. She could find that peddling municipal bonds was a lot easier than hawking Bush's new housing policy.

By Ron Stodghill II in Washington