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Public Housing Homeownership Demonstration Assessment

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Executive Summary

The Public Housing Homeownership Demonstration (PHHD) was designed by HUD to find practical ways to enable public housing tenants to become homeowners through the sale of public housing units. The purposes of this report are to: describe the various elements of the 17 programs that were included in the demonstration; assess the effectiveness of the various approaches adopted; assess the impacts of the demonstration on the parties involved; and inform federal policy on public housing homeownership programs. This report is based on interviews with the program officials at each site, a review of program records and both phone and in-home interviews with the former public housing tenants who bought homes through this demonstration program.

Background on the PHHD

In June 1985 HUD selected 17 PHAs to participate in the Public Housing Homeownership Demonstration under the legislative authority of Section 5(h) of the National Housing Act, as amended. The 17 PHAs proposed to sell a total of 1,315 units during the 36-month demonstration (See Table 1). Under Section 5(h), HUD is permitted to approve the sale of public housing units while continuing to make debt service payments on the outstanding federal bonds that were issued to finance the construction and modernization of these units. However, federal law prohibits HUD from continuing to pay operating subsidies on the units after they are sold.

Table 1. The Demonstration Sites and the Number of Units to be Sold in Each

City	Units to be sold	City	Units to be sold
Baltimore, MD	30	Philadelphia, PA	300
Chicago, IL	31	Reading, PA	8
Denver, CO	88	St. Mary's Co., MD	50
Los Angeles County, CA	75	St. Thomas, V.I.	120
McKeesport, PA	10	Tulsa, OK	100
Muskegon Heights, MI	20	Wash., DC	28
Nashville, TN	85	Wichita, KA	50
Newport News, VA	15	Wyoming, MI	63
Paterson, NJ	242		

The participating housing authorities were allowed considerable freedom in designing their homeownership programs. HUD did specify four conditions which all programs had to meet:

1. All properties transferred to tenants must be in good condition prior to sale;

2. PHAs cannot displace involuntarily a tenant who does not want to, or is financially unable to, participate in the Homeownership Demonstration;

3. PHAs must provide pre-purchase counseling and training to prospective homebuyers; and,

4. Methods of guarding against windfall profits for a minimum of five years must be incorporated into the program.

Characteristics of the Demonstration Programs

Managing the Demonstration. The Public Housing Agencies (PHAs) sponsoring the local PHHD programs included both small and large PHAs. The smallest was St. Mary's County, MD, which administered a total of 50 units of public housing, and the largest was

Chicago which administers approximately 41,000 units. Eleven of the 17 participating housing authorities were single-purpose agencies and six were combined housing and community development agencies. The latter have more experience administering lower-income homeownership programs, which appears to have helped them create more successful public housing sales programs.

The Selecting and Rehabilitation of Properties. The majority of the 1,315 units selected for sale by local officials were scattered-site, single family units (653) and the rest were townhouse (388), low-rise apartment (206) and duplex or triplex (68) units. In general, the units targeted for sale were located in neighborhoods that were in fair-to-good condition. Overall, the multifamily properties that were slated for conversion into limited equity co-ops were more likely than the single-family properties to require substantial rehabilitation prior to sale. Denver, for example, spent $22,500 per unit in rehabilitating the first phase of their two-phase cooperative conversion program, and $35,000 per unit in the second phase. Most of the single-family units being sold only required minor repairs to light rehabilitation work. Rehabilitation financing came from one of three sources: the sponsoring agencies, HUD Comprehensive Improvement Assistance Program (CIAP) modernization funds, or Community Development Block Grant (CDBG) funds. In demonstration programs in which the costs of rehabilitation were substantial, the sponsoring PHAs either used CIAP funds or used sales proceeds to reimburse itself or the local CDBG fund.

Buyer Selection Criteria. Each sponsoring agency established a minimum income for participating in the demonstration. These ranged from a low of $7,500 in St. Thomas to $17,000 in Washington, D.C. although they were not strictly adhered to by the sponsoring agencies. In all sites except Denver, priority consideration was given to existing tenants of the units selected for sale. Rent-paying history and employment status were also used to screen prospective buyers in most cities. Some went beyond these criteria, however, and required home visits, office interviews and written recommendations of on-site project managers.

Property Conveyance and Pricing. Twelve sales programs involved the fee-simple transfer of units to former tenants. Another four programs have or will involve transfer to limited equity cooperatives (not all sites had transferred units at the time of this writing) and one program sold units as condominiums. Sponsoring agencies used one of four basic pricing strategies. The largest number of programs set the sales price at market value, based upon an independent appraisal, and then discounted the price to a level affordable to tenants. The difference between market value and the effective selling price is taken back by the housing authority as a "silent" second mortgage requiring no current debt service payments. Typically this second mortgage is forgiven if the family remains in the unit for a specified number of years. The second method of pricing is based on a specified percentage of appraised value set by the housing authority. Reading, for example, charged buyers 70 percent of the appraised value. The third pricing method, used in Nashville and Denver, is based on recovering the PHA's costs of rehabilitating the units for sale. The final method is to transfer the property title to tenants at a nominal price. In St. Thomas and Paterson the PHAs are transferring units to a cooperative association for little or no cost. The cooperatives then are selling shares to former PHA tenants to raise capital for operating expenses and a reserve fund. The plan in St. Thomas is to sell a co-op share for between $375 and $725 depending on the number of bedrooms and in Paterson the shares will be sold for around $4,000.

Prohibition Against Windfall Profits. Given the greatly reduced sale prices offered in most demonstration programs, the sponsoring agencies adopted a variety of methods for guarding against windfall profits. The most common means of doing this was for the PHA to hold a silent second mortgage on the difference between the appraised value and the amount of the first mortgage. This silent second mortgage is then forgiven if the original buyer remains in the unit for a specified number of years. The specified time periods across all programs ranged from 5 years to 28 years of occupancy. In the four cooperative conversions, windfall profits will be controlled by resale restrictions and equity limitations contained in articles of incorporation and co-op by-laws.

Provisions for Maintenance After Sale. Since low-income home buyers are unlikely to have the financial reserves to pay for major repairs should they be required, HUD encouraged the sponsoring agencies to provide some means of assisting participants in making post-sale repairs. A majority of the demonstration programs established a loan fund or an escrow account that program participants may draw upon to finance major repairs. In all but one instance these funds were at least partially capitalized with sales proceeds. A second means of assisting with post-purchase repairs was for the sponsoring agencies to provide program participants with warranties on the major structural and mechanical components of their homes. Four programs, however, made no special provisions to assist participants with post-purchase repair expenses. The early experience with the use of these special maintenance provisions suggests they are an important part of low-income home ownership programs.

Financing the Sales. Sponsoring agencies relied upon three principal sources of financing their sales: private lenders; state or local mortgage revenue bond programs; and purchase money mortgages (or PHA self-financing). Private sector loans were obtained by seven PHAs which transferred 208 units, or 65 percent of all sales. Some agencies had difficulty attracting private lenders into their programs because of the small size and high servicing costs of the loans involved and the marginal credit histories of the borrowers. Where mortgage revenue bond programs were used to finance sales, access was easier, but housing authorities still found the process of qualifying buyers to be arduous and time-consuming.

Housing authorities that financed their own sales by taking back first (as well as silent second) mortgage notes generally offered lower interest rates than did private lenders. They were also able to vary the terms of the loans to meet the payment abilities of the buyers. Most importantly, they were able to substitute their own underwriting criteria for conventional standards which tend to disqualify lower-income buyers from obtaining private loans. For example, they could substitute a family's recent rent-paying record for the more traditional credit check. Two issues to consider about self-financing are: first, that it does not generate large amounts of up-front sales proceeds that the PHA could use to finance replacement housing (which several officials expressed interest in doing) and, second, that it does not make a complete break between the former public housing tenant and the housing authority. (We should point out, however, that there was no requirement in the demonstration that sales proceeds be used for replacement housing.) The first problem can be minimized through the creative use of the income stream produced by home buyer monthly payments to buy down interest rates on mortgage loans for other lower-income buyers, while the second problem can be mitigated through the PHA's use of a private lender to service its PHHD mortgage loans.

The financing of multi-family conversions can be a very complicated endeavor and the PHHD produced interesting models. In two sites, Paterson and St. Thomas, the housing authorities will transfer multi-family complexes to newly created limited equity co-ops with no long-term debt. In contrast, Nashville secured a first mortgage loan for its co-op from the National Cooperative Bank (NCB), while the Denver Housing Authority financed its first co-op with joint mortgage loans from NCB and the Colorado Housing Finance Agency.

In what turned out to be the most creative and controversial multi-family financing technique in the PHHD, Denver structured its second homeownership project to enable it to syndicate the federal low income housing tax credits that were generated by the rehabilitation of the Arapahoe limited equity co-op. The tax credits were sold to a private investor for $1,350,000. To qualify as a tax credit project, however, the co-op will actually be renting its buildings from a limited partnership for the first 15 years of its life. This raises the question of what constitutes homeownership in the context of a Section 5(h) sale.

Provisions for Non-participants. The demonstration guidelines explicitly prohibited the involuntary relocation of non-participating tenants which includes both those who are unable or unwilling to participate in the sales program. The sponsoring agencies adopted several approaches to accommodating non-participants. In most of the single-family sites, program staff did not sell units occupied by families who could not qualify for, or were not interested in, the program. The multi-family sites relied on enticements to move including the offer of Section 8 Certificates, Housing Vouchers or other public housing units. If these enticements were not effective, the non-participants were allowed to remain in their units and continue renting from either the housing authority or the newly formed cooperative. In the latter case Section 8 certificates were provided to non-participating households.

A total of 136 households had been relocated to other units at the time of our last site visit. One hundred and twenty-eight of these were in Denver where the buildings were vacated so that extensive modernization work could be completed. The total number of relocatees may increase, however, as Paterson, N.J. and St. Thomas, V.I., complete their sales programs.

Interviews were conducted with 34 of the 64 families relocated in phase one of the demonstration program in Denver. These data show that few of these households could have qualified for the homeownership program. Moreover, no relocatees reported changes in employment status due to relocation, but they did report some social impacts including fewer and less frequent contact with friends.

Counseling and Training Home Buyers

HUD required every housing authority participating in the homeownership demonstration to provide potential buyers with pre-purchase counseling designed to ensure that all buyers understood the responsibilities associated with home ownership. The counseling programs in all local demonstration programs provided prospective buyers with information on the financial aspects of home ownership, including personal budgeting and money management. Counseling on resolving credit problems and in obtaining a loan was also provided in a majority of programs. Finally, many demonstration programs provided training on routine home maintenance and minor repair work.

In programs involving the conversions of multifamily developments additional counseling was required. Participating tenants had to be trained to oversee the management of the development once transferred.

In several of the single-family programs and in all of the multifamily programs, the sponsoring PHAs relied on experienced outside consultants to conduct the counseling and training. Beyond the additional expertise gained, by relying on consultants they significantly reduced the administrative burdens on PHA staff. Our evaluation suggests that providing counseling and training to program participants was a much larger task in terms of both time and money than anticipated by either HUD or the local sponsoring agencies. The $50,000 maximum technical assistance grants offered by HUD were not sufficient to cover the costs of counseling and training at the larger multi-family sites. Moreover, effective training and counseling was very important in the success of the demonstration programs, particularly the multifamily programs.

The Characteristics and Experience of Home Buyers and Relocatees.

The household survey data indicate that the characteristics of tenants who bought a house or apartment unit under the demonstration are quite different from those of the average public housing resident. Home buyers were much more likely to have higher incomes ($16,673 vs. $6,539), to be two-parent households (47 vs. 24 percent) and to have at least one full-time wage earner in the household (91 vs. 24 percent) than the average public housing resident. The racial characteristics of participants were 8 percent white, 74 percent African American and 18 percent Hispanic. The average length of tenure in public housing was 8.8 years.

Overall, the level of participant satisfaction with their units was quite high. Over 77 percent of the participants were satisfied with their houses. Less than 10 percent were dissatisfied and these were mostly confined to one site. Satisfaction with their neighborhoods, however, was somewhat lower. Twenty percent expressed dissatisfaction with the quality of their neighborhoods and 17 percent felt their neighborhoods had become worse since they purchased their homes. Most of this dissatisfaction with the neighborhoods surrounding their homes was among participants in Denver and Baltimore. In the other cities levels of neighborhood satisfaction among participants were generally high.

The survey data also show 21 percent of all buyers were dissatisfied with the repairs made to their units before sale and 60 percent felt needed repairs had been overlooked by the PHA.

The responses to questions on the perceived impacts of homeownership show that substantial percentages of program participants credited homeownership with feeling better about themselves (78 percent), feeling more financially secure (67 percent) and having a greater sense of control over their lives (52 percent). Somewhat smaller percentages credited home ownership with increasing their involvement in their neighborhoods (35 percent) and in local government (35 percent).

Program Effectiveness and Efficiency

During the 50 month period covered by this evaluation, the 17 participating housing authorities transferred 320 public housing units to tenants. This represents one quarter of the 1,315 units originally designated for sale under the demonstration. An additional 17 sales were pending at the conclusion of our data collection period, however, and several housing authorities were making progress toward the combined sale of another 362 units, which could close sometime during 1990. If these additional sales take place, the Public Housing Homeownership Demonstration will end up having sold a total of 699 units, or 53.2 percent of the initial sales proposed by the participating housing authorities.

As might be expected the demonstration programs showed considerable variation in meeting their sales goals. Seven demonstration programs reached 80 to 100 percent of their goals, six had reached between 10 and 60 percent of their original goal, and four had sold no units.

There are six major contributing factors to the lower than anticipated sales figures. These are: a lack of commitment to the program and/or ineffective housing authority management; poor program design; adverse local market conditions; low tenant incomes; lack of replacement housing and relocation difficulties.

The early evidence on home owner delinquency and default experience indicates that five programs have experienced a problem with late payments or more serious delinquencies. We estimate that 10 to 15 percent of the buyers experienced some problems meeting their housing costs within the first 18 months of closing on their homes.

Program participant survey data indicate that 31 percent of all home buyers felt their mortgage payments are causing a strain on their budgets and ten percent indicated that they are already in arrears on their payments by at least one month. But a large proportion of these delinquencies were due to problems in one of the large multi-family sites.

Conclusions and Policy Recommendations

The findings of the evaluation lead to nine recommendations for designing a successful public housing homeownership program.

1. The sponsoring agency, and the governing boards to which it reports, must have a strong commitment to the sale of public housing to tenants;

2. Program staff should have experience with low-income homeownership programs or receive training from those that have this experience;

3. The program should be adequately staffed, and lead responsibility for the program should be assigned to a person who does not have other major responsibilities;

4. Units appropriate for homeownership (i.e., attractive, in stable neighborhoods) should be selected for sale;

5. Participants should be carefully screened;

6. The scale of the homeownership program should be commensurate with tenant interest and eligibility;

7. Homeownership training and counseling should be provided to all participants;

8. Sponsoring agencies should make a special effort to make sure units are in good repair before sale and offer a warranty on appliances, mechanicals and major structural components of the units being sold; and,

9. An effective and fair strategy for accommodating non-participants needs to be developed.

The findings of the evaluation also lead to a number of policy recommendations.

1. Any large scale public housing home ownership program will need to address several factors that constrained sales in the PHHD. These include the inability of many public housing tenants to afford the costs of home ownership (even when the sales prices are greatly reduced), the characteristics and condition of the public housing stock and concerns about replacement housing.

2. To expand the potential number of sales, HUD needs to permit housing vouchers to be allocated to low-income buyers, make at least some replacement housing available and offer the sponsoring agencies extra allocations of modernization funds to assist them in rehabilitating units for sale.

3. HUD should develop regulations for Section 5(h) sales programs and carefully review homeownership plans to ensure that PHAs are fully capable of designing and administering a successful program. Special attention should be paid to ensuring that the units are in good shape upon sale, that there are adequate provisions for assisting program participants with major repairs for a period of time after the units are transferred and that the training and counseling provided to program participants will be adequate.

4. HUD needs to make more technical assistance monies available to the sponsoring agencies, particularly those sponsoring multifamily conversions.

5. Windfall profit provisions should be required and last for a minimum of five years.

6. HUD must make a more definitive rule prohibiting involuntary relocation and provide extra housing vouchers to assist the sponsoring agencies in accommodating non-participants.

7. In instances where non-participants will remain in their units and rent from a newly created co-op, the co-op should be required to keep rents at or below Section 8 fair market rents.

8. HUD should consider ways of preserving priority for readmission into assisted housing for buyers who default on their loans for reasons beyond their control.

9. HUD must more closely define homeownership for the purposes of Section 5(h) sales and require that properties be transferred to tenants within a specified time period.

10. The sponsoring PHAs should be able to keep all sales proceeds and be required to submit a reinvestment program as part of their homeownership applications.

11. The sponsoring agencies should be given latitude in establishing reasonable pricing strategies. Sales prices should not be based on the rents they were paying as public housing residents.

12. HUD needs to continue to monitor the progress and impacts of the PHHD to better understand the costs and benefits of public housing homeownership programs.

CHAPTER 1

INTRODUCTION

This report presents the results of a three year effort to evaluate the Public Housing Homeownership Demonstration (PHHD) sponsored by the U.S. Department of Housing and Urban Development (HUD). The PHHD, which included 17 locally designed homeownership programs, was designed to test and document ways to enable lower-income, public housing tenants to own their own homes through the sale of public housing authority units. The purposes of this report are to describe the various elements of the seventeen programs, provide an analysis of the effectiveness of the various approaches adopted and assess the impact of the demonstration programs on the parties involved, including program participants, non-participants, sponsoring public housing authorities, and the federal government. The report will also provide information useful in the design of public housing home ownership programs.

Background on the PHHD

The Public Housing Homeownership Demonstration, officially announced October 25, 1984, was designed to find practical ways to enable public housing tenants to become home owners through the sale of public housing units. Homeownership was expected to help lower-income families share in the growth of financial assets; build a sense of responsibility and a stake in the community that will lead to neighborhood improvement; and improve the quality of life for both those families remaining as tenants of public housing and those who become home owners.[1]

Public housing authorities were invited to submit proposals to participate in the demonstration. These were reviewed and evaluated by a 14-person review panel consisting of HUD headquarters staff members. HUD regional and field office staffs provided written evaluations of proposed programs and worked with some of the applicants in resolving outstanding issues. The panel sought to include in the PHHD a diversity of approaches to transfer units to public housing residents, including fee-simple, condominium and cooperative forms of ownership.

HUD received a total of 36 applications for participation in the demonstration. Fourteen of these, however, were from Indian housing authorities which were not recommended for inclusion in the PHHD because "they proposed to recreate the Mutual Help program rather than testing any innovative homeownership schemes." Of the remaining 22, 18 were classified in groups as "feasible and ready to go" and four were classified in a second group as "feasible but needs work."[2] Two Indian housing authorities were included in the first group.

On June 5, 1985 HUD Secretary Samuel R. Pierce announced the selection of 16 PHAs and two Indian housing authorities to participate in the demonstration. Soon after, however, two PHAs

1Federal Register Notice. Vol. 49, No. 208. Thursday, October 25, 1984, p. 43029.
2Memorandum from June Koch to Secretary Pierce, May 10, 1985.

that had been classified in the second group were included in the demonstration while three of the originally selected PHAs, including both of the Indian housing authorities, dropped out. This left 17 PHAs that proposed to sell 1,315 units of public housing over the 36-month course of the demonstration.[3] The Demonstration sites and the number of units to be sold are presented in Table 1.1.

The sponsoring agencies were given considerable flexibility in designing their programs. HUD let the participating agencies select the units they felt were most appropriate for sale and set the prices and terms of those sales. HUD specified four major conditions that all PHHD programs had to meet in designing their demonstration programs, while leaving it up to the PHAs to determine exactly how they would meet them. The four conditions were:

1) All properties transferred to tenants must be in good condition prior to sale;

2) PHAs cannot displace involuntarily a tenant who does not want to, or is financially unable to, participate in the Homeownership Demonstration;

3) PHAs must provide pre-purchase counseling and are strongly encouraged to provide post-purchase counseling and training to prospective homebuyers; and,

4) Methods of guarding against windfall profits for a minimum of five years must be incorporated into the program.[4]

HUD also required the PHAs to consider means of assuring the long-term availability of the property to lower-income people by

3The demonstration actually lasted more than four years as some housing authorities needed more time to transfer the units.
4Federal Register, Vol. 49, p. 43030-43031.

Table 1.1: The Demonstration Sites and the Number of Units to be Sold in Each

City	Number of Units to be Sold
Baltimore, Md.	30
Chicago, Ill.	31
Denver, Colo.	88
Los Angeles County., Calif.	75
McKeesport, Pa.	10
Muskegon Heights, Mich.	20
Nashville, Tenn.	85
Newport News, Va.	15
Patterson, N.J.	242
Philadelphia, Pa.	300
Reading, Pa.	8
St. Mary's County, Md.	50
St. Thomas, V.I.	120
Tulsa, Okla.	100
Washington, D.C.	28
Wichita, Kans.	50
Wyoming, Mich.	63
Total	1,315

including resale restrictions, but the inclusion of such restrictions was not a program requirement. The sponsoring agencies were also strongly encouraged to seek outside financing for program participants--such as loans from private lenders, public-spirited corporations and state housing finance agencies--rather than provide purchase-money mortgages.

To enable the sponsoring agencies to sell the units at a price tenants could afford, HUD continued to pay the debt service on the outstanding federal bonds used to finance their construction and/or subsequent modernization as allowed under Section 5(h) of the National Housing Act as amended. Effectively, this meant that the units could be sold for as low a price as necessary to achieve affordability without having to reimburse HUD for the outstanding debt on the properties involved. The demonstration guidelines specified that any sale proceeds could be used to reimburse the sponsoring agencies for costs incurred in the sale of the property and to establish reserve maintenance funds. The original guidelines also called for any remaining proceeds to be applied to reducing the outstanding debt service; but later, HUD allowed the sponsoring agencies to use these funds to provide other housing opportunities for low-income people. The amortization of rehabilitation costs beyond those previously financed by HUD, however, and all operating costs (including property taxes where applicable, maintenance and insurance) had to be the responsibility of sponsoring agencies or the buyers. The PHHD guidelines stated that program participants may not receive additional federal subsidies to assist them in meeting their housing costs, but they may receive additional financial assistance from non-federal sources.

Unlike the Section 123 homeownership program passed by Congress in December 1987 the demonstration program did not offer either public housing development funds or housing vouchers for replacement housing. (HUD did, however, allocate housing vouchers to two conversions for use by non-buyers who wished to remain in their units as tenants of the co-op.) The rationale for not providing replacement housing was that, under PHHD rules, units sold to tenants must continue to be occupied by low-income families for five years or more, or for an even longer period if the housing authority chose to extend resale limitations. Thus, these units were not leaving the low-income housing stock.

Evaluation Research Design

Based on the request for proposals (RFP) this assessment was designed to achieve the following four specific objectives:

1) To provide detailed descriptions of each of the demonstration programs including their major program elements and the process involved in developing and implementing these programs;

2) To describe the effectiveness and efficiency of the demonstration programs in selling public housing to tenants;

3) To assess the impact of the demonstration programs on program participants, relocatees and other non-participants, the sponsoring agencies, and the federal government; and,

4) To identify the key elements of successful public housing homeownership programs and contribute to federal policy on the sale of public housing to tenants.

These objectives were used to guide our data collection efforts.

To accomplish the research objectives described above, three data collection techniques were employed: semi-structured interviews with key informants, review of program documentation, and structured interviews with program participants and relocatees.

Key informant interviews. The interviews were conducted in two phases: once during the summer of 1987, when most demonstration programs were either still in the design phase or had recently begun to transfer units; and a second time during the summer of 1989, when most demonstration programs had completed at least some sales. The first set of interviews focused on program design, including the reasons behind the decisions made, while the latter set sought to identify problems in implementing the programs and the reasons for their success or failure.

Key informants were identified in initial interviews with the directors of each local demonstration program. First, they were asked which staff person was most knowledgeable about various aspects of their program, including the process of selecting and preparing the units for sale, the process of selecting program participants, financing the sales, counseling participants and the like. Then we asked them to identify the chairman of the PHA board and the head of the tenant council. Names of contacts at other organizations involved in the demonstration were also solicited. Depending on the program, these may have included representatives of local government agencies, private lenders and/or outside consultants providing technical assistance. In some of the demonstration cities we also solicited names of local realtors who knew about the neighborhoods in which the units were to be sold. Interviews were then arranged with the key informants in each demonstration site.[5]

Interview guides were developed for each category of key informant (eg., PHA staff, board members, tenant council representatives, lenders, counseling providers and real estate agents). These guides included questions designed to elicit detailed descriptions and evaluations of the demonstration program. Periodic telephone interviews were also conducted with the program directors throughout the course of the evaluation.

Program documentation. Documentation was collected and reviewed throughout the course of the evaluation. Initial application materials and correspondence were obtained from HUD central

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5In several demonstration sites there was little or no activity. In these instances, interviews were done by phone and focused on the reasons for the lack of progress. Also, in the second round of interviews only those key informants that were thought to have new information were recontacted.

files, and relevant documents were acquired from local sponsors including internal agency correspondence and reports on the demonstration, program publicity material, copies of any training and counseling manuals developed, copies of deeds, closing statements and appraisals and other relevant materials.

Structured interviews. Interviews were conducted with both program participants and non-participants. Both phone and in-person interviews with program participants identified their demographic characteristics, their satisfaction with homeownership, their level of housing expenses, and other important variables. The phone interviews with new owners occurred within several months of taking title to their units. These interviews were designed to capture information on prior housing expenses and early experience with the homeownership program which may have been forgotten by the time the more extensive in-person interviews were conducted at the end of the evaluation period. These phone interviews began in October 1987 and were conducted through February 1989. A total of 165 phone interviews were completed, representing 70 percent of those that had taken title to properties at that time.

Longer, in-person interviews with the home buyers were conducted in June and July of 1989. By that time 300 households had taken title to properties and 272 of those were interviewed. This represents a 91 percent response rate. The topics covered in this interview included: basic demographic information; satisfaction with the unit, the neighborhood, and the program;

carrying costs; reasons for wanting to own a home; types and amount of counseling received; repairs and improvements made to the unit since bought; perceived impacts of ownership; and, loan payment delinquency experience.

Interviews with those who were relocated due to the demonstration program and those who remained in their units as renters also took place. The 34 relocatees who were interviewed in Denver represent 26 percent of the total number relocated in that city. Denver had the only program in which there were substantial numbers of relocatees. Furthermore, seven continuing renters were interviewed in Nashville, the only site to have continuing renters at the time the interviews were conducted. This represents 100 percent of the renters in Nashville.

Organization of the Report

Chapter Two presents a description and evaluation of various elements of the 17 programs involved in the demonstration including: program management; the selection and rehabilitation of properties; the attraction and selection of program participants; property pricing and conveyance; windfall profits and retention provisions; provisions for assisting with maintenance after sale; and provisions for non-participants and the use of sales income. Chapter Three presents information on how the sales to tenants were financed, and Chapter Four details the counseling and training provided to program participants. The participants' experience with and evaluation of the homeownership demonstration programs is reported in Chapter Five.

Chapter Six presents an analysis of program effectiveness and efficiency including a discussion of the costs and benefits of the demonstration. In the final chapter a summary of findings is presented, key elements of successful programs are identified, and policy implications are discussed. The appendix contains detailed case studies of each of the 17 demonstration programs.

CHAPTER 2

CHARACTERISTICS OF THE DEMONSTRATION PROGRAMS

In sponsoring the PHHD, HUD was interested in experimenting with a wide variety of approaches to the sale of public housing. Thus, PHHD requirements were kept to a minimum, allowing the sponsoring agencies to design creative approaches to sell public housing to tenants. HUD was successful in that the 17 programs in the demonstration represent a variety of models for transferring public housing units to tenants. Four of the demonstration programs, for example, involved the sale of public housing units to cooperatives made up of former PHA tenants; one program sold units as condominiums; and the remaining 12 used a fee-simple transfer of single-family units to former tenants. But the diversity among the 17 programs goes well beyond the means of transferring units. In fact, there is considerable diversity in all major aspects of the demonstration programs.

This chapter will present a description and evaluation of the most important aspects of the demonstration programs. More specifically, it will address the management of the local demonstration programs, the selection and rehabilitation of properties sold, the means of attracting and selecting new owners, the means of pricing and conveying properties, the use of windfall profits and retention provisions, the use of post-sale maintenance provisions, the means of handling non-participants and the uses of sales incomes. Two other dimensions of the demonstration programs, financing and the counseling and training of participants, are important enough to warrant their own chapters.

Managing the Demonstration

<u>Characteristics of Sponsoring Agencies</u>. The demonstration involves both large and small PHAs. The smallest is St. Mary's County, which administered 50 units of public housing prior to the sales program, while the largest is Chicago which administers approximately 41,000 units. The majority of participating PHAs, however, manage between 1,000 to 6,000 units. Most authorities also manage the Section 8 and housing voucher programs.

Prior experience in administering homeownership programs varies among participating agencies. Five PHAs had administered the Turnkey III lease-purchase program, and two reported experience with the Section 235 program. The majority of sponsoring PHAs, however, report having no previous experience with homeownership programs.

The local agencies sponsoring demonstration programs include a mix of single-purpose, public housing authorities and multi-purpose housing and community development agencies. A total of 11 sponsoring agencies were single-purpose housing authorities. Multi-purpose agencies managed the demonstration programs in Baltimore, Nashville, Los Angeles, Newport News, St. Mary's County and Washington, D.C. As will be discussed later this distinction is important in understanding program success.

Reasons for participating. One of the first topics covered in interviews with local officials was why they were interested in participating in the PHHD. The motives for participating varied among sponsoring agencies but all sought to improve the quality of life of some of their tenants by providing homeownership opportunities. Almost all key informants interviewed believed that the homeownership opportunities offered through the demonstration would enhance the self-respect, independence and responsibility of public housing tenants. Many program directors and staff members saw the demonstration as a means of breaking the dependency cycle of PHA tenants.

A second motivation for participating in the program was to sell properties that were costly to maintain. Six of the housing authorities involved in the demonstration were interested in selling off some or all of their scattered-site, single-family units. Typically, these units had been acquired from the FHA after a foreclosure. They were often widely dispersed throughout specific neighborhoods or the entire city and were considered by local officials to be costly to maintain. Maintenance personnel had to travel long distances to these units and frequently had to special order parts when repairing furnaces, water heaters and other mechanical systems.

A third motivation for participating in the demonstration was to improve the neighborhoods surrounding the units to be sold. Four of the demonstration programs were designed to complement other neighborhood improvement activities. By selling the public housing units to tenants, the sponsoring agencies hoped to contribute to the overall stability of the surrounding neighborhoods. This motivation was most likely to be mentioned by the PHAs that are part of a larger agency responsible for community and economic development, including those in Newport News, Nashville and St. Mary's County. Yet the Denver PHA, which is not part of a larger redevelopment agency, also saw the program as a means of encouraging neighborhood revitalization.

Several other motivations for participating in the demonstration were mentioned. In Chicago a senior program official offered that his agency wanted to win favor with HUD, while a senior official in Los Angeles County suggested that they wanted to support the initiatives of the current administration. In Nashville and Washington, D.C. staff were interested in developing a local expertise in low-income homeownership programs.

The major impetus for participating in the demonstration came most frequently from the director of the sponsoring agency, although in some instances it came from staff members or the board or commission overseeing the agency. The actual proposals were typically developed by staff members and, in approximately half the programs, tenant representatives played some role in developing the proposal. Where tenants were involved they typically reviewed and commented on the proposals developed by staff. All programs were approved by the governing boards of the sponsoring agencies.

In discussions of whether or not to participate in the PHHD, several concerns were frequently raised by local staff, tenant representatives and/or local governing boards. The loss of units from public housing inventories was a major concern expressed in at least 9 of the 17 demonstration programs. In most of these instances, however, only a small proportion of the agency's overall housing stock was to be sold so this concern did not inhibit them from participating. A second major concern raised in the development of at least four of the multifamily programs was the relocation of those who could not qualify, or who did not choose to participate in the program. As will be discussed later in this report the issue of how to accommodate the non-participants was troublesome for a number of the multifamily sales programs.

Staffing and Administrative Costs. The majority of PHAs reported one or less full-time staff equivalent involved in administering the program. Baltimore, Denver, Nashville and Washington, D.C., however, reported staffing levels between one and three full-time staff equivalents. Estimates of the cost of providing program staffing ranged from a low of $8,000 in Wyoming, Mich. to $320,000 in Nashville.

HUD offered participating local authorities technical assistance grants of up to $50,000 to help cover program costs. Only 13 of the sponsoring agencies, however, applied for these funds. HUD provided a total of $464,461 in technical assistance funds and the average grant was $35,728. The most frequent use of these funds was to help pay for the counseling provided to program participants.

Since most program sponsors contracted with outside organizations to provide the required counseling, that typically represented the largest out-of-pocket expense for the sponsoring agencies. The second most frequent use of the funds was to pay for legal advice or assistance in preparing legal documents (such as deed restrictions or sales contracts) and/or in handling the closings. Other uses of these funds included: assisting program participants with closing costs; printing brochures and other promotional material; and reimbursing the sponsoring agency for staff time committed to the demonstration.

Based on the responses of program directors, the availability of technical assistance funds was not a major factor in their decision to participate in the demonstration. In fact, only three reported that they would not have participated if these funds were unavailable. Yet a much larger number of program directors, 11 of the 13 that received grants, felt that the technical assistance grants were important to the success of their programs. This mainly reflects the importance attributed to the funding of counseling and training programs.

The Selection and Rehabilitation of Properties

<u>Reasons for Selecting Properties to be Sold</u>. Given the demonstration's guidelines, local officials were free to propose any of their units for inclusion in the sales program. The two major reasons given for selecting the units concerned the type or design of units and their state of repair. Agencies chose units they considered "appropriate for ownership" and for which they felt there would be a strong demand. For many (including Los Angeles, Newport News, Tulsa, Reading and Baltimore) this meant selecting single-family, scattered-site units. For others this meant choosing some of their more attractive townhouse units for sale. In many instances, program officials also selected units that were in good repair. This meant that the time and cost involved in making the units sales-ready would be minimized. Local officials in Los Angeles, Nashville, McKeesport, Muskegan Heights, St. Thomas and Washington, D.C. all mentioned the good condition of the units as a reason for their selection.

The major exception to this was in Denver. Here, they were using the program as part of a neighborhood revitalization strategy and they selected some of their worst units for sale. Extensive renovation was planned to make these units sales ready.

Characteristics of Units Selected. The characteristics of the units selected for sale are presented in Table 2.1. The majority of the units selected for sale were single family (653) and the rest were townhouse (388), apartment (206) and duplex or triplex (68) units. Ten of the 17 demonstration programs selected scattered-site, single-family units, three selected portions of apartment complexes, three selected an entire development, and one site (Nashville) selected units located on four different sites in the city.

Table 2.1: Characteristics of Units Proposed for Sale

Public Housing Authority	Unit Type				Configuration	Condition of Units Before Inclusion in the Program
	Single Family Detached	Duplex or Triplex	Town or Rowhouse	Apartment		
Baltimore, Md.	0	0	30	0	Scattered Site	Good
Chicago, Ill.	23	8	0	0	Part of Complex	Fair
Denver, Colo.	0	0	88	0	Part of Complex	Poor
Los Angeles County, Calif.	14	23	0	38	Scattered Site	Excellent
McKeesport, Pa.	10	0	0	0	Scattered Site	Excellent
Muskegon Heights, Mich.	20	0	0	0	Scattered Site	Good
Nashville, Tenn.	0	37		48	Combination	Fair
Newport News, Va.	15	0	0	0	Scattered Site	Good
Paterson, N.J.	0	0	242	0	Whole Complex	Poor
Philadelphia, Pa.	300	0	0	0	Scattered Site	NA
Reading, Pa.	8	0	0	0	Scattered Site	Good
St. Mary's County, Md.	50	0	0	0	Whole Subdivision	Good
St. Thomas, V.I.	0	0	0	120	Part of Complex	Excellent
Tulsa, Okla.	100	0	0	0	Scattered Site	Fair
Wash., D.C.	0	0	28	0	Whole Complex	Fair
Wichita, Kans.	50	0	0	0	Scattered Site	Good
Wyoming, Mich.	63	0	0	0	Scattered Site	Excellent
Total	653	68	388	206		

Table 2.1 also indicates the overall condition of the units selected for sale at the time of their inclusion in the demonstration. The units to be sold in four demonstration programs were in excellent condition needing little or no rehabilitation before sale. In six sites, the units were in good condition needing only modest improvement. The units in another four sites were in fair condition needing some major repairs. Finally, the units in two sites were in poor condition needing major repairs or improvements.

Table 2.2 shows the overall neighborhood conditions in areas where public housing units were targeted for sale. In general, the units were in neighborhoods that are in fair to good condition. Most are low- and moderate-income minority communities with a mixture of owners and renters. Most are stable neighborhoods, according to real estate brokers or other key informants in the cities involved. In several cases, however, (Washington, D.C., St. Thomas and St. Mary's County) the units chosen for sale are in middle- to upper-middle income areas. In Denver the units are in a poor neighborhood, but the demonstration is part of an area revitalization program. In McKeesport and in one of the areas in Reading, however, neighborhood conditions were described as depressed, with depreciating property values and with no revitalization efforts underway.

Most neighborhoods in which demonstration units are located are predominantly black and Hispanic. However, there is a majority

Table 2.2: Neighborhood Conditions in Vicinity of Units to be Sold

Public Housing Authority	Neighborhood Character	Ethnic Predominance	Tenure Predominance
Baltimore, Md.	Varies	Varies	Varies
Chicago, Ill.	Low income	Black	Renters
Denver, Colo.	Low income	Black/Chicano	Renters
Los Angeles, Calif.	Low & moderate income	Hispanic/Black	Home owners
McKeesport, Pa.	Low & moderate income	White	Home owners
Muskegon Heights, Mich.	Moderate income	Black	Evenly mixed
Nashville, Tenn.	Low & moderate income	Black	Renters
Newport News, Va.	Low & moderate income	Black	Evenly mixed
Paterson, N.J.	Moderate income	White	Home owners
Philadelphia, Pa.	NA	NA	NA
Reading, Pa.	Low & moderate income	Black/Hispanic	One area renters & one area owners
St. Mary's County, Md.	Middle & upper income	White	Home owners
St. Thomas, V.I.	Upper-middle income	Black	Home owners
Tulsa, Okla.	Varies	Varies	Varies
Washington, D.C.	Middle income	Black	Renters
Wichita, Kans.	NA	NA	NA
Wyoming, Mich.	Middle income	White	Evenly mixed

of white residents in the surrounding neighborhood in four sites (Wyoming, Paterson, McKeesport, and St. Mary's County) and three other neighborhoods are racially or ethnically integrated.

The predominant tenure in the neighborhoods surrounding the units selected for sale varies. In five cities homeowners predominate and in four cities renters do. Three other areas have an even mix of renters and owners and the remaining two sold scattered-site units in areas that differ in tenure characteristics.

Rehabilitating the Units. PHHD program guidelines required that all units included in the demonstration be in good condition prior to sale. As discussed earlier, many of the participating agencies purposely chose some of their best units to avoid having to undertake major rehabilitation work. Even so, all participating agencies had to make some improvements to the units before sale, although the amount of repairs needed differed dramatically. Table 2.3 summarizes the extent of the repairs needed in each site and the means of financing these repairs.

One complicating factor in describing the rehabilitation activity associated with the demonstration is that major repairs had been made to some units several years prior to their inclusion in the homeownership program. Although the cost of this pre-demonstration improvement activity can not be directly attributed to the demonstration, it represents a major investment in these units by HUD and the sponsoring agencies. In St. Thomas, for example, approximately $5 million in HUD funds had recently been spent on modernizing the units being sold under the

Table 2.3: Extent of Rehabilitation Work and Means of Financing

Public Housing Authority	Extent and Means of Financing
Baltimore, Md.	Substantial rehabilitation done in late 1960s. Light rehab done before sale, financed by PHA which was reimbursed by sale proceeds.
Chicago, Ill.	Moderate rehab done immediately after sale, financed by sales proceeds placed in escrow account.
Denver, Colo.	Substantial rehab done in both phases, financed by PHA and reimbursed from sale proceeds.
Los Angeles, Calif.	Light rehab done before inclusion in program. Minor repairs made before transfer, financed by PHA.
McKeesport, Pa.	Light rehab done before inclusion in program. Minor repairs made before sale, financed by PHA
Muskegon Heights, Mich.	Light rehab done before inclusion in program. Minor repairs made before transfer, financed by PHA.
Nashville, Tenn.	Some units new. Moderate rehab on apartment units. Repairs financed from CDBG funds and partially reimbursed from sale proceeds.
Newport News, Va.	Moderate rehab done before inclusion in the program. Minor repairs made before transfer, financed by PHA.
Paterson, N.J.	Substantial rehab done prior to sale, funded by CIAP funds.
Philadelphia, Pa.	Light rehab work expected, financed by CIAP funds
Reading, Pa.	Light to moderate rehab work done prior to sale, financed by PHA

Table 2.3 (continued)

Public Housing Authority	Extent and Means of Financing
St. Mary's County, Md.	Moderate rehab done prior to sale, funded by CIAP.
Virgin Islands, V.I.	Substantial rehab done before units included in program, funded by CIAP. Minor repairs to be handled by the PHA prior to transfer.
Tulsa, Okla.	Light rehab prior to sales, financed by PHA.
Washington, D.C.	Moderate rehab prior to sale, financed by CDBG funds and reimbursed from sale proceeds.
Wichita, Kans.	Never determined.
Wyoming, Mich.	Substantial rehab done in early 1980s. Minor repairs prior to sale, financed by PHA.

demonstration. Therefore, the extent of pre-demonstration improvement activity is included in Table 2.3. Overall, the multifamily sales programs were more likely to require substantial or moderate rehabilitation. The rehabilitation work in Denver involved demolishing buildings, constructing playgrounds, replacing roofs and windows, fenced yards and other major improvements designed to make the development look like an owner occupied development. The average repair costs in phase one of Denver's demonstration program was approximately $22,500 per unit while the average cost in phase two was approximately $35,000 per unit. The program in Paterson also involved substantial rehabilitation as all windows and doors were replaced, bathrooms and kitchens were renovated, and siding was replaced. The repair costs here averaged approximately $28,000 per unit.

The multifamily developments in Nashville and Washington D.C. needed moderate levels of rehabilitation to make them ready for sale. Among the multifamily sites, only the units in St. Thomas, which had undergone substantial rehabilitation shortly before being selected for sale, needed minor rehabilitation work.

Among the single-family programs, the units in 10 of the 12 sites needed only minor repair or light rehabilitation work. The units selected in Chicago and St. Mary's County, however, needed moderate levels of repair work. In Chicago many of the units needed new roofs and siding, and improvements to plumbing and bathroom fixtures. Furthermore, fencing and patios were also added to many of the units. In St. Mary's County roofs were reshingled, new appliances were provided, and fences were added.

The repairs were financed by the sponsoring agency in the majority of programs. They either relied on general funds or some special funds under their control. In Denver, for example, the PHA had access to bond money initially earmarked for housing athletes associated with the anticipated Olympic games to be held in the area. When voters rejected the Olympics, this money was made available to the PHA for the construction of low-income housing. In most instances, however, particularly when only minor repairs or minor rehabilitation was needed, the PHAs simply relied on their existing maintenance resources. Typically the money received in sales proceeds more than compensated them for the costs of rehabilitating the units.

Three cities, Paterson, Philadelphia and St. Mary's County, relied on HUD CIAP funds to make the needed repairs. Once the units are transferred, HUD will continue to pay any debt associated with the development or modernization of the property. Program officials in several other cities had considered this option but did not want to use what were seen as scarce funds for units that would be leaving the public housing inventory.

Finally, in Nashville and Washington, D.C., CDBG funds were used to finance the rehabilitation work. The demonstration programs in both of these cities were sponsored by combined housing and community development agencies responsible for administering the CDBG program, which meant relatively easy access to these funds.

In Nashville, approximately $625,000 of CDBG funds were used to finance the needed repairs. Upon sale of the units to the co-op, the CDBG fund was reimbursed $440,000 from sale proceeds. In Washington D.C., approximately $600,000 of CDBG funds were used to finance the rehabilitation; all of this cost was reimbursed from sales proceeds.

The process of deciding what repairs were to be made was fairly standard, although programs differed in the amount of tenant involvement. The process began with inspections of the units to be sold by the staff of the sponsoring agency or by an architect hired by the agency. In most instances the inspectors also discussed maintenance problems with the tenants. In several cases tenants were asked what improvements they would like to see before the sale. The repairs were then made by PHA staff or were contracted out.

Attracting and Selecting Owners.

Eligibility Criteria. In virtually all of demonstration programs a minimum income was set for participation in the program. This minimum value was typically established by estimating the carrying costs of the units being sold and calculating the monthly income needed so that 30 percent of it would cover these carrying costs. The minimum incomes range from a low of $7,500 in St. Thomas, to a high of $17,000 in Washington, D.C. In some of the programs, however, these minimums were not strictly adhered to by those responsible for screening. Furthermore, in all sites except Denver, priority was given to existing tenants of the units selected for sale. (In Denver all existing residents were relocated to allow for the units to be rehabilitated. The original tenants were not given preference in the selection process and very few returned to the development as owners.) Vacant units were typically offered to other public housing tenants and/or to those on the public housing or Section 8 waiting lists.

Beyond income and occupancy, program staff typically screened prospective participants on rent paying history and employment status. Some programs also relied on home visits, office interviews, and on recommendations from project managers. In Denver, for example, after they experienced difficulty with some program participants in phase one of their demonstration program, the staff added home visits and manager recommendations to their screening process employed in phase two. In Nashville, each prospective participant was visited by a housing counselor who assessed the applicants understanding of cooperative housing and their willingness to participate in cooperative management.

In the seven demonstration programs that relied on private financing, prospective participants were also screened by the financial institutions involved. In these instances, credit histories, length of employment, and income to debt ratios were also considered. In Chicago and Wyoming, very few applicants could meet these criteria and qualify for private loans. This greatly reduced the number of units transferred to tenants in those cities. Philadelphia is also anticipating some difficulty qualifying buyers. In Newport News, the PHA was able to negotiate relaxed underwriting standards by agreeing to buy back any bad loans during the first five years.

A unique feature of the program in Philadelphia is the preference being given to applicants with incomes closest to the $12,150 minimum income set for participation. This preference is designed to include those least likely to be able to afford a home on the private market.

In many of the programs selling scattered-site units, tenants had been carefully screened for employment, housekeeping and other factors before they originally moved into the units. Thus, a high proportion of tenants in these units qualified for the demonstration programs.

Marketing the Programs to Tenants. The sponsoring agencies used a combination of methods to market the demonstration programs to tenants. They typically began by sending letters describing the program to tenants in the units to be sold. In some instances all tenants in eligible units received these letters while in others, letters were only sent to those that met the minimum income requirements. These initial contacts were then followed by one or more meetings in which the programs were explained to interested tenants and their question were answered. In these meetings program staff typically emphasized the opportunities and responsibilities offered by the sales program.

Usually, PHA tenants in all other developments were also informed about the program through brochures and articles in newsletters published by the sponsoring authorities. This was more than a courtesy since there often were at least limited opportunities for other tenants to participate. In two instances, Newport News and Denver, lotteries were used to choose qualified applicants for vacant units.

The responses to a phone survey question on how participants first heard about the program also show that word of mouth played a role. Although 65 percent report first hearing about the program from a letter, notice, or visit from the housing authority, 15 percent reported hearing about it first from a friend or neighbor. The remaining 20 percent heard about the program from a variety of other sources.

Property Conveyance and Pricing

One of the goals of the demonstration was to experiment with different means of transferring units to public housing authority tenants. In fact, demonstration programs utilized all three major forms of ownership: fee simple, condominium and cooperative as shown in Table 2.4. Twelve demonstration programs involved the fee simple sale of units to former tenants. As might be expected all these programs were selling single-family homes. Of the five multifamily sales programs, four either have been or will be being sold to cooperatives and one was sold to individuals as condominiums.

Table 2.4: Form of Ownership and Means of Establishing Sales Prices

Public Housing Authority	Form of Ownership	Means of Establishing Effective Purchasing Price
Baltimore, Md.	Fee simple	Appraised value discounted to affordability
Chicago, Ill.	Fee simple	Appraised value minus projected cost of rehabilitation
Denver, Colo.	Cooperative	Cost of rehabilitation
Los Angeles, Calif.	Fee simple	Appraised value discounted to affordability
McKeesport, Pa.	Fee simple	Appraised value
Muskegon Heights, Mich.	Fee simple	Percent of appraised value[1]
Nashville, Tenn.	Cooperative	Cost of rehabilitation; membership fees used to capitalize co-op
Newport News, Va.	Fee simple	Appraised value discounted to affordability
Paterson, N.J.	Cooperative	Project given to co-op; $3,500 to $4,500 membership fee will help capitalize co-op
Philadelphia, Pa.	Fee simple	Appraised value discounted to affordability
Reading, Pa.	Fee simple	Seventy percent of appraised value
St. Mary's County, Md.	Fee simple	Estimated market value discounted to $10,000
Tulsa, Okla.	Fee simple	Appraised value discounted to affordability
St. Thomas, V.I.	Cooperative	Project given to co-op; $375 to $725 membership fee will help capitalize co-op
Washington, D.C.	Condominium	Appraised value discounted to affordability
Wichita, Kans.	Fee simple	Not determined
Wyoming, Mich.	Fee simple	Fifty or 60 percent of appraised value depending on income

[1]Originally 50 percent, latter raised to 100 percent.

The decision to sell the multifamily developments as either condominiums or as cooperatives hinged on three factors: the attitudes of program staff; the design of the buildings; and, the desires of the participating tenants. Program staff often made the initial proposal as to how the units should be conveyed. In both Denver and Paterson, for example, the staff favored cooperative ownership since they felt it would allow tenants with lower-incomes to participate. In Nashville and St. Thomas staff favored cooperatives because they felt cooperative ownership would be the best means of assuring that the units would remain available to low- and moderate-income people. In all the demonstration programs involving cooperative ownership there was also the belief that it would help participants develop a more cohesive and effective social environment.

The original design of the buildings also favored cooperative ownership. State laws regulating condominiums often specify design standards that have to be met. In Nashville, where three developments were chosen for sale, program staff had originally planned on selling two of the developments as cooperatives and the third as condominiums. The cost of improving units to be sold as condominiums, however, was one of the reasons they decided on selling all the units as a scattered-site cooperative. (The tenants desire to join together in one scattered site cooperative was the other major reason.) Similarly, the cost of upgrading units for sale as condominiums was one of the factors that discouraged Los Angeles County from selling the multifamily units originally selected.

Finally, in several sites residents played a major role in deciding how the units would be transferred. In Washington, D.C., residents pushed for condominium ownership since they wanted to own their own units without having to worry about whether their neighbors would keep up with their payments. Home buyers did not want the failure of a few to become the failure of all. In Nashville, however, once the idea of a cooperative was explained to tenants those in the developments originally slated to be sold as condominiums decided they wanted to join with the others and form one scattered-site cooperative.

Pricing the Units. Due to the low incomes of public housing tenants, it was necessary in all but one instance to reduce the effective sales price below the appraised value of the properties. The sponsoring agencies relied on a number of means for arriving at a sales price that would be affordable to tenants (See Table 2.4). The most popular strategy was to establish a price based on an appraisal, but to cover the difference between the appraised value and the amount tenants could afford with a silent-second mortgage. The silent seconds are forgiven if the participant remains in the home a set period of time. Therefore, we consider the first mortgage amount plus any down payment required as the effective sales price because that is what the owner will pay for the house.

The amount of the first mortgage was typically determined by allocating 30 percent of gross household income to all housing expenses. A total of six demonstration programs, including

Baltimore, Los Angeles County, Newport News, Philadelphia, Tulsa and Washington, D.C. used this approach to setting sales prices.

The second most frequently used means of establishing sales prices was to charge a fixed percentage of the appraised value. Reading, for example, charged participants 70 percent of the value of the units while Wyoming charged 50 or 60 percent depending on the income of the participant. Muskegon Heights began charging buyers 50 percent of the appraised value but later the city council raised this to 100 percent. (More will be said about this later in this report.) These percentages were typically arrived at by considering what the higher income PHA tenants could afford to pay. In St. Mary's County, the effective sales price was set at a flat $10,000, which was approximately 25 percent of the estimated market value of the units.

Another way to establish sale prices was to base them on the amount needed to pay for the needed repairs. In both Denver and Nashville, the PHAs were simply interested in recovering the funds used to finance the rehabilitation work. In Nashville, however, they eventually had to reduce the sales price below the costs of rehabilitation since the lender, the National Cooperative Bank, was not willing to lend the cooperative the full amount needed.

In two of the multifamily sites, the sponsoring agencies plan on transferring the buildings to newly formed cooperatives for a nominal fee. The cooperators will be charged membership fees, but these will go toward capitalizing the cooperative, not toward debt payment.

McKeesport was the only program that did not discount the effective sales price of the units. Given the very low appraised value of the units being sold ($16,000 to $25,000) no price reduction was considered necessary.

Since HUD forgave all debt on the units sold under the demonstration, the question of why the sponsoring agencies charged anything for the units might be asked. First, as noted above, some PHAs were concerned with recovering expenses incurred in preparing the units for sale and in selling the units to tenants. These expenses often included the cost of rehabilitating the units, legal work, closing costs, and administrative costs not covered by the technical assistance grant. Second, local program staff often cited equity and/or political considerations for charging a sales price. They felt that it would not be fair to other low- and moderate-income residents to simply give houses to a select few public housing residents. Moreover, they felt this would be politically unacceptable. Third, most program officials felt that program participants had to invest in the properties if they were going to value them. Charging a sales price, in the opinion of many, helped to ensure that the units would be taken care of by their new owners. Finally, in several instances program officials were interested in using the sales proceeds to fund other low-income housing initiatives.

Windfall profits and retention provisions

HUD demonstration guidelines required PHAs to institute safeguards against program participants reaping windfall profits from the quick sale of units that were purchased at below market prices. These recapture mechanisms had to be in effect for a minimum of five years after the original sale. Moreover, HUD encouraged the sponsoring agencies to "address the issue of long-term availability of the property to lower-income home owners," although this was not a requirement for participating in the demonstration.

Table 2.5 lists the various means PHAs adopted to guard against windfall profits, and retention methods used to ensure that the units will remain affordable to low-income people in the future. The most common method for guarding against windfall profits was for the PHA to hold a silent-second mortgage on the difference between the appraised value of the unit at the time of sale and the amount of the first mortgage. This silent-second mortgage is only due if the unit is sold within a specified time period. After this time, it is forgiven and owners can keep all profits from the sale. In Chicago, for example, the silent second will be forgiven after five years. In the Wyoming program, the silent second will be forgiven after 10 years, and in St. Mary's County and Los Angeles County it will be forgiven after 15 and 28 years, respectively.

The four demonstration programs involving cooperatives will regulate windfall profits through restrictions on eligibility

Table 2.5: Windfall Profits and Retention Provisions

Public Housing Authority	Windfall Profit Restrictions	Length of Restrictions	Retention Restrictions	Length of Restrictions
Baltimore, Md.	Silent-second mortgage due upon sale	10 years	Right of first refusal at market price	10 years
Chicago, Ill.	Silent-second mortgage due upon sale	5 years	Right of first refusal	Permanent
Denver, Colo.	Co-op share can only be sold to low-income family	Permanent	None beyond windfall profit restrictions	--
Los Angeles County, Calif.	Silent-second mortgage due upon sale	28 years	Resales limited to low-income families, sale price regulated	28 years
McKeesport, Pa.	Mortgage accrued interest will be assessed if unit sold for more than purchase price, otherwise interest will be forgiven. If sold below sale price, PHA has right to purchase for balance of the mortgage	5 years	None beyond windfall profit restrictions	--
Muskegon Heights, Mich.	Clause in contract of sale requiring approval of housing commission. Money in excess of initial sale price will revert to PHA	5 years	None beyond windfall profit restrictions	---
Nashville, Tenn.	Two second mortgages and a co-op bylaw provision that limits equity available to residents	15 years	Co-op has retained right of first refusal. Priority to be given to public housing residents	Permanent

Table 2.5 (continued)

Public Housing Authority	Windfall Profit Restrictions	Length of Restrictions	Retention Restrictions	Length of Restrictions
Newport News, Va.	PHA has right to buy back unit for the outstanding mortgage balance if owner wants to sell	5 years	None beyond windfall profit restrictions	--
Paterson, N.J.	Resale restrictions of co-op shares. No appreciation of equity for 10 years	10 years	None beyond windfall profit restrictions	--
Philadelphia, Pa.	Deed restriction limiting sale of unit to other low-income family. Sale price must be equal to original sale price	5 years	None beyond windfall profit restrictions	--
Reading, Pa.	Right of first refusal to re-purchase units at outstanding mortgage balance	10 years	None beyond windfall profit restrictions	--
St. Mary's County, Md.	Silent-second mortgage due upon sale	Variable for duration of second mortgage. (6 to 15 years)	None beyond windfall profit restrictions	--
St. Thomas, V.I.	Transfer of units to a limited equity co-op. Plan to place cap on cooperators equity but details have not been worked out	Not agreed upon	Co-op board of directors will have the right to authorize transfer of membership	Permanent

Table 2.5 (continued)

Public Housing Authority	Windfall Profit Restrictions	Length of Restrictions	Retention Restrictions	Length of Restrictions
Tulsa, Okla.	Silent second mortgage due upon sale	10 years	None beyond windfall profit restrictions	--
Washington, D.C.	Penalty imposed equals interest due on second mortgage at maximum legal rate or rate of interest on first mortgage, whichever is less. Penalty is subtracted from equity realized from resale. Remaining equity is divided between agency and owner	7 years	Agency retains right to purchase at appraised value on resale	7 years
Wichita, Kans.	Deed restriction limiting sale proceeds that will go to tenants	15 years	Right of first refusal at original price plus three percent appreciation per year	15 years
Wyoming, Mich.	50 percent of silent-second mortgage forgiven after 5 years; 10 percent forgiven for each of the next 5 years	10 years	Right of first refusal	5 years

and/or equity limitation provisions included in Articles of Incorporation and sales agreements. In Denver, co-op shares in Phase One of their demonstration can only be sold to other low-income families defined as those with incomes of 50 percent of median income or less. In Denver's Phase-Two this resale restriction was raised to 60 percent of the median. This effectively limits the sales price. In Nashville, Paterson and St. Thomas the amount of equity that a shareholder is entitled to upon leaving the cooperative will be limited. In Paterson, the original membership fee plus interest is refundable with the consent of the Brooks-Sloate Cooperative Association, upon termination of membership and/or residency. In Nashville, those wishing to leave the co-op will receive their original membership fee, plus the value of any major improvements made to their unit and their share of the principle amortized by the cooperative after the first three years. In St. Thomas, the proposed bylaws give the co-op's board of directors the power to establish the sales price of membership shares. The specific equity limitations, however, had not been agreed upon at the time of our last contact.

Although requiring payment of the silent second mortgage clearly acts to discourage resale during the time period covered by the provision, program participants may still reap windfall profits if units were to appreciate rapidly. A total of four demonstration programs guard against this possibility by including recapture provisions in the sales contract or deed of trust. These provisions recapture part or all of any profit made on the sale of a house for a specified number of years after the original sale. In both McKeesport and Washington, D.C., in the case of early sale (defined as five and seven years respectively), interest on the otherwise silent-second mortgage will be assessed and deducted from any profit made on the sale. In Muskegon Heights all profits on the sale of units for the first five years will be recaptured by the PHA.

Retention of Sales Units as Low Income Housing. Retention provisions have a slightly different purpose. They are designed to ensure that if the units are sold, the sale will be to other low- or moderate-income families. Thus, these units will not be lost to the low-income housing stock.

The most common means of assuring that the units will remain available to low-income people was for the sponsoring agencies to retain the right of first refusal in the advent of a sale. That is, the sponsoring agency or cooperative would have to be offered the opportunity to repurchase the property. In most instances, these provisions require the sponsoring agency to pay the appraised value of the unit at the time of resale. The lengths of these provisions range from five years in Wyoming to permanently in Chicago.

Another approach to ensuring that the units remained affordable to low-income people was to specify in a sales contract and/or deed of trust that the units can only be transferred to low-income families, defined as those with incomes below a certain percentage of the local median. Again, the length of time these provisions are in force varies among sites. In Los Angeles, for example, the second deed of trust stipulates that if sold the unit must go to a family with an income of less than 80 percent of the county's median income. This resale situation will be in force for 28 years. Similarly, at least two of the cooperatives have 15-year resale restrictions that require new members to be low-income families.

It is too early to make any definitive statements about the effectiveness of the various windfall profit and retention provisions. In the early instances of default, these provisions appear to have protected the PHAs interests in the properties, and the units were transferred or are in the process of being transferred to other low income people. The real test will come over time, however, if the units appreciate in value. Yet, even after these provisions expire, we would be surprised to see very many participants selling their units and reaping large profits. In most cases the units sold to tenants are in areas where rapid appreciation is not anticipated and where they would have difficulty finding comparable housing for the same cost. To know for sure, however, the program participants would have to be followed over a longer period of time.

Provisions for Maintenance After Sale

Since low-income home buyers are unlikely to have the financial reserves to pay for major repairs, HUD encouraged the sponsoring agencies to provide some means of assisting participants in making post-sale repairs. Table 2.6 lists the provisions made by

Table 2.6: Provisions for Maintenance After Sale

Public Housing Authority	Method
Baltimore, Md.	Low interest loan fund capitalized from sales proceeds and 2-year warranty on major systems
Chicago, Ill.	Loan fund was to be capitalized from sales proceeds but was never established
Denver, Colo.	Maintenance fund capitalized by sale proceeds and warranty of plumbing and sewage lines
Los Angeles, Calif.	Loan fund was to be capitalized from sales proceeds but was never established
McKeesport, Pa.	Loan fund capitalized from technical assistance grant and sales proceeds
Muskegon Heights, Mich.	Extraordinary repair loan fund capitalized from sales proceeds available for 5 years
Nashville, Tenn.	Maintenance fund capitalized from sales proceeds
Newport News, Va.	Five year warranty on total failure of major mechanicals and structural elements. Warranty fund capitalized from sales proceeds
Paterson, N.J.	Maintenance fund capitalized from sales proceeds
Philadelphia, Pa.	Major systems repair fund to be capitalized from sale proceeds. Also, one year warranty on any major systems repairs made prior to property transfer
Reading, Pa.	Loan funds for major repairs capitalized from sale proceeds but not available for three years

Table 2.6 (continued)

Public Housing Authority	Method
St. Mary's County, Md.	Major repair fund capitalized from sales proceeds and owner contribution to escrow account for routine maintenance
St. Thomas, V.I.	Maintenance fund capitalized from membership fees
Tulsa, Okla.	No special provision for maintenance after sale
Washington, D.C.	Loan fund was to be capitalized from sales proceeds but funds recaptured by agency. Two year warranty on major mechanicals
Wichita, Kans.	None was planned
Wyoming, Mich.	Fund established to pay for major repairs capitalized by owner payments

the sponsoring agencies to assist participants if problems arise. Eleven of the sponsoring agencies have established loan funds or escrow accounts that program participants may draw upon. In all but one instance, these funds were at least partially capitalized with the proceeds from the sale of units and will remain available indefinitely. In Muskegon Heights, however, the low-interest loan fund will only be available for five years after the purchase, and in Reading it will not be available until three years after purchase. The rationale behind Reading's provision is that the units were in excellent shape upon sale and so no major repairs should be needed for at least three years. In McKeesport, along with sales proceeds, funds from the HUD technical assistance grant were used to capitalize the fund; and in Wyoming and St. Mary's County, program participants were and are assessed monthly fees that go into a routine maintenance reserve account. Wyoming had originally proposed contributing sales income to the reserve account but later decided that the contributions of the program's participants would be sufficient.

A second means of helping to prevent default on loans because of a major maintenance problem was to provide participants with warranties on the major mechanical and structural components of their homes. A total of five programs offered warranties. In some instances these were offered in combination with loan funds. In Newport News, for example, the program offered participants a five-year warranty on the total failure of the major mechanical and structural components of the houses they purchased. No loan fund is available for smaller problems. Baltimore has established a low-interest loan fund plus offers a two-year warranty on all major systems in the units sold. In Philadelphia, they are discussing a similar combination of maintenance assistance but the details have not been finalized.

Four programs made no special provisions for assisting participants with major repair expenses. Three of the four had originally planned to make some special provision but did not follow through on this aspect of their programs. Both the approved program summaries in Los Angeles County and Chicago included loan funds capitalized by sales proceeds, but these funds were never established. In Washington, D.C., after a reorganization in the sponsoring authority, the new director decided to recapture the sale proceeds that were to be used to capitalize a maintenance fund. Finally, in Tulsa, the sponsoring agency never proposed to make any special provisions for assisting the buyers with maintenance after sale.

The early experience with the use of these special maintenance provisions suggests that they are an important part of low-income home ownership programs. In Newport News, the first program to complete its sales, a total of $4,416 has been spent from the reserve fund to replace a heater and appliances in the homes of several participants. In Washington, D.C., two participants took advantage of the warranty offered by the sponsoring agency to have inadequate air conditioning compressors replaced and several others had improvements made to their heating systems. In

Wyoming, one water heater was replaced and in McKeesport, one request for a loan to do remodeling work is pending.

The problems that arise when special repair provisions are not adequate are exemplified by the conflict between co-op members and the Denver Housing Authority. DHA's program did not offer a warranty on work done, except for the plumbing and sewer lines. Program participants in both phase one and phase two of their program have been very dissatisfied with the quality of the repair work. Only after considerable conflict did DHA agree to make certain repairs and improvements to the units in phase one of their program, but this was after some co-op members had begun to move out. The problems in phase two are yet to be resolved.

Provisions for Non-participants

Options Offered Non-participants. The demonstration guidelines explicitly prohibited the involuntary relocation of tenants who were unable or unwilling to participate in the sales programs. Table 2.7 lists the various ways the sponsoring agencies handled this prohibition. Programs selling scattered-site housing often avoided relocation by selling only vacant units and those occupied by tenants willing and able to buy them. In this way, seven demonstration programs avoided all relocation.

This selective sales approach was not feasible, however, in the multifamily sales programs and in scattered-site programs where the sponsoring agencies wanted to sell all of their units. The most common solution was to try and get non-participants to

Table 2.7: Method of Accommodating Non-participants

Public Housing Authority	Method
Baltimore, Md.	Did not sell units currently housing tenants who did not qualify or who were not interested in buying
Chicago, Ill.	Did not sell units currently housing tenants who did not qualify or who were not interested in buying
Denver, Colo.	Relocation of 128 families to other public housing units or to private units using housing vouchers
Los Angeles County, Calif.	One non-participant was enticed to relocate with a Section 8 certificate but would have been allowed to stay
McKeesport, Pa.	Three families enticed to move with Section 8 certificates; one remains in unit as renter
Muskegon Heights, Mich.	Did not sell units currently housing tenants who did not quality or who were not interested in buying
Nashville, Tenn.	Three families were enticed to relocate with Section 8 certificates and seven families continued to rent from the co-op with the aid of Section 8 certificates
Newport News, Va.	All tenants bought (several overhoused tenants transferred to other public housing units at beginning of program)
Paterson, N.J.	Non-participants enticed to relocate with Section 8 and other public housing units but some tenants will continue to rent from the co-op with the aid of Section 8 certificates

Table 2.7 (continued)

Public Housing Authority	Method
Philadelphia, Pa.	Will not sell units currently housing tenants who do not qualify or who are not interested in buying
Reading, Pa.	Did not sell units currently housing tenants who do not qualify or who are not interested in buying; three were transferred, however, when family size changed
St. Mary's County, Md.	Section 8 certificates offered to families who are not qualified or not interested in buying; when additional public housing becomes available those over-housed will be transferred
St. Thomas, V.I.	Intends to voluntarily relocate some tenants to the other half of project or to another project. The PHA is also considering leasing a building from the co-op to house non-participants
Tulsa, OK	Did not sell units currently housing tenants who do not qualify or who are not interested in buying
Washington, D.C.	Non-participants offered other PHA units; two vouchers were given to assist tenants to remain in units
Whchita, Kans.	Non-participants were to be enticed to move with offer of other PHA units but were also to be allowed to stay
Wyoming, Mich.	Will not sell units currently housing tenants who do not qualify or who are not interested in buying

voluntarily move by offering them other public housing units, Section 8 certificates, or housing vouchers. In cases where non-participants were not interested in these options, they were normally allowed to remain in their units. In several of the multi-family programs, such as Nashville and Washington, D.C., this was facilitated by using Section 8 certificates to assist the non-participating tenants. In the single-family programs, including McKeesport and St. Mary's County, when faced with tenants who refused to move, program staff simply held off selling their units. They will be sold at some future date after they are voluntarily vacated.

The program in Denver was unique in that all the tenants in the projects to be sold under the PHHD were relocated to other public housing units or given Section 8 certificates. Given the extensive renovation and demolition involved in the rehabilitation of the units, the PHA argued that relocation was required. Only a few of those displaced, however, returned to the development as home owners. The DHA claims that all the relocations were voluntary since Curtis Park was one of the worst public housing developments in Denver and tenants were glad to move to other public housing or assisted housing. As will be presented below, however, a sizable portion of a sample of those relocated dispute this claim.

Use of Options by Non-participants. At the time of our last site visits a total of 136 households had been relocated to accommodate program participants. (This does not include the transfers of several families that were overhoused in Newport News and Reading since these relocations would probably have occurred without the demonstration program.) The program in Denver accounted for 128 of those relocated. The two other large multi-family conversions that are yet to take place (Paterson and St. Thomas), may increase the total number of tenants relocated before all sales under the demonstration are completed.

The number of non-participants given assistance to remain in their units will also rise when the developments in these two sites are finally transferred. At the time of our last site visit there were only nine non-participating families that remained as renters. This number should rise considerably, however, as Paterson is anticipating that between 13 and 69 families will receive Section 8 certificates to rent their current units from the co-op. Similarly, in St. Thomas, as many as 20 to 30 tenants may continue to rent their units.

It should also be noted that the number of non-participants, both relocatees and those that remain as renters, would have been higher if the demonstration programs, particularly the multifamily ones, had transferred the units expeditiously. The long preparation period in Nashville and Paterson, for example, meant that many non-participating tenants moved out for reasons unrelated to the demonstration, allowing their units to be made available to program participants.

Use of Sales Income

One of the main features of the demonstration was that HUD forgave all debt on the units sold. According to the initial RFP, "any proceeds from the sale of the property may be applied toward the expenses incurred by the PHA in the sale of the property...also proceeds from the sale of multifamily properties may be used in setting up a reserve maintenance fund for the proposed owners of the property. Any proceeds from the sale of property remaining after applying the two above uses must be applied to reduce the outstanding debt." Later, however, HUD changed the rules to allow the sponsoring agencies to keep the sales proceeds and use them to provide other housing opportunities to low-income people.

As shown in Table 2.8, the most frequent use of all or part of the sales income was to cover program costs, including the costs of rehabilitating the units before sale, closing costs, and general administrative costs. Almost all the sponsoring agencies that received sales income used at least part of it for this purpose. A total of 10 agencies, including those sponsoring both single- and multifamily-programs, used sale proceeds to capitalize repair funds or create a reserve to fund repairs covered by warranties. As discussed above, sales proceeds were the most common source of capital for establishing reserve funds. In instances where there were significant amounts of income remaining after covering program costs and establishing reserve funds, the sponsoring agencies plan on using these monies to

Table 2.8: Use of Sales Income

Public Housing Authority	Use of Sales Income
Baltimore, Md.	Used to reimburse general fund for rehabilitation costs and capitalize extraordinary repair fund
Chicago, Ill.	Most used to fund rehabilitation and closing costs; remaining funds went to general fund
Denver, Colo.	In phase I and II proceeds used to reimburse loan fund for rehab work and capitalize a reserve fund; in phase II extra proceeds will be used for replacement housing
Los Angeles County, Calif.	Will be used to fund new low-income housing
McKeesport, Pa.	Used to reimburse authority for administrative and rehabilitation costs; to establish capital improvement and emergency loan fund; and to create other home-ownership opportunities
Muskegon Heights, Mich.	Used to capitalize extraordinary loan fund and reimburse authority for administrative expenses
Nashville, Tenn.	Used to capitalize the reserve fund, to pay closing costs and to partially reimburse CDBG loan fund for rehab expenses
Newport News, Va.	Used to cover closing costs and capitalize loan fund; remainder to be used to provide other home-ownership opportunities
Paterson, N.J.	The authority will not receive sale proceeds since units are being given to the cooperative
Philadelphia, Pa.	Will be used to defray administrative and repair costs, capitalize repair fund and pay closing costs and down payments

Table 2.8 (continued)

Public Housing Authority	Use of Sales Income
Reading, Pa.	Some used to capitalize extraordinary reserve fund; no decision made about remaining proceeds
St. Mary's County, Md.	Will be used to establish maintenance reserve fund and fund other low-income housing programs
St. Thomas, V.I.	The authority will not receive sale proceeds since units are being given to the cooperative
Tulsa, Okla.	Will be used to pay for closing costs, rehabilitation work and administrative cost
Washington, D.C.	Used to capitalize major repair fund and reimburse CDBG fund for rehabilitation work
Wichita, Kans.	Planned to deposit some proceeds in account to get low interest rate; reimburse the agency for rehabilitation costs and acquire replacement housing
Wyoming, Mich.	Placed in account to allow buy-back during first five years. Long term use not decided

provide new housing opportunities. In Los Angeles County, for example, they intend to use some of the $300,000 in sales proceeds to contribute to joint ventures with non-profits to build new housing for low-income people. The rest of the funds will be used to secure options on land for future public and/or assisted housing. Similarly, in Newport News approximately $223,000 in sale proceeds will provide other homeownership opportunities to public housing and other low-income families. With the assistance of the Virginia Housing Development Agency, eight houses are being built that will be offered to qualifying public housing tenants. PHHD sale proceeds will be used to write-down the sale prices of these new units.

In two instances, the sponsoring agencies still have not decided what to do with the sale proceeds. In Wyoming, for example, the funds are currently being held in an account to allow the WHA to buy back any units if their owners default on the mortgage within the first five years. However, they have not decided what to do with these funds once their buy-back commitment expires.

Conclusion

Clearly, HUD's goal of including a wide variety of approaches to selling public housing to tenants was achieved. The data presented in this chapter shows there is considerable variation in all major components of the 17 programs involved in the PHHD.

The two chapters to follow focus on two other program components. Chapter 3 takes a look at how the sales were financed while

Chapter 4 looks at the counseling and training provided to program participants.

CHAPTER 3

FINANCING THE SALES

Introduction

No low-income home ownership program can succeed without a sound financing system. Public housing authorities were able to write down the prices of their sales units as far as necessary to make them affordable to participating families. They also had the option of serving as the permanent lender if they were either unable to or not interested in attracting private lenders to their programs. For these reasons, the lack of affordable financing was not a significant constraint in the development of public housing home ownership programs.

This chapter fully explores the financing issue. Written in four sections, it begins with a discussion of the various sources of mortgage finance used by participating housing authorities. Section two discusses key characteristics of financing programs: loan-to-value ratios, loan terms and interest rates, down payment requirements, indemnification of private lenders against loss, and the magnitude of closing costs. Section three discusses the financing arrangements of the multi-family conversions in Washington, DC, Paterson, St. Thomas, Denver and Nashville. In general, the financial structures of multi-family sales programs are more diverse and complex than those of their single family counterparts. The chapter concludes with a discussion of the phenomenon of mixed-tenure conversions. This occurs when a minority of former public housing residents who did not qualify or were not interested in home ownership continue to occupy their same apartments as tenants of the cooperative.

The Sources of Mortgage Finance

Holding down payment and mortgage terms constant, it is in everyone's interest to finance public housing sales through the private mortgage market. That is why, according to the demonstration regulations, "HUD will only permit the use of PHA purchase money mortgages for sale of the properties where the applicant demonstrates that no other source of financing is feasible." From the public housing authority's standpoint, private financing generates the maximum amount of net sales proceeds which would then be available for reinvestment in additional low-income housing inventory. From the buyer's standpoint, the ability to qualify for a private loan signifies entrance into the mainstream housing market and represents the most complete break possible with any form of reliance on the public housing authority. Finally, from the federal government's perspective, maximum participation by the private lending community would signify the demonstration's sound financial footing and the possibility of leveraging HUD's huge investment in public housing stock to enable many hundreds of tenants to realize the dream of owning their own home with a minimum amount of additional government funding.

If a primary goal of the demonstration was to attract private financing in public housing sales, then, based on closings to date, this program dimension was two-thirds successful. That is, private mortgage capital was present in more than 65 percent of the single and multi-family units that closed during the demonstration period. However, single family programs were less successful in attracting private investment than the three multi-family co-op conversions. All three co-ops that closed (two in Denver and one in Nashville), containing a total of 173 units, attracted some private funds, but just 35 of the 140 single family sales (25 percent) in five cities involved private financing (Table 3.1). Another 41 single family sales in three cities (28.1 percent) were financed through state or local mortgage revenue bond programs, while 70 single family units in four cities (48 percent), were financed by the housing authority or its subsidiary.

Not all housing authorities attempted to attract private lenders. In apparent disregard of HUD's instructions to seek private financing, the McKeesport PHA chose to finance its nine scattered-site sales, taking the position that as long as "we are in the rent collection business, we might as well collect mortgage payments."

In other instances the sponsoring agencies tried but were unsuccessful in attracting private financing. In St. Mary's County, for example, problems with securing clear title to the housing to be sold prevented them from securing private financing. The demonstration coordinator at another site tried, but failed to interest private lenders because of the small size

Table 3.1: Sources of Financing

Public Housing Authority	Source(s) of Financing
Baltimore	State Mortgage Revenue Bonds
Chicago	City Mortgage Revenue Bonds Private FHA Insured Loans
Denver:	
Upper Lawrence	Colorado State Division of Housing Colorado Housing Finance Agency Denver Housing Authority National Cooperative Bank
Arapahoe	Denver Housing Authority Private Equity Investor
Los Angeles	County Mortgage Revenue Bonds
McKeesport	Public Housing Authority
Muskegon Hts.	Private lender Buyer--all cash
Nashville	National Cooperative Bank Public Housing Authority
Newport News	Private Lender
Reading	Public Housing Authority
St. Mary's County	County Community Development Corp.
Tulsa	Private Lender
Washington, D.C.	Public Housing Authority
Wyoming	Private Lender

and high cost of servicing the loans. "The mayor would have to twist a lot of arms," she said, "to attract private lenders to this kind of program," which he obviously had not. But even in this case, the housing authority consciously chose to have a third party service the PHA's loans to impress upon the home buyers that they were no longer public housing tenants and that late or missed payments would be dealt with in the same manner as if their loans had been privately financed.

Selected Characteristics of Financing Programs

First Mortgage Amounts. Housing authorities generally determined the amount of financing required by establishing a sales price in one of three ways, and then discounting that price for affordability. In most single family programs, the sales price was established at the appraised value of the property, although a couple of PHAs set the price as a fixed percentage of appraised value. In contrast, two housing authorities set the sales price of their respective co-op properties equal to their costs of rehabilitation.

Whichever way that price was set, the difference between the selling price and the affordable first mortgage was generally taken back by the housing authority in the form of a "silent" second mortgage which requires no current payments as long as the initial buyer remains in the house (Table 3.2). In most cases, too, the silent second mortgage is forgiven after a specified period of time, at which point the PHA may allow the owner to sell the house without any resale restrictions.

Table 3.2: Average Sales Prices, First and Second Mortgage Amounts and Down Payments for Programs with Sales

Public Housing Authority	Average Sales Price	Average First Mortgage	Average Second Mortgage[1]	Average Down Payment
Baltimore (N=28)	$ 23,434	$ 17,649	$ 5,285	$ 500
Chicago (N=14)	22,076	19,789	15,294	2,670[2]
Denver				
Upper Lawrence (N=44)	27,300	18,182	8,500	800[3]
Arapahoe (N=44)	37,500	37,500	0	0[4]
Los Angeles County (N=9)	87,136	35,403	50,463	1,270
McKeesport (N=9)	21,688	18,325	0	3,363[5]
Muskegon Hts. (N=2)	7,550	7,200	0	350
Nashville (N=85)	21,177	6,471	14,412	294
Newport News (N=15)	24,213	16,712	7,501	0
Reading (N=8)	12,000	11,400	0	600
St. Mary's County (N=30)	42,500	9,000	32,500	1,000
Tulsa (N=1)	30,000	21,758	7,500	742
Washington, D.C. (N=23)	64,738	17,279	44,220	3,239[6]
Wyoming (N=8)	38,153	21,346	16,167	640
Average (weighted) All Sales	$ 31,779	$ 17,097	$ 14,552	$ 841[7]

[1] In all demonstration programs except Denver's Upper Lawrence Co-op, second mortgages are forgiven after a period of time.
[2] Sum of mortgages and down payments do not add to sales price because portion of sales proceeds used to rehab the properties is secured by silent second held by the housing authority. See Chicago case study for discussion of flow of funds.
[3] A local non-profit housing corporation has provided financing for residents who could not meet the downpayment requirement.
[4] Because Arapahoe is a rental, or conditional sales co-op, sales price is defined as a pro rata share of the first mortgage.
[5] The downpayments were credit given to purchasers in an amount equal to the previous year's rent payments.
[6] Downpayments in Washington, D.C. were provided by the city in the form of a silent third mortgage.
[7] Excludes closing cost.

In the case of single family programs where the incomes of home buyers vary significantly, houses with identical appraised values or selling prices have first mortgages that also differ as to the size of their initial principal. In Washington, DC, for example, the average appraised value of the 23 condominium units that were sold in Wylie Courts was $64,778. The average first mortgage was $17,279, or just 26.6 percent of the sales price, and ranged from a low of just $1,179, to a high of $39,187. Conversely, the average silent-second mortgage taken back by the housing authority was $44,220, or 68.3 percent of the sales price, and ranged from a low of $17,813 to a high of $60,561. Just five of 23 sales (21.7 percent) in Wylie Court had first mortgages that exceeded $20,000.

Though prices were significantly lower in Baltimore because of lower property values, variability in first mortgage amounts was also substantial. Sales prices for the scattered-site, single-family units being sold in Baltimore averaged just $23,534 and ranged from $20,700 to $33,800. Because of the low sales prices, the average first mortgage in Baltimore of $18,259, produced a loan-to-value ratio of around 78 percent. Although silent second mortgages in Baltimore averaged $5,285, 12 of the 28 buyers (42.8 percent) had high enough incomes to pay full price for their units without any need of a second mortgage. Single family programs in Chicago, Los Angeles, McKeesport, Wyoming, and Newport News had similar pricing systems, with first mortgage amounts determined on the basis of the buyer's ability to pay.

As indicated above, in two other single family programs, sales prices were based on a specified percentage of the property's appraised value and then discounted for affordability. In St. Mary's County, properties were priced at $40,000 for a four-bedroom unit and $45,000 for a five-bedroom unit, which are approximately 60 percent of their respective values. The difference between the PHA-financed first mortgage, which averaged around $10,000, and the sales price was taken back by the PHA as a silent-second mortgage. In Reading, houses were priced at a higher 70 percent of appraised value which, in that depressed market, produced an average price of just $12,000. Given such low prices there was no need for the Reading housing authority to take back any second mortgages.

The third way of setting sales prices and determining the size of home buyer active mortgage commitments was based on the costs to rehabilitate the properties to be sold. This particular pricing method was used in the cooperative conversions in Denver and Nashville. There are two significant implications of this price-setting technique. First, holding financing terms constant, the level of rehabilitation determines to a great extent the income groups that can be served. Second, when the aggregate debt service payments of all cooperators must cover a housing authority's out-of-pocket rehabilitation costs as well as the co-op's continuing operating costs, varying the amount of debt service carried by individual cooperators would cause higher income shareholders to subsidize those with lower incomes.

Because both of Denver's co-op projects were vacated during the rehabilitation period, only families whose minimum incomes were high enough to afford a full pro rata share of the permanent mortgage were recruited into the program. Thus, the co-op's minimum debt service and operating costs set the minimum income required for participation in Denver's homeownership demonstration. The average home buyer income in Upper Lawrence averaged just over $14,000, while in the higher cost Arapahoe co-op, it was around $17,000.

Since rehabilitation of the three separate projects that make up Nashville's New Edition cooperative occurred without any relocation, the incomes of tenants-in-place who were interested in joining the co-op varied tremendously, from a low of $6,200 to a high of more than $27,000. Given such widely varying incomes and a pricing scheme that was based on recovering rehabilitation costs that were financed with CDBG funds, it was necessary to adjust the amount of debt service each cooperator would pay in order to minimize both the amount of relocation and the number of non-buyers who were too poor to become shareholders. The PHA established a three-track system of carrying charges, with elderly and handicapped shareholders paying the least, original co-op members somewhat more, and members who joined after closing paying the most. However, all cooperators had to have at least enough income to pay a pro rata share of the co-op's operating costs. The co-op's collective debt service capacity was determined on the basis of the costs of servicing debt at the prevailing terms and on the amount of income that would be available from the cooperators after accounting for the co-op`s operating needs, including meeting all reserve requirements. This means that in Nashville, higher income cooperators contribute more to the co-op's mortgage account than do lower income owners. Details of how the New Edition Co-op was financed are presented later in this chapter.

Interest Rates and Mortgage Terms. When the housing authority was the mortgagee, interest rates and mortgage terms were often set as a matter of policy, rather than reflecting actual conditions in the long term capital market. For example, the condos sold in Washington, D.C. were financed by the housing authority with 9.5 percent, 30 year mortgages (Table 3.3). Reading financed its sales with seven percent, 10 year loans, while McKeesport set interest rates at market levels, but varied mortgage terms from eight to 25 years to make the monthly payments affordable.

Save for the demonstration in Baltimore, which relied on Maryland's mortgage bond programs that provided more deeply subsidized interest rates for lower income buyers, most revenue bond programs offered loans at one or two points below market rates. In Chicago, bond financed loans were available at 9.68 percent interest for 30 years, while in Los Angeles County the terms were eight percent and 28 years. Under Maryland's more diverse set of bond-financed mortgage programs, lower income home buyers qualified for lower interest loans than did higher income borrowers. The highest income buyers ($20,000-$21,667, depending

Table 3.3: Down Payments, Interest Rates and Terms of First Mortgages

City	Interest Rate	Terms (in years)	Down-Payment
Baltimore	4.0-7.75%	25	$ 500
Chicago	9.68%	30	5%
Denver:			
Upper Lawrence	9.5%	25	$ 800
Arapahoe	5.25%	25	N.A.
Los Angeles	8%	28	4.5%, partial grant
McKeesport	8.5%	10-25	1 yr's rent
Nashville	11.88%-ARM	15, 30 yr. amort.	$ 373
Newport News	11.25%	5-15	0
Reading	7%	10	N.A.
St. Mary's County	Variable	20	$ 961
Washington, D.C.	9.5%	15, 30	5% full grant
Wyoming	7.5-11.5%	30	3%

on family size) qualified for first-time home buyer assistance under the state's bond programs and received 7.75 percent, 25 year loans. Families with incomes between $18,000 and $20,000 received 5 percent, 30 year loans, while those with incomes below $18,000 qualified for four percent, 30 year mortgages.

Finally, when public housing sales were financed through private lenders, mortgage terms reflected current market conditions. Thus, for example, the local savings and loan that financed the 15 sales in Newport News charged home buyers a higher-than prevailing market rate of interest of 11.25 percent, to compensate for the higher risk of lending to lower income families, while interest rates in Wyoming, Mich., ranged from 7.5 percent to 11.5 percent.

The private portions of the multi-family loan packages that the Denver and Nashville housing authorities put together to finance their respective conversions were also written at market interest rates. In both cities, the National Cooperative Bank (NCB) provided variable interest mortgage loans at prevailing rates. At Denver's Upper Lawrence co-op, which closed more than two years before Nashville's New Edition, the NCB's loan was for 25 years at 9.5 percent interest, reviewable after three years. At New Edition, which closed in mid-1989, the NCB's first mortgage loan was at 11.88 percent for 15 years, with interest rate adjustments at the end of the fifth and tenth years. Details of these arrangements are presented below.

Down Payments. In general, public housing residents who bought housing under the PHHD did not have to come up with very much cash. For most single family programs, down payments tended to reflect the requirements of the particular financing program used by the housing authority to market its properties. In three cases, however, there was either no down payment required (Newport News), the housing authority paid part of the down payment for the buyer (Los Angeles), or paid it in full (Washington, DC). For those that required some up-front cash, down payments generally ranged between three and five percent of sales price, with most privately financed FHA insured loans averaging around 4 percent. Because of FHA's strict underwriting requirements, only a relative handful of public housing sales in Wyoming, Chicago, Los Angeles County and Baltimore were financed this way.

Paradoxically, the higher five percent down payment rate was typical of sales programs in which the housing authority did the actual financing or was able to take advantage of state or local mortgage revenue bond programs that provided below market interest rate mortgages to low-income first-time home buyers. Seven of Chicago's scattered-site sales were financed under that city's mortgage revenue bond program, as were all of Los Angeles County`s. In the latter's case, its three percent down payment was based on the requirement that all bond-financed mortgages must be FHA insured. Twenty-five of 28 single family sales in Baltimore were also financed under a mortgage revenue bond program sponsored by the state of Maryland. What distinguished

Baltimore's financing program from other bond financed efforts, however, was that the interest rate varied directly with the income of the borrower, while in Los Angeles and Chicago, it was the same for all income-eligible buyers.

There are several exceptions to the three and five percent down payment rule. In McKeesport, Pa., for example, the down payment averaged around $3,000 a unit or about 15 percent of sales price. However, the housing authority permitted each home buyer to use its prior year's rent, which averaged $250 a month, as its down payment, which meant that very little up-front cash was needed to close.

Similarly, in Washington, DC, the nominal five percent down payment requirement was met through a grant from the District government. The decision to pay each home buyer's down payment with public funds was based on Wylie Court being built as a Turnkey III development that was intended to be sold to its residents. Under Turnkey III, the housing authority was supposed to establish an equity account for each resident into which a portion of the monthly rent receipts would be deposited in return for the resident's handling of agreed-upon maintenance responsibilities. Over time, the balance in the equity account would grow sufficiently large to enable the resident to make the necessary down payment in order to qualify for a mortgage loan in the conventional market. Since the housing authority never implemented the equity account part of the Turnkey III program in

Wylie Court, the decision was made to make the down payment for each buyer with public funds.

Denver and Nashville, the two co-ops that closed during our evaluation period, had different down payment requirements. In Denver's Upper Lawrence project, the down payment was $800, with as much as $600 of that amount available through a loan from a local foundation that would be secured by a third mortgage. Since Denver's other home ownership project will remain a rental for 15 years, members of the Arapahoe rental co-op did not have to make any down payment.

In Nashville, down payments for all cooperators totaled $25,000. These funds came from a $30 fee that each original member had to pay to join the New Edition Co-op and from a $20 per month housing authority contribution to the members' earned credit accounts. This contribution, which averaged just under $375 per buyer at the time of closing, was based on the members' agreeing to take on certain maintenance responsibilities during the conversion period. New members of the co-op must pay a one-time membership fee of $500.

Closing Costs. The terms closing and settlement costs cover three types of costs associated with the transfer of real estate from one party to another. The first category includes payments for various types of professional services; for instance, to an attorney for examining title and preparing necessary legal and mortgage documents; to a surveyor for carrying out a property survey; to an appraiser who establishes the market value of a property; or, to a credit bureau for a credit report on the would-be home buyer. The second type of costs included are payments for such things as title insurance, deed, mortgage origination fees and loan discount points, recording fees and, possibly, real estate transfer taxes. The final category of closing costs incorporates prepaid items. Included here are such things as one or more months of local real estate taxes and hazard insurance that are deposited in the home buyer's escrow account for disbursal by the loan servicer at the appropriate time. In the case of multi-family conversions, one or more months of prepaid co-op carrying charges or condominium association fees must also be paid at closing.

Some closing costs such as mortgage origination and recording fees, loan discount points, and title insurance are functions of the amount of the mortgage(s) on the property; others, including real estate transfer taxes or prepaid property taxes, are directly related to the market value of the property. Still other closing costs such as credit reports and deed recording do not vary at all with sales price or mortgage amounts. It is difficult to generalize about the magnitude of closing costs because of the differences in tax rates, fees for professional services, and traditions with respect to prepaid items that exist across cities in which there are active public housing sales programs.

In general, however, closing costs ranged from a low of around $1,000 to more than $2,500 a unit. McKeesport was at the low end of the closing cost spectrum, averaging around $1,100 per unit. There, the buyer was responsible for paying for both the buyer and seller's title insurance ($200-$300), while the housing authority paid all remaining closing costs ($700-$800). In Wyoming, closing costs ranged from a low of $1,349 to a high of $2,903 per unit, with the housing authority paying the full costs out of CDBG funds. This was also the case in Washington, DC where closing costs averaged $2,257 per unit. In Reading, closing costs averaged around $2,250 and were evenly split between the buyer and the housing authority, with the buyer's portion coming out of its down payment. Finally, Denver's Upper Lawrence Co-op had closing costs that averaged $2,557 per unit, excluding prepaid taxes. Member up-front cash payments were too small to pay full closing costs: the remainder was financed in the co-op's mortgages.

Financing Multifamily Conversions

The PHHD included five cooperative conversions in four cities, three of which closed during the demonstration and evaluation period: two in Denver and one in Nashville. For reasons discussed in Chapter 6, completion of the conversions in Paterson and St. Thomas have been slowed. However, because financing arrangements for these two co-ops are already in place, both Paterson and St. Thomas are included in this discussion.

A principal factor in both the pricing of co-op units and the financing of conversions has to do with the level of rehabilitation that was needed, and how these improvements were financed. Where rehabilitation was funded using HUD modernization funds--as they were in both Paterson and St. Thomas--the pricing and financing of the conversion did not reflect these costs. Where most or all of the rehabilitation costs were financed using non-public housing funds, as was true in Denver and Nashville, prices and carrying charges reflected the desire for capital recovery. Our discussion of financing begins with the relatively simple cases of St. Thomas and Paterson and proceeds to the more complicated cases in Nashville and Denver.

St. Thomas and Paterson. The rehabilitation of both Pearson Gardens in St. Thomas and Brooks-Sloate in Paterson was financed with public housing funds; therefore, both co-ops are priced and carrying charges are set without regard for capital recovery. In both St. Thomas and Paterson, the respective housing authorities decided to transfer the rehabilitated properties to the co-ops at no cost, although in both cases, individual co-op shares are priced at modest levels in order to capitalize the cooperatives' reserve accounts and recover miscellaneous program costs. Co-op shares in Paterson's Brooks-Sloate were priced between $3,500 and $4,500 a unit, depending on bedroom count, while in St. Thomas's Pearson Gardens, share prices will range between $375 and $725. With no rehabilitation costs to recover, monthly carrying charges needed only reflect current operating costs, including provisions for reserves.

While no third-party financing of co-op shares will be necessary in St. Thomas, buyers in Paterson were having difficulty coming up with the necessary equity. This encouraged the housing authority to arrange financing. The PHA made arrangements with the Sixth Avenue Credit Union in New York City to extend share loans to Brooks-Sloate buyers who are unable to finance their equity payments from their savings. Share loans in amounts up to 70 percent of required equity will be available for a five year term at an average interest rate of 12 percent. The cooperative has pledged to indemnify the lender in the event of a shareowner's default. Loans will be made on the basis of a credit check and the individual's record of timely payments to his or her co-op equity account.

Because they would have no debt service component, carrying charges in the Brooks-Sloate Co-op are projected to be fairly modest, ranging between $236 and $341 a month, depending on unit size. With an average resident income of almost $14,000 in mid-1987, a sizable number of co-op owners will substantially reduce their monthly housing costs when the co-op closes. According to the housing authority, the average rent in Brooks-Sloate as of August 1989, was $314, although 20 percent of all residents paid more than $400, and nearly three percent paid at least $700. Based on these rents, 60 co-op members should end up paying less in carrying charges than they were for rent.

These figures suggested to the housing authority a means by which they could tap a portion of the windfall gains that higher income buyers could expect to realize from the conversion, to create a safety net for financially-strapped cooperators who fall behind in their payments through no fault of their own. This would be in the form of a special reserve fund that would be capitalized through a surcharge on higher income buyers. It would work as follows. First, every cooperator would have to pay a basic monthly carrying charge that reflects the costs of operating the co-op. If this amount is less than the rent that the cooperator had been paying for his or her public housing unit, for the first 18 months of the co-op's existence, these buyers would continue making payments equal to their previous rent. The surplus over the co-op's basic carrying charge would be used to capitalize the emergency bail-out fund. In no event, however, would the surcharge be permitted to exceed 50 percent of the co-op's base carrying charge, and the full surcharge would be eliminated 18 months after closing.

Denver and Nashville. Both the Denver and Nashville housing authorities financed the rehabilitation of their respective projects from non-public housing funds. In order to recover a reasonable portion of their investment when the improvements were completed, a substantial portion of the permanent financing had to come from third-party loans. Naturally, co-op shares had to be priced and carrying charges set to reflect these higher capital charges.

In the case of Denver's first co-op, Upper Lawrence, the housing authority financed the substantial rehabilitation, which averaged nearly $22,500 a unit, from its own multi-million dollar revolving fund and secured permanent financing for the near-million dollar project from the following sources:

\$ 35,200	equity pay-in from 44 buyers;
\$100,000	a (non-repayable) grant from the Colorado State Division of Housing;
\$600,000	a 25 year adjustable rate first mortgage at 9.5%, not to exceed 12.5% over the life of the loan, from the National Cooperative Bank, interest rate reviewable every three years;
\$200,000	a 25 year adjustable rate second mortgage, at 9.5%, not to exceed 12.5% over the life of the loan, from the Colorado Housing Finance Agency (CHFA), interest rates reviewable every three years; and
\$374,000	a (\$8,500 per unit) third mortgage from DHA, with payments starting at \$10 per month, increasing to \$32 a month in five years, for remainder of 25 year term.
Total \$1,309,200	

Because the co-op could not qualify under any of its conventional multi-family financing programs, the $200,000 second mortgage loan from the Colorado Housing Finance Agency was financed out of agency reserves. Because excess agency reserves are limited, CHFA'S participation in the financing should not be viewed as a precedent for the widespread involvement of that agency or other HFAs throughout the country in such conversions. Nevertheless, they may be a source of limited financial support.

Security for the NCB's loan is in two parts. First, the bank is financing just 64 percent of the co-op's capital cost, which means that the property would have to suffer a catastrophic loss in value in order for the bank to suffer a loss on resale in the event of foreclosure. More importantly, however, both the first and second mortgage holders are protected through the Denver Housing Authority's pledge to repurchase all co-op shares from defaulting cooperators and to pay all associated deficiency charges to the co-op. As indicated in the Denver case study, management problems at Upper Lawrence have plagued the co-op from its inception, and turnover has been substantial. Therefore, the housing authority has already had to make good on its indemnification commitment, buying back several shares from defaulting cooperators and making substantial payments to the co-op in order to make sure that it can meet its various financial obligations.

Denver's second co-op, Arapahoe, was financed very differently from Upper Lawrence. In this case, the housing authority served as both the construction and permanent lender, financing $1,650,000, or $37,500 per unit in hard costs, with a fixed rate, 25 year 5.25 percent mortgage loan. If this were the only significant financing feature of the Arapahoe conversion, it would be scarcely worth mentioning since very few housing authorities in the country have DHA's capacity to make that kind of investment. The fact is, the Arapahoe conversion is unique because it was structured as a rental project that enabled the housing authority to syndicate, or sell to a private investor, the federal income tax credit that was generated by Arapahoe`s rehabilitation. Structuring the conversion as a rental co-op rather than a more traditional owner co-op enabled the Denver Housing Authority to earn $1,350,000 in gross syndication proceeds, and to net more than a million dollars on the transaction. The net proceeds from sale of the tax credits have been programmed for use by DHA to acquire additional low-income housing stock.

Under the low-income housing tax-credit provisions of the 1986 Tax Reform Act, an otherwise eligible project must remain in low-income use as a rental property for at least 15 years. Therefore, DHA structured the Arapahoe conversion as a rental co-op. This means that rather than title to the housing being initially vested in the cooperative corporation itself, it is vested in a third party--a limited partnership formed to take advantage of the tax credits--which then leases the housing to the co-op. Transferring title of the buildings to the limited partnership was necessary in order for the housing authority to sell the project's tax credits to a private investor.

The centerpiece of the Arapahoe conversion is the Arapahoe Redevelopment Partnership, Ltd., a limited partnership consisting of three partners. The general partner is the Arapahoe Cooperative Corporation, whose shareholders are the 44 former public housing tenants who want to become home owners. The two limited partners are a private investor (a local Denver corporation) which has acquired the low-income tax credits associated with the redevelopment of Arapahoe for the sum of $1,350,000, and the Denver Housing Authority. For reasons to be discussed below, DHA is a special limited partner.

As the general partner, the co-op owns the land under the buildings and controls the partnership's daily operations through the Management Services Agreement. As the special limited partner, DHA monitors the property's operations. Both the limited partner and DHA have the power to vote on certain important partnership decisions such as removing the cooperative as the general partner in the event that the co-op does not properly manage the partnership's affairs. According to DHA, this extraordinary degree of residual control over the co-op's affairs is necessary for three reasons: to protect the co-op by providing a safety net in the event of serious financial and other operating problems that could jeopardize its long-term viability; to ensure that the co-op does not violate any provisions of the tax laws that would trigger a recapture of the tax credits acquired by the limited partner; and, to protect DHA's own long-term financial interests as the co-op's permanent lender.

After the co-op and the limited partnership were formed, DHA sold the buildings and other facilities to the partnership in exchange for $1,350,000 cash from the limited partner and a promissory note from the partnership in the amount of $1,650,000, which was the approximate cost of redeveloping the Arapahoe project. The note has a fixed interest rate of 5.25 percent and carries a 25 year term. The transfer provided that the buildings be used for low-income housing for an indefinite period.

Prior to transferring title to the buildings to the Partnership, DHA transferred title to the project's land to the co-op at a price of $1, but made the transfer subject to a 25-year ground lease with the partnership. The partnership will pay a ground rent of $1 per year for the first 15 years of the lease. If the partnership continues to lease the ground for the last 10 years of the lease, it will have to pay the ground's full rental value for each of the last ten years. Increasing the ground rent to market value after 15 years, which is when the holding period for the tax credits expires, is intended to force the partnership to sell the buildings to the cooperative. At this point, the cooperative would own the land and buildings subject to DHA's outstanding first mortgage. In this way, the buildings would remain low income housing for an indefinite period. Simply put, since the use restrictions on the buildings require low income occupancy, once the ground lease payments rise to market levels, the partnership will not be able to earn sufficient income from the property to maintain an economic investment and will sell it to the cooperative. Another factor favoring this option is that even without the sale, title to the improvements would revert to the cooperative upon expiration of the 25 year ground lease.

Just as the sale of the land to the co-op was subject to a long-term ground lease to the partnership, sale of the buildings to the partnership was subject to a long term lease with the co-op. The monthly lease payments of $9,888 are equal to the debt service requirements on DHA's permanent mortgage loan. With 44 co-op units, the pro rata rent payment for debt service averages $225 a month. This level of debt service, which was determined by DHA to be affordable by co-op members, was arrived at by reducing the interest rate to 5.25 percent. Under terms of its lease with the partnership, the co-op is also responsible for meeting all other fixed and variable costs of operating the project, including property taxes, insurance, and all maintenance and management costs, including making appropriate financial provisions for reserves. These additional costs are estimated to average around $110 a month, which produces start-up carrying charges in the Arapahoe rental co-op of around $335 a month per unit.

As indicated above, the cooperative has an exclusive option to purchase the buildings after 15 years at the greater of the market value of the property or the outstanding value of DHA's mortgage, which will be approximately $922,000. Since the combined effects of the ground lease restrictions and the continuing use restrictions on the buildings will depress their market value, DHA believes that the co-op is virtually guaranteed the right to acquire the buildings at the mortgage value. Since the co-op's rent to the partnership was originally set at the level needed to service the same mortgage it will assume when it buys its buildings, the housing authority is confident that the option-to-purchase is economically sound.

Because it has become an item of major concern to HUD, one final element of Arapahoe's financing must be discussed. As part of its efforts to maximize the equity investment and provide the limited partner with a competitive rate of return, DHA felt it had to give the limited partner an absolute assurance that it could sell its interests in the partnership at the end of 15 years at a price that was known at the time of the initial closing. Moreover, that price would have to be sufficient to pay the limited partner's tax liability on the sale to DHA. This was accomplished by giving the limited partner a "put" option, exercisable at the end of 15 years, to transfer its partnership interest to DHA at a known price. The price was negotiated to be approximately $691,000.

Agreeing on a price and assuring the limited partner that the DHA will have the necessary $691,000 available to satisfy the put option 15 years into the future are two different things. The creative way that this problem was resolved was for DHA to acquire a sufficient quantity of deep discount zero coupon U.S. treasury bonds having fifteen year maturities to accumulate to a value of $691,000 in the year 2003. Since current T-bill interest rates, which were around 9 percent, were known at the time of closing, it was a simple matter for DHA to determine that the face value of the bonds that had to be acquired in order to accumulate $691,000 in fifteen years was approximately $167,500. DHA used a portion of the limited partner's $1.35 million in equity contributions to pay for the bonds, as well as to underwrite all other costs of syndicating the tax credits.

Under DHA's resale scenario, the limited partner is certain to exercise its put option at the end of 15 years, at which time DHA will transfer ownership of the buildings to the co-op at a price equal to the outstanding value of the mortgage. With just ten years remaining on DHA's note, this means that the co-op will own all land and buildings associated with the Arapahoe Cooperative free and clear, at the end of twenty-five years.

Additional details of how the Arapahoe conversion was structured are contained in the Denver case study. Suffice it to say here, however, that HUD has raised questions about the project and whether the conversion satisfies the requirements of Section 5(h), the legislative authority under which the national Public Housing Homeownership Demonstration is being carried out. According to HUD, a Section 5(h) sale must "vest the tenants with rights incident to ownership, such as possession and control of the project (both land and improvements) upon conveyance [and] we cannot see such evidence of ownership in [this sale]." HUD specifically objects to four aspects of the Arapahoe conversion.

Its first concern is whether tenants participated in the design of the co-op. Because of the complexity of the co-op's financing, HUD worries that its tenants were not involved in the formative stages of the conversion as required under PHHD guidelines. HUD is concerned that participants could have been misled into thinking that they were buying into a limited equity co-op when, in fact, they would be renters for a minimum of 15 years. HUD's second concern is that DHA and the limited partner have the potential to exercise an excessive amount of control over the co-op. Third, the agency questions whether the co-op's option-to-purchase clause in the lease agreement is too conditional to assure conveyance at the end of the the 15-year lease term. Finally, HUD questions whether the co-op will be able to afford to acquire the project at the end of the lease term.

The Denver case study contains additional details on HUD's objections to the structure of the Arapahoe conversion and should be read before any housing authority decides to develop a rental co-op under Section 5(h) authority.

As indicated earlier, Nashville used CDBG funds to finance the rehabilitation of its 85 unit, scattered-site cooperative. In order to recover its capital costs at the end of the rehabilitation period, which amounted to approximately $825,000 ($9,706/unit), the PHA decided to sell the property to the co-op for the cost of the improvements and to finance the sale with a third party, permanent loan. The permanent financing was provided by the National Cooperative Bank (NCB) which is the co-op's sole first mortgage lender and the only party whose debt must be serviced through regular monthly payments of principal and interest. New Edition's non-amortizing mortgage debt was taken back by the housing authority in the form of "silent seconds" which require no payments as long as the project continues in low-income use.

Unlike Denver's Upper Lawrence Conversion, no direct or indirect guarantee was necessary to secure New Edition's loan because the NCB used more conservative underwriting standards in Nashville than in Denver, while holding the co-op board of directors to a much higher standard of preparedness. The specifics of New Edition's financing are presented below.

The initial plans for New Edition's permanent financing projected a selling price to the co-op of $825,000, with $25,000 of that amount coming from initial membership fees to co-op members, and the rest from an $800,000 long term mortgage loan. With New Edition's property appraised at $1,825,000, the housing authority believed that an $800,000 loan, which would result in a loan-to-value ratio of less than 45 percent, provided sufficient protection to the NCB to secure that level of financing. The housing authority was wrong.

By the time that NCB signed off on the co-op's pro forma operating budget, confident that current operating costs and future replacement requirements were not being underestimated, the lender had significantly reduced the amount of cash flow available for debt service. NCB added to New Edition's pro forma a five percent vacancy loss allowance and another five percent operating and replacement reserve requirement that had to be met out of current income. Finally, the NCB underwrote New Edition's first mortgage loan using a conservative debt coverage ratio of 1.15, which meant that the co-op's projected income available for debt service had to equal 115 percent of actual mortgage payments. The outcome of this underwriting process resulted in NCB's approving a first mortgage loan of just $550,000. This meant that the $250,000 difference between the PHA's $825,000 project cost and the sum of New Edition's permanent loan plus co-op membership fees ($575,000) would have to be financed by the housing authority in the form of a silent-second mortgage.

A final condition of closing was that the housing authority had to provide the Co-op bank with an updated appraisal of the New Edition property indicating a value of at least $1,600,000, more than three times the size of the bank's loan. The housing authority produced an appraisal showing an estimated property value of approximately $1,825,000, and agreed to reduce its $1,000,000 interest in the co-op (the difference between estimated value and sale price) at a rate of 20 percent per year, so long as it remains a limited equity co-op. The housing authority imposed a longer, 15 year limited equity use restriction through its agreement with the co-op to forgive the PHA's $250,000 out-of-pocket rehabilitation cost that was not included in the NCB permanent loan. New Edition's obligation to repay this $250,000 will be reduced at a rate of 1/15th per year, as long as the co-op remains a limited equity cooperative during the 15 year term of the agreement.

New Edition's approved, first-year operating budget, including debt service on the NCB's first mortgage loan, but excluding both housing authority loans for which no debt service must be paid, is as follows:

	Monthly Carrying Charges Per Unit
Operating Costs	$ 74
Maintenance	31
Real estate taxes	27
Insurance	10
Reserves	19
Debt service	68
Total	$229

For housing authorities across the country that have the capacity to absorb a sizable portion of renovation costs, the financial structure of the New Edition Co-op represents a potentially replicable model. This is because the NCB's conservative underwriting and co-op preparedness standards, combined with its requirement for a market rate of return, made the financing of this low-income conversion a safe and attractive investment. With respect to the latter, the National Cooperative Bank's loan to New Edition is for 15 years at a variable rate interest starting at 11.875 percent. Interest rate adjustments will be made at the end of the fifth and tenth years based on the average rate of five year Treasuries plus three percent. Whether such interest rate adjustments will result in a reduction or increase in the co-op's future debt service burden, we cannot say. However, the fact that the mortgage is subject to upward interest rate adjustments that are somewhat independent of changes in the members' ability to pay, does add a measure of uncertainty to the co-op's future.

In addition to conservative underwriting standards, the NCB imposed a series of conditions that the housing authority and the co-op had to meet before it would agree to close the loan. These, too, helped discipline the conversion process. First, the NCB required the co-op to have a $60,000 operating and replacement reserve in place at closing. It also required the co-op to have an approved training and education program in-place for cooperative members and the board of directors, and to build the costs of training into the co-op's on-going operating budget.

This turned out to be no problem for New Edition because board members had been participating in an extremely effective training program for more than two years prior to closing. The bank also required a high level of presales before closing (62 units), and an 85 percent occupancy rate, including buyers and continuing renters who would be supported by Section 8 vouchers.

To ensure that there would be no buyer complaints about faulty or incomplete renovations soon after the loan closing, the bank required that a Certificate of Completion be prepared and signed by the general contractor, project architect and co-op, certifying that all required rehabilitation work had been completed in accordance with plans and specifications. The bank also required the co-op to produce a final rental report of co-op members showing delinquencies not greater than two percent of gross revenues for rent charges over 30 days past due. Learning from its earlier, disappointing, experience with Denver's Upper Lawrence, which started out as a self-managed co-op, NCB also required New Edition to obtain professional management and it retained the right to approve the management company selected by the co-op if it was other than the housing authority.

The Possibility of Mixed-Tenure Co-ops

The rules under which the PHHD is being carried out include a prohibition against involuntary relocation. For reasons having to do with lack of interest in buying or moving to another assisted housing unit, or a failure to meet the income or other established home ownership program requirements, three multifamily conversions will begin their non-public housing lives with a mix of owners and renters in residence: Pearson Gardens in St. Thomas, Brooks-Sloate in Paterson, and New Edition in Nashville. It is not true for either Wylie Court in Washington, DC, or for either of Denver's two co-op conversions.

Conversions With No Continuing Renters. Because it was organized as a condominium, the five (out of 28) Wylie Court units that were not sold to tenants at the time of this writing continue to be owned by the housing authority and operated as part of the District of Columbia's public housing inventory. Under PHA ownership, the housing authority is responsible for all maintenance and management costs associated with these unsold units and for paying a pro rata share of Wylie Courts condominium association fees. The condo's board of directors is anxious that these units be sold and is working with the housing authority to secure qualified buyers from the ranks of existing public housing tenants.

Neither of Denver's co-ops had continuing renters in residence when they became independent of the housing authority. The extensive renovations, including selective demolition and the reconfiguration of some units in the two sections of the Curtis Park public housing project that would later become the Upper Lawrence and Arapahoe co-ops, required the relocation of all tenants. According to DHA, because Curtis Park is one of Denver's oldest and most distressed projects, former tenants not interested or qualified for home ownership opted to remain in the public housing units to which they had been temporarily relocated, or accepted Section 8 vouchers which they used to secure better housing in Denver's depressed real estate market. Few former residents returned to either co-op as continuing renters.

Conversions With Continuing Renters. New Edition began life with 10 former residents continuing to live in their apartments as tenants of the co-op. In addition to being a limited equity co-op, the co-op is now also a landlord. It is not yet clear how many renters Brooks-Sloate or Pearson Gardens will have when those two co-ops close. In both cases, however, it is likely that the numbers and percentages will exceed those in Nashville. The objective of these mixed tenure co-ops is to remarket apartments to eligible buyers as soon as possible after a rental unit has been vacated. In the interim, however, the ability of management to create a sense of community among owners and renters could go a long way in determining the cooperatives' initial success.

Since HUD is prohibited by law from providing operating subsidies to projects that have left the public housing inventory, former residents who continue as tenants of the co-op receive rental assistance in the form of Section 8 vouchers. Because there are no rent regulations associated with the voucher program, it is common for the co-op to set their rents at the maximum Fair Market Rent for existing housing in the market area in which the co-op is located. This assures that the family's out-of-pocket rental payment based on a 30 percent rent-income ratio will be no greater than it was in public housing. In fact, the compromise settlement in the Paterson litigation relating to involuntary relocation, which is discussed in the Paterson case study, included a provision that the co-op would not raise the rents of continuing renters above prevailing FMRs.

Although there is a tendency to emphasize the potential management problems that are raised by a mixed-tenure co-op, depending upon how well these projects are managed, the presence of continuing renters could prove to be a financial boon. This is because the gross rent payment of a voucher recipient may substantially exceed the average co-op carrying charge. Thus, each renter subsidizes the co-op's operations, and, thereby, reduces homeownership costs or, more likely, contributes to the co-op's operating and replacement reserves. The latter is the more likely possibility because once a rental unit turns over, the new buyer will pay the lower carrying charge. Rental receipts above the average carrying charge cannot be used to underwrite the co-op's mortgage loan or otherwise be counted on to pay for necessary housing services. Since we have not been able to monitor the operations of mixed tenure co-ops, we cannot assess whether the presence of renters will prove to be boon or a bane of public housing conversions.

A Note On Public Lending Programs.

Not all public financing programs are alike. When it comes to qualifying public housing tenants for loans, it is important to distinguish between sales programs in which the housing authority is the mortgagee and state- or locally-sponsored mortgage revenue bond programs. In both cases, housing authorities are able to discount house prices and first mortgage amounts sufficiently to bring monthly mortgage costs in line with the applicants' current incomes. Under both types of programs housing authorities are also free to define a lower percentage of income that home buyers should devote to their mortgage and other housing payments. For example, Baltimore, which financed most of its sales through a state mortgage revenue bond program, elected to establish a first mortgage at a principal amount and interest rate that would hold housing expenses to 25 percent of adjusted income. Also, the housing authority decided to deduct from gross income the earnings of children and part-time workers in the family in determining adjusted income.

Similarly, in Washington, DC, which financed its own sales, affordability was based on a 35 percent housing expense-to-income ratio, with the former including mortgage payments, property taxes, insurance, condominium association fees, and estimated utility costs. In this case, an affordable first mortgage was defined as that principal amount that can be serviced (given the PHA's mortgage terms) with that amount of income that remains after all other housing expenses have been deducted from an amount equal to 35 percent of the home buyer's gross income.

Where housing authority and bond-financing programs differ most dramatically is in the non-income criteria they use for qualifying borrowers. By underwriting their own loans, housing authorities are freer, for example, to substitute a family's excellent, recent rent-paying history for the more traditional credit check which is more likely to reflect unresolved credit problems. This cannot be done in the case of bond-financed mortgage programs because of strict credit underwriting requirements of mortgage insurers and bond rating agencies. The one consistent message that we heard in Baltimore, for example, which successfully secured bond-financed mortgages for 25 income-eligible borrowers, was the difficulty of qualifying public-housing tenants for loans. Not only were many potential buyers disqualified for mortgages because of poor credit histories, but many who received loans were approved only because of the extraordinary efforts of the demonstration's program coordinator. Because they were unable to substitute recent rent-paying experiences for more traditional credit checks, program officials had to help would-be borrowers clear up or explain outstanding credit problems to the satisfaction of loan underwriters before a mortgage would be approved. This turned out to be an extremely labor intensive component of Baltimore's home ownership demonstration program.

It is probably wise for housing authorities to take this additional staff burden into consideration if it decides to seek private financing of public housing sales, including state or local mortgage revenue bond programs.

Indemnification of Private Lenders. Most private lenders required some form of indemnification against loss in the event of serious delinquency, default, or foreclosure. Thus, even when a sales program is privately financed, the housing authority retains some long-term downside financial risk. Indemnification, or guarantees against financial loss, take several forms. Wyoming, Mich. promised to pay off the outstanding private first mortgage in the event that any of its eight home buyers were to default on their loans. Rather than pay off the loan, in Newport News, Va., the housing authority committed to buy-back any bad loan from the minority-owned lending institution that financed that city's 15 sales, for the first five years after closing. The Muskegon Heights housing authority (which only sold two units) also agreed, in the event of foreclosure, to buy the unit back from the bank that financed it.

Indemnification of private lenders is much more complicated with the cooperatives. In the case of Denver's 44 unit Upper Lawrence cooperative, which was financed by loans from the National Consumer Co-op Bank (NCB), the Colorado Housing Finance Agency, and by a grant from the State Division of Housing, the lenders' protection is indirect. Rather than protecting the lenders outright, the Denver Housing Authority (DHA) agreed to indemnify the co-op itself against defaults on individual co-op share carrying charges. This means that DHA will acquire co-op shares of individual cooperators who fail to meet their carrying charge obligations. Because of serious management problems and high turnover rates at Upper Lawrence, DHA has already had to make good on this obligation. In addition to the share buy-back guarantee, Upper Lawrence's Articles of Incorporation also provide that DHA will take control over the co-op's board of directors if emergency conditions warrant such extreme actions. Thus, despite the long-term financial risk to DHA, neither of the co-op's two permanent lenders are exposed to any substantial risk of loss.

As we will discuss below, the financing of Denver's Arapahoe co-op requires even more complicated forms of indemnification. In this case, DHA is the permanent lender and it syndicated the low-income housing tax credit that was generated by the substantial rehabilitation of the project. Potentially disastrous tax consequences would befall the private equity investor in the event of foreclosure or violation of the tax credit rules.

Even housing authorities that finance their own sales must establish policies concerning mortgage defaults and foreclosures. For example, when it was faced with its first near-certain foreclosure, the Reading Housing Authority chose to take a deed-in-lieu of foreclosure, refunded the home buyer's equity, and then resold the house to another public housing tenant.

Nashville's New Edition Co-op financing (further discussed below) was financed using very conservative underwriting guidelines by the National Consumer Cooperative Bank so that the housing authority did not have to promise to indemnify the lender against possible loss. Much to its credit, however, the housing authority established a formal policy to deal with rehousing possibilities of cooperators who are unable to meet their financial obligations to the co-op. As part of its formal recognition agreement with the New Edition Co-op, the housing authority has agreed, to the extent permitted by federal law or regulation, "to provide a preference for such person to relocate to public or other assisted housing" under the housing authority's administration. To our knowledge, Nashville is the only housing authority to have made such a formal commitment.

Summary

Housing authorities showed a substantial degree of creativity and inventiveness in structuring their financing programs. In the course of the demonstration, PHAs found that it was, indeed, possible to attract private lenders to their programs, but typically at the price of indemnifying them against loss. However, in some cases they decided that neither the effort nor the price were worth it, and so they financed the sales themselves. Also, some programs, like Baltimore's, which financed its sales through state or local mortgage bond programs, found the level of effort necessary to qualify buyers was no less than it was in the private market. Make no mistake about it, financing public housing sales takes both ingenuity and a great deal of hard work.

Denver's Arapahoe and Nashville's New Edition cooperatives provide two very different and, possibly, highly replicable financing models. Denver's creative use of the tax laws to syndicate the rental tax credits generated by the rehabilitation of the Arapahoe project is potentially replicable outside of the Section 5(h) home ownership context, especially in the conversion of privately owned federally subsidized rental projects whose low-income use restrictions are due to expire. Their conversion to a rental co-op that would eventually be owned by their residents is an attractive option in the expiring use area.

The financing of the New Edition co-op has none of the bells and whistles of Arapahoe. Because of its tight, disciplined structure, however, and the fact that it passed muster under some very conservative underwriting standards imposed by the National Consumer Cooperative Bank, New Edition stands as a model for other potential public housing co-ops. As we indicated in the text, however, in order to replicate New Edition's apparent success, both the housing authority and the residents involved in the conversion must be as dedicated, hard working, and supportive of each other's efforts as they were in Nashville.

CHAPTER 4

PREPARING RESIDENTS FOR HOME OWNERSHIP

Introduction

HUD required every housing authority participating in the homeownership demonstration to provide potential buyers with pre-purchase counseling. This was to ensure that all buyers fully understood their new financial responsibilities as homeowners. The programs could also effectively screen out families who would be poor risks for homeownership. HUD demonstration rules also required all pre-purchase counseling programs to include instruction on fair housing, non-discrimination and equal opportunity provisions of applicable civil rights laws. With respect to the latter, we saw no evidence that participating housing authorities included fair housing-related instruction in their pre-purchase counseling programs. However, the fact that more than nine out of 10 buyers were either African American or Hispanic indicates that public housing homeownership programs served minorities at least in proportion to their representation among the eligible population.

HUD strongly urged, but did not require, housing authorities to provide post-purchase counseling that would "assist tenant purchasers in addressing new problems as they arise, such as budgeting, saving for major repairs, and planning household maintenance expenses," including training in how to carry out minor repairs.

In multifamily conversions, preparation required more than individual counseling. Potential owners needed to be educated and trained in the rights and responsibilities associated with cooperative or condominium forms of ownership. HUD required "training to permit the tenants elected to the Board of Directors of these associations to successfully meet their obligations and perform their duties." This training would also involve coaching residents in the delicate and difficult art of group decision-making and community-building: the continuous search for a workable balance between individual desires and collective needs.

Of the many tasks PHAs must learn in order to see a conversion through, they are typically least prepared to handle the necessary counseling and training. In several single-family programs and in all five multifamily demonstrations, the PHAs relied on outside consultants to prepare tenants for homeownership. Whether staffed by housing authority personnel or consultants, most counseling programs, including those in multifamily conversions, were limited to the pre-purchase phase of the home buying decision.

This chapter identifies key counseling and training issues in the PHHD and assesses how well they were handled, with particular emphasis on multifamily conversions. It begins with a discussion of the auspices under which counseling services were provided in single-family sales programs. Next, we highlight the counseling and training efforts associated with the multifamily demonstration programs in Washington, D.C., Denver, Colo., Paterson, N.J. and Nashville, Tenn. The complexity of the task of transferring ownership in a multi-family context can be appreciated by noting the multiple sources and types of assistance the PHAs (and in one case the residents themselves) sought as their projects developed. While our site-by-site assessment indicates that individual programs have excelled in various training-preparation tasks, we conclude that neither housing authorities nor HUD generally anticipated the range or dimensions of the preparation required. The final section identifies five requirements for preparing public housing tenants for homeownership.

Who Provides Counseling Services in Single-Family Programs

While most PHAs used some or all of their HUD technical assistance grant to pay for third-party counseling services, the decision to contract out is not always a function of program size (Table 4.1). As a matter of fact, only two small programs, McKeesport and Reading, Penn., handled the counseling responsibilities entirely in-house. In McKeesport, the housing authority's attorney provided potential buyers instruction on the financial obligations of homeownership and the requirements of the PHA's lease purchase arrangements. During the one year lease period, counseling was provided by other PHA staff, including project managers and personnel from the maintenance staff. In contrast, Reading really had no formal counseling program at all. There, the executive director counseled individual buyers as the need arose.

Table 4.1: Type of Counseling Offered to Home Buyers

Type of Program	Auspices	Types of Counseling Offered
Multifamily		
Denver	Outside contractors	Pre- and Post-Purchase
Nashville	Outside contractors	Pre-Purchase only
Paterson	Outside contractors	Pre-purchase only
St. Thomas	Outside contractors	Pre-purchase only
Washington, D.C.	Outside contractors	Pre- and Post-Purchase
Single Family		
Baltimore	Primarily PHA staff	Pre-purchase only
Chicago	Primarily outside contractor	Pre-purchase only
Los Angeles	Primarily outside contractor	Pre-purchase only
McKeesport	PHA	Pre-purchase only
Newport News	City agency	Pre-purchase only
Reading	No formal counseling	Neither
St. Mary's County	Primarily PHA staff	Pre-purchase only
Wyoming	Primarily city staff	Pre-purchase only

St. Mary's County, with a 50-unit homeownership program and Baltimore Md., with 30 sales, are the largest operational single-family programs to supplement PHA-provided counseling services with a limited amount of technical support provided by outside contractors. St. Mary's County buyers received instruction in mortgage finance by a Legal Services attorney and instruction in lawn care and maintenance from a county extension agent, while all other counseling was provided by housing authority staff. All home buyers in St. Mary's County were required to attend 20 hours of instruction on home maintenance, financial management and civic responsibilities provided by PHA staff.

All home buyers in Baltimore were required to attend a one hour credit counseling seminar given by the Consumer Credit Counseling Service of Maryland, a non-profit organization sponsored by major department stores and other extenders of commercial credit. The session emphasized the responsible use of credit and personal budgeting. The remaining counseling was provided by a member of the PHA staff who is a HUD-certified housing counselor. She helped families apply to buy their houses, reviewed appraisals and repair schedules on their houses, explained what mortgages are, how the program's financing worked, what soft second mortgages are and how the sales limitations apply. She also packaged their loan documents and advocated mortgage approvals before the state lending agency, and accompanied buyers to their loan closing.

Other small programs elected not to provide any in-house counseling services. Newport News, Va., for example, which sold 15 units, contracted with the Newport News Office of Human Affairs, a HUD-approved housing counseling agency, to provide individualized pre- and post-purchase counseling on budgeting and money management, repair and maintenance, and responsibilities of homeownership. Until funds ran out, the Chicago Housing Authority contracted with a local consultant to provide group orientation sessions to prospective buyers, to familiarize PHA staff with the program requirements and to prepare a homeownership handbook for prospective buyers.

Our assessment of pre-purchase counseling programs at single-family sites indicates that, even where just a few houses are planned for sale, third-party contracting significantly reduces PHA staff burdens in administering a homeownership program. Much of the pre-purchase counseling involves promoting and marketing the program, explaining the responsibilities and requirements for maintaining a home, and screening tenants for interest and eligibility. All of these activities occur at the front-end of the program and can easily overwhelm whatever PHA staff has been assigned to implement the sales effort. Once the preliminary screening has been completed, however, housing authority staff become involved in a whole range of counseling, training, and casework activities, whether they want to or not. They have to arrange financing, resolve credit problems, respond to a wide range of questions and concerns about the program, replace dropouts with new buyers and begin the training process all over again. They also have to handle the delicate and conflict-ridden problem of non-participants. All of these activities are demanding, time-consuming and necessary parts of a public housing homeownership program.

By nature of their traditional program responsibilities, housing authorities tend to be more creative and naturally suited to the development of programs to finance the sale of public housing units than they are to the preparation of families to become successful home owners. This suggests that outside assistance in training and counseling should be sought. However, the mere execution of a third-party contract will not assure program success if the contractor's work program is ill-defined and no steps have been taken to assure that all potential home buyers receive counseling.

Although third-party contracting for counseling and training can significantly reduce the staff demands created by even a small public housing sales program, it by no means eliminates them. Long-term public housing tenants who want to buy their unit will inevitably require a good deal of individual attention and assistance along the way. No affordable counseling contract can possibly substitute for the availability of caring public housing staff whose job is to help families overcome the numerous barriers to homeownership. Personal attention to individual needs is important and should come from housing authority personnel.

A Review of Multifamily Counseling Programs

As indicated earlier, five of the 17 planned public housing sales programs involved multifamily conversions. Because of their inherent complexity, these demonstration efforts have generally lagged behind the single-family sales programs and, therefore, have depressed the sales statistics for the overall PHHD. The five multifamily programs--in Denver (88), Washington, D.C. (28), Nashville (85), Paterson (242) and St. Thomas (120)--contain a total of 563 units, or nearly 43 percent of all units proposed to be sold under the demonstration (Table 4.2). Two of those conversions, Paterson and St. Thomas, should close by the spring of 1990, resulting in a large increase in the number of sales.

Detailed descriptions of the counseling and training programs in four multifamily demonstration programs--Washington, D.C., Denver, Nashville and Paterson--are represented below. Since St. Thomas has yet to begin formal training of the co-op's board and general membership, that demonstration is excluded from this discussion.

Washington, D.C.: Wylie Courts Condominiums. The D.C. Department of Housing and Community Development contracted with an experienced local, non-profit organization called MUSCLE to train the residents of Wylie Courts apartments. MUSCLE's $19,000 contract called for the provision of 23 two-hour group counseling sessions to potential buyers of condominium units. In a letter to each resident of Wylie Courts, MUSCLE's executive director indicated that the purpose of the training course was:

Table 4.2: Legal Preparation and Occupancy Status of Multi-Family Conversions as of September 1, 1989

	Nashville	Washington, D.C.	Denver	Paterson	St. Thomas
Number of units	85	28	88	242	120
Scheduled date of closing	CLOSED	CLOSED	Upper Lawrence: closed Arapahoe: closed	Spring, 1990	not yet scheduled
Board of directors in place	YES	YES	YES	YES	YES
Number of continuing renters	10	2	0	UNKNOWN	UNKNOWN
Formal board training prior to closing	YES	NO	NO	YES	NO
<u>Final Documents Completed</u>					
Articles of incorporation	YES	YES	YES	YES	YES
Declaration of condominium ownership	NA	YES	NA	NA	NA
By-Laws	YES	YES	YES	YES	YES
Occupancy agreement	YES	YES	YES	YES	YES
Subscription agreement	YES	NA	YES	YES	YES
Membership transfer agreement	YES	YES	YES	YES	YES

> "....to reinforce the housing education you will receive as you progress step-by-step through the purchase process. This training will address each stage of the purchase process through the day when you become an owner, and it will also cover the ongoing needs and responsibilities you will have as home owners to keep Wylie Courts an attractive, affordable and stable place to live."

Divided into three phases--pre-purchase, purchase and post-purchase--the lecture-based, group-training sessions covered a variety of topics, including the responsibilities of homeownership, the costs of owning a home, group decision-making, communication systems, property management, resident-performed maintenance, and the settlement process. Post-purchase counseling emphasized the fiduciary responsibilities of the board of directors, the development of a committee structure to govern the condominium, financial planning and membership development.

No training sessions for Wylie Courts residents (nor for home buyers in any of the other three sites discussed here) were devoted to the transitional phase of ownership transfer where the potential for misunderstanding between the condo or co-op members and the housing authority is arguably greatest. The transitional phase begins with the creation of a board of directors and ends with the formal transfer of governing authority to the tenant buyers. In the case of co-ops, self-governance begins when the title is transferred from the housing authority to the cooperative corporation.

At Wylie Courts, self-governance began with the sale of units representing 75 percent of the total value of the condominium people" aspects of the conversion, while its weakness was on the hard, technical side. In retrospect, she also sees the absence of any formal training of the board of directors as a significant flaw in the program. She now believes that a formal training program for the board should begin at the point where the tenant buyers take over control of the development, and continue for some time thereafter. She also believes the general membership should receive more training than they did.

Breaking the real and perceived dependency relationship between the housing authority and the buyers is a high priority in the transition from tenant to home owner. Equally as important, according to the PHHD director, home buyers must take an active role in project management. They must not permit its elected board of directors to assume the dominant role previously assumed by the housing authority. They need to understand that the board should be responsive to their needs; just as the board needs to understand that it cannot make rules that affect the lives of its members without consulting them.

With a successful transition to majority control of the condominium association, the board of directors recently voted to execute a training contract with an independent firm to provide the kind of technical training in governing the condo association that it never received. The PHHD director is supportive of this decision.

Nashville: The New Edition Cooperative. The New Edition Cooperative was transferred to its tenant-buyers in June 1989.

units. Up to that point, the PHA retained majority control of the condo board. Conflict during the transitional phase in Washington, D.C., was not great, although disagreement over how to deal with continuing renters in two or three apartments was not successfully resolved during this period. Indeed, it still has not been resolved. There were also strained relations over various budget issues and how construction warranties should be defined.

Although MUSCLE's training contract involved no one-on-one counseling sessions with individual buyers, this seemed to cause few problems because the PHHD director was able to assume this considerable responsibility. Assigned full-time to the project in its early phases, she was able to create a PHA financing program when it became obvious that there was minimal private lender interest in providing individual condo mortgages. She was also able to negotiate a loan servicing contract with a private lender to help instill in the minds of buyers that there was a real difference between the housing authority as a manager of rental housing and as mortgagee. Delinquencies and defaults will be dealt with the same way as they are in private sectors. Moreover, she was able to devote an enormous amount of time to helping individual families with a wide range of personal problems, including finalizing separations to protect the asset positions of single women buyers.

The director rated MUSCLE's training program as slightly above average (B-). She felt its strength was on the "people-to-

The Nashville Metropolitan Development and Housing Agency (MDHA) executed two training and counseling contracts to assist in the conversion of three public housing developments that would eventually become the New Edition Co-op. One 90-day, $12,500 contract with the Nashville Urban League helped MDHA identify eligible participants and their counseling needs. The counselor first interviewed potential participants to determine their interests in homeownership and whether they would be able to meet the requirements of the program. On the basis of these individual in-depth interviews, and an assessment of credit and related information on the family obtained from MDHA, the counselor prepared an evaluation of each prospective buyer, indicating specific budget, social or other homeownership assistance that would be needed prior to sale.

The second contract executed by MDHA was for technical assistance and training of home buyers and their elected leaders. The $25,000, 20-month contract with the Cooperative Housing Foundation (CHF), which is located in Washington, D.C., called for CHF to assist in the preparation of basic legal documents, including articles of incorporation, bylaws, subscription and regulatory agreements, co-op and condominium transfer agreements, in addition to conducting formal training sessions. The technical assistance to the PHA was necessary because, as in Denver, there was very little experience with co-ops in Nashville. Indeed, the state of Tennessee does not yet have a specific statute governing the incorporation of housing cooperatives.

Because Nashville's PHHD program originally called for the creation of two cooperatives and one condominium, CHF's contract called for formal training sessions for tenants in both condominium and cooperative management. As a result of intensive discussions among tenants and the trainer about the differences between co-ops and condos, however, the decision was made to create a single cooperative that would include the three spatially separated projects.

CHF's training contract called for a minimum of five workshops to be conducted on more or less a monthly basis. The topics to be covered were as follows:

1 and 2. General introduction in two Parts--provide an overview of the differences between a cooperative and condominium. Part two would involve the development of actual draft co-op documents by an ad-hoc group of tenants, which would then be discussed and amended in a second working session and become a set of governance documents for the corporation.

3. Membership orientation--give residents a functional understanding of the corporation...including personal implications of becoming a member; how it will affect their income; what their duties and rights will be; what they can gain from membership; and what changes there will be from living in a rental community.

4. Training sessions for co-op officers--provide a thorough understanding of the corporate aspects of the corporation and required skills of leaders. The training includes communication skills; corporate management; and fiscal and physical management skills.

5. Train the trainers--provide technical training to key members of MDHA staff who will be involved with the homeownership program. Also, since new members join the co-op and long-term members rise to leadership positions over time, leadership training must be provided on an on-going basis. Therefore, the contract called for the consultant to provide follow-up training/problem solving sessions with co-op members.

The board of The New Edition Co-op has been meeting regularly for more than a year. Based on a discussion with the board, the directors appeared to be confident of their collective abilities to overcome the many difficulties inherent in managing and governing a scattered-site co-op. The board recognized the potential problems of assuming control of a project that will contain 10 continuing renters. They are not pleased that part of the price of becoming home owners is taking on the role of a landlord. Nevertheless, because the continuing renters are all senior citizens they do not expect them to be problem tenants. They will also be receiving Section 8 certificates, so the renters' collective contribution to the co-op's debt service payments will reduce the mortgage burden of other co-op members. This makes the board's role of landlord easier to take.

Paterson: The Brooks-Sloate Cooperative. Now scheduled to close in the spring of 1990, the sale of the 242-unit Brooks-Sloate project to tenants is not only the largest conversion to take place under HUD's Public Housing Homeownership Demonstration, but also one of the lengthiest, taking more than 40 months to complete. Part of the long gestation period can be attributed to the extensive renovations being financed with HUD modernization funds. But another time-related factor is related to the underlying philosophy in Paterson that a capable, confident, self-governing organization of low-income tenants cannot be created overnight.

Unlike all other multifamily projects in the homeownership demonstration, the Brooks-Sloate conversion is based upon a mutual housing philosophy. Felix Raymond, executive director of the Paterson Housing Authority, originally planned for Brooks-Sloate to be the first member co-op of a city-wide mutual housing association. According to Raymond, it is only through a broad-based support system, such as one provided by a "cooperative of housing cooperatives," that individual low-income co-ops can prosper over the long term. Given this interest, Raymond devoted a substantial amount of his time, energy and resources to create a city-wide mutual housing association as part of his homeownership sales program.

Back in October 1985, Raymond turned to two individuals experienced in mutual housing to provide both technical assistance and counseling to tenants who resided in the Brooks-Sloate project. Shirley Boden and Eugenia Flatow were awarded a technical assistance and counseling contract by the PHA in the amount of $35,625. The agreed-upon work program provided for a total of 475 hours of consultant assistance to the PHA as follows:

> 100 hours--assisting the housing authority to establish both a central, city-wide mutual housing association and a local Brooks-Sloate mutual housing association (1st and 2nd months);
>
> 100 hours--developing a fund raising strategy for the city-wide mutual housing association (1st and 2nd months);
>
> 50 hours--developing housing options for families unable to achieve home ownership (3rd-6th months);

> 50 hours--assisting in the development and training of tenants in the advantages and responsibilities of homeownership (6th-13th months);
>
> 100 hours--establishing an equity loan program (7th-18th months); and,
>
> 75 hours--developing a list of partners; preparing prospectus; meeting with prospects; and preparing a public campaign around mutual housing (14th-18th months).

According to the consultants, they held three or four general information meetings where the concepts of mutual and cooperative housing were discussed and the requirements for participating in the homeownership program were explained. In the ensuing months, they met individually with approximately 150 families who had either failed to indicate whether they were interested in joining the co-op, or had not made good on their prior commitment to join, or, in some cases, to discourage families who were viewed as poor risks for homeownership. Boden and Flatow also held six formal training sessions with the initial board of directors of the Brooks-Sloate Co-op. In a variant of the "train-the-trainers" model used in Denver, the training sessions were intended to provide board members sufficient technical and communication skills to enable them to educate, as well as to lead, the remaining co-op members. This was an important part of the training in Paterson because the co-op is so large and the recruiting and marketing period has been so long that the trainers' contract will have expired by the time all co-op apartments are sold.

Despite the "train-the-trainer" model, the growth in co-op membership failed to keep pace with PHA expectations, and in

February 1988, the housing authority found it necessary to execute a second counseling contract--this one at a total cost of $40,000 for a period of eight months--with a private firm called Two Rings, Inc. Two Rings' work program called for the firm to "provide residents of Brooks-Sloate with: homeownership skills development; support and reinforcement necessary for pre-purchase participation, purchase, and post-purchase adjustment; and also to increase each household's awareness of housing options and responsibilities."

The counseling program involved three stages. The first, screening, required Two Rings to review housing authority records to determine the income eligibility of those who failed to sign subscription agreements. Orientation kits were then provided to income-eligible families, and appointments scheduled with each family to follow-up the marketing effort.

The second stage of the Two Rings counseling program involved group counseling sessions on money management, purchase procedures, property maintenance and contracts, and helping households who had already signed subscription agreements to understand all of the co-op's technical documents. The third stage involved individual follow-up meetings with families who had further questions about buying their units.

An example of the services Two Rings provided the PHA is detailed in their monthly report for February and March 1988. During that period, the counseling firm provided 50 hours of group counseling to households who had joined the co-op. Twenty one-hour sessions were devoted to the subject "Financing for the Non-Financial Person"; another 20 one-hour sessions were devoted to "Co-op Terminology"; and, another 10 one-hour sessions were devoted to "Participation." In addition, 19 hours of individual pre-purchase counseling was provided to 15 households who had already joined the co-op, but had unanswered questions. In April, Two Rings devoted most of its counseling efforts to more than 50 households who had not joined the co-op. These households received information on Section 8 voucher rules and were counseled on available housing options for non-participants. Also during April, 40 hours of group counseling sessions were held for members of the co-op to review details of the subscription and occupancy agreements and the co-op's bylaws.

As a result of attending a Brooks-Sloate board of directors' meeting in September 1988, we became aware of mis-communication between the board and the PHA over the disposition and control of a $10,000 reserve fund the PHA provided the co-op for its operating expenses during the organizing period. While the specifics of this disagreement are not important, its existence once again underscores the potential for conflict during a co-op's organizing period, a time when residents are no longer regular tenants of the housing authority, but neither are they in control of their own operating budgets and housing future. Formalizing pre-closing relationships between the co-op and the housing authority is especially important when the organizing period is as long as it was in Paterson.

Finally, at the same September board meeting, discussion took place on the subject of counseling. Board members agreed on the importance of retaining an independent contractor to provide post-purchase counseling. Individual board members also reflected on their experiences with the counselors who had been retained by the housing authority to provide pre-purchase assistance and training. Several members failed to recall spending as much time with the counselors as was reflected in the firms' monthly reports. Moreover, a few members commented that the counseling services they received were not very useful.

Denver: Upper Lawrence Cooperative. The conversion model adopted by the Denver Housing Authority differs from all other demonstrations. The buildings that were converted to the Upper Lawrence Housing Co-op under the PHHD required extensive rehabilitation that necessitated the relocation of all tenants. Under the demonstration design, no ineligible buyers would be permitted to move into the renovated units. We found, however, evidence of a substantial amount of anxiety, unhappiness and confusion among the initial 44 families who moved into the redesigned, rehabilitated units of the Upper Lawrence Housing Cooperative.

To a large degree, this problem seemed to have been caused by a lack of adequate preparation of the low-income, tenant buyers. Whereas, for example, in both Nashville and Paterson the bylaws and regulatory agreements were prepared with the full participation of the co-op membership, the drafting of these and related rules and regulations in Denver were treated as technical tasks and were handled by the housing authority's legal counsel. All of the documents in their final form, including such complicated and controversial provisions that provide for PHA emergency takeover powers in the event the co-op suffers extreme financial distress, were waiting for the cooperators when they arrived in their newly renovated units. This coupled with the fact that there is little experience in the Denver area with housing cooperatives, made it even more important that DHA put together a comprehensive counseling/training program to prepare Upper Lawrence home buyers for their new lives.

Recognizing the importance of training and that such skills were not available in-house, the housing authority had two choices: either to enter into a third-party contract that would provide all the educational and training needs required by the co-op; or, bring in an outside firm to train a core group of PHA staff who would then train the home buyers. The housing authority chose the latter option.

In response to a Request for Proposals (RFP) it issued in the Spring of 1987, DHA executed a $46,000 short-term counseling contract with a consortium of organizations consisting of two local entities, the Northeast Denver Housing Center and Brothers Redevelopment, Inc., and an organization from Washington, D.C., the National Federation of Housing Counselors (NFHC). These organizations were to help with preliminary marketing, screening and credit counseling tasks, and to train housing authority staff in the nuts and bolts of cooperative conversion.

There appear to be several reasons why Denver's training program was not successful. First, the accelerated project time schedule was not in keeping with the complexity of the conversion process. The other PHHD programs that involve cooperatives have taken substantially longer and provided more training to future cooperators. Another problem seems to be that the "train the trainer" model simply did not work. When it came to such basics as being able to satisfactorily explain financing arrangements, how co-op sales prices were determined, the nature of individual cooperators' responsibilities, the continuing obligations of the housing authority, the nature of construction warranties, or why the co-op's reserve funds shrank during the transition to buyer control, the housing authority personnel did not always have the necessary information and expertise to do an effective job. All participants in the demonstration, including home buyers, housing authority officials and staff seemed to be learning together.

Thus, for example, despite the fact that one-on-one counseling and group training sessions were ostensibly held on topics including resolving credit problems, homeownership costs, co-op living, administrative policies, managing the business of a co-op, communications skills and team building, co-op board members felt unprepared to assume their responsibilities. The minutes of the DHA's meeting of April 20, 1988 contain the comments of the co-op president, Ms. Doris Dinweed:

> "Although Doris stated that she attended all the training seminars provided by the Authority, she feels totally unprepared for the task of managing a co-op, being a board member or president."

Despite counseling sessions on buying a co-op, the same minutes indicate that, more than a year after closing, the buyers still did not understand the role that mortgage interest played in home financing:

> "One of the attractive aspects of the membership was the asking price of the townhome, approximately $28,000. In the minds of co-op members, the $28,000 was the total amount they would have to pay for the townhome. However, after Richaline [Treasurer] investigated the mortgage situation, she learned that the purchase price quoted to the Co-op members did not include the interest payments (during the negotiations process the interest payments were never mentioned). When the interest for both mortgages is added to the purchase price, the cost of the townhome will be approximately $60,000. Richaline stated that this is a cause of concern for the Co-op members. The members feel that getting a single detached home (for the same $60,000) would have been a better investment."

Another problem in Denver and, perhaps, in other sites as well, is that not every buyer received training. According to the Upper Lawrence Cooperative's first Annual Report, co-op members arrived in two groups. The first consisted of 20 to 26 members who moved in on or about October 1986, while the second group moved in later over a period of time.

> "While the first group was made aware, through training, of the responsibilities awaiting them, the second group enjoyed no such training. And the lack of training bore a relation to subsequent delinquencies and ultimately evictions" (Upper Lawrence Cooperative Annual Report).

Three original members of the co-op were evicted by the board during its first full year of operations. According to the co-op's annual report, all three members were part of the second group that received no formal training or counseling.

Upon receiving the co-op's report and learning of the members' unhappiness with their preparation to assume leadership of the Upper Lawrence Housing Co-op, DHA issued a strong defense of its training program which stated, in part:

> Training was provided to the co-op NFHC [National Federation of Housing Counselors] members and co-op board members as we thought appropriate, under the instruction and guidance of the NFHC. Board members were trained as a group, with other co-op members, and on an individual one-on-one basis. The co-op board was provided training on the appropriate issues relative to their individual office/responsibility. We thought that the training was in depth and understood by the trainees. Until the April 20th presentation to the DHA Board, we had no indication or knowledge that there was any perceived deficiency in the training.
>
> The co-op Treasurer was provided with intensive individual one-on-one training specifically about budgeting, and financial record keeping. Written book-keeping and record keeping requirements and instructions were developed, along with customized bookkeeping forms. The Treasurer decided to quit attending these training sessions because she believed that she knew how to perform her duties and responsibilities well enough, and that she did not have time for any further training."

In the aftermath of serious communication problems and a less-than smooth transition to buyer-control, the Upper Lawrence Housing Co-op retained its own legal counsel to "...complete organization of the co-op and insure its smooth functioning." Among other things, counsel assisted the co-op board in its negotiations with the DHA on the resolution of problems having to do with defective rehabilitation work. After several months of strained relations, DHA and the co-op executed a memorandum of understanding in which the housing authority agreed to complete an itemized schedule of repairs at its own expense in return for the board's agreement not to file any legal actions against the authority.

At the time of this writing, relations between the housing authority and the co-op appear to be improving, but many scars remain to be healed and serious financial problems continue to threaten its viability. Unlike Nashville, where tenant-buyers took title to their project up to three years after formation of the co-op, which will also be true in Paterson, the Upper Lawrence Co-op had no such luxury. Virtually all of its growing pains have occurred after closing. Whether a longer transition to an independent status would have made the co-op leaders more secure, or whether more systematic training of members and the board would have made a difference, we cannot say for sure but we expect some of these problems could have been avoided. At this point we simply cannot compare the rocky Denver experience, which spans more than a year of independent co-op operations, with the smoother experiences in Nashville, and judge the latter to be more successful. No matter how smoothly the transition to independent status has gone, once the housing authority cuts the strings and the co-op is more or less on its own, unanticipated problems will inevitably arise. Thus, at this early stage of conversion in each of the four multifamily projects discussed in this chapter, it is too early to judge ultimate success and failure.

Building an Effective Multi-family Conversion Counseling Program

As might be expected in a demonstration effort conducted by agencies with little or no prior experience in training residents for multifamily ownership, at no single site did all of the elements constitute a model of tenant preparation. However, looking at the efforts together allows us to get a better sense of what is required in such projects and identify some approaches that may be more viable than others.

In assessing the preparation/training component of these several demonstrations, it is useful to begin by identifying the sequence or phases of development that a multifamily co-op or condo project goes through.

<u>Educating and "Selling" the Residents</u>. The first phase is communicating the ownership plan to the residents and to their leadership, assuming it is organized or at least identifiable. Reaching the leadership is important because of their potential influence with other residents and the much greater efficiency of working through an intermediary structure.

"Selling" involves demonstrating to the residents that the advantages of conversion to homeownership outweigh any risks or disadvantages and persuading them to be participants and, if possible, active supporters of the project. The authority has some legal responsibility to see that the residents are fully informed about the financial and other details of the conversion, and presumably some moral responsibility as well. As a practical matter, anything less than full disclosure threatens its future credibility with the residents, an important factor in the success of these projects.

In Nashville, Washington, D.C., and Paterson, much of this initial work of presenting the ownership option was done by PHA staff. In all cases, however, outside consultants were involved early. In Washington, a series of group sessions were contracted for early in the development of the project (with Robert Hoffman, a private consultant) to acquaint residents of Wiley Courts with the basic dimensions of multifamily ownership and self-government as a condominium. Before any closings with individual households occurred, a second outside organization (MUSCLE) ran a series of classes, which was in support of both the "education/selling" phase and the third or "training" phase. In Paterson, the primary consultant team (Boden and Flatow) was involved early, holding education sessions for the residents and preparation for the leadership as early as 1985.

In Nashville, the education of tenants and the marketing of the homeownership program were primarily carried out through the training sessions conducted by the Cooperative Housing Foundation under contract with the housing authority. It was through these sessions, which also involved housing authority staff, that prospective buyers learned about the differences between condominiums and cooperatives and decided to pursue the strategy of a single co-op rather than to have three independent developments. The Denver case was different because both Upper

Lawrence and Arapahoe were emptied for extensive modernization, and then reoccupied by entirely new households. The "selling" of the co-ops was accomplished by solicitation of interested public housing residents from Curtis Park and then from across Denver, who were then qualified one-by-one by PHA staff. In this sense, the "education/selling" phase did not exist independently of the next phase, "counseling."

Pre-purchase Counseling. This phase is distinguished from earlier steps by its focus on individual households. The pre-purchase work involves determining the appropriateness for each family of participation in the ownership program based on its financial and other circumstances. The purpose is no longer to introduce the concept and stir interest, but rather to qualify or to discourage and redirect applicant households.

This phase may involve written questionnaires, individual meetings, credit checks and financial analysis, casework to resolve legal and social obstacles, and formal selection among available forms of participation or alternate options. Paterson had what appears to be the most extensive counseling effort. This was partly a result of its size and partly a consequence of the long delays which left many residents uncertain about the outcome and therefore irregular in meeting their scheduled installment payments. The primary consultants (Boden & Flatow) held a number of information sessions with residents and did individual counseling. The second consulting organization (Two Rings) also held education sessions and then increasingly focused on meeting with and clarifying the options available to (and thereby the intentions of) tenants who were behind in payments or who had remained uncommitted. The main PHA staff representative sat in on a number of these sessions and did a good bit of formal and informal counseling on his own.

In Washington, the counseling was conducted by the PHA staff member who ran the demonstration. In Denver, all of the pre-purchase counseling was done by the PHA staff.

Training. This phase is distinguished from the "education and selling" phase by its more nuts and bolts, concrete nature. It is intended for residents who have already purchased or made up their mind to do so. Above all it is a phase focused on the leadership (whether sitting as an interim body or full-fledged and duly elected by the new corporation), designed to prepare them more fully for the policy making and corporate demands required of their new status as owners or owners' representatives.

Some of what gets covered in this phase may overlap with or even repeat subject matter handled during both of the earlier phases. The lease, bylaws, house rules, regulatory agreements, and so forth may be reviewed once again; the board may get some additional help in how to run a meeting, set an agenda, etc.; members may get a refresher on the rights and responsibilities of cooperators. There are several reasons for the overlap and repetition. One is poor planning and coordination. Another is the need for emphasis and reinforcement of important information.

A third is the frequent fact that not all members attended earlier sessions and there are typically newcomers. A final reason, cited by a number of the demonstration staff members and consultants, is that much of the material simply is not real to residents until the sale is imminent or they are up and running as a co-op or condo. The relevance of the handouts, instruction or advice just is not clear to them until they face real issues and real decisions.

The training phase for Wiley Courts was conducted primarily by MUSCLE, and was primarily designed for the general membership. The board training was conducted more informally, partly by the PHA staff member and partly by the head of the organization hired to manage the development once it closed.

In Denver, training occurred prior to the closing of Upper Lawrence and was conducted by PHA staff and several Denver groups oriented to self-help housing activity whose staff had just been trained themselves in multifamily governance. As Upper Lawrence became more estranged from the DHA, the possibility for informal training of board members by PHA staff disappeared (i.e., help for the treasurer in setting up her books for what was at first a self-managed co-op). With the arrival of the new managing agent (WHERE), both formal and informal training of the Upper Lawrence Board has resumed. In Arapahoe, WHERE has done all of the training, most of it in-service and on-the-job for board members.

Paterson has probably seen a substantially greater amount of training than any other site. The primary consultants, now in their fourth year on the project, are once again meeting on a regular weekly schedule with the board as of this writing, getting them ready for the closing currently projected for early 1990.

Leadership and Organization Development. This phase involves the provision of post-closing assistance to the co-op/condo and typically takes a less structured and predictable form: advice, counsel and support to the board (and sometimes the membership) once they are up and running. Board leaders in both Denver and Washington report that they found it necessary to go over the ground again and that whole new sets of issues arose. They needed help with managing internal relationships and differences among board members in a constructive way. They also needed help in improving their working relationships with the PHA, as well as reviewing their experience with their managing agent, lawyer and/or accountant. The particular forms of help required are inevitably less predictable than training needs, since they emerge out of the specific on-going history, particular circumstances and personalities involved.

Wiley Courts in Washington, D.C. is the only demonstration group that has explicitly solicited continuing help of this sort. A year into its ownership the board sought out the original consultant hired by the DHCD with whom it had had a good experience and hired him with its own funds. The work involved team building with the board, some basic human relations training; agenda setting, problem solving and decision making skills; direct leadership counseling with the chairperson, who was feeling unsupported and carrying too much of the load. The consultant also helped the board review its management contract and its working relationship with DHCD and the professionals it had hired. This consultant is currently on call to the board at an agreed upon fee of $50 per hour. The chairperson continues to consult with him periodically by phone and plans to invite him back for additional team building sessions and organization development support.

Five Conclusions About Preparing Tenants for Ownership

First, preparing residents for multifamily ownership is a larger task than either the demonstration designers or the participants appear to have realized. This is evident from the additional steps the PHA's have already taken, well beyond what they had programmed or anticipated. Despite Paterson's substantial efforts, more seems to be required and the end is only in sight, not yet achieved. In Denver, some backtracking has been necessary to remedy deficiencies of the earlier work and to help repair relations with the DHA. Only in Washington, D.C. has the process gone roughly as envisioned, with the work of the prior phase being reasonably well completed before the next phase was begun.

Second, the reason the task is so large is that the concept requires more than managing a difficult real estate and financial transaction and training the residents. It involves creating from scratch (as in Denver) or nearly from scratch (as in

Washington, D.C. and Paterson) an organization capable of successfully operating in a difficult sector of the housing business over the long haul. This takes time, sensitivity, patience and skill. It is too soon to say how successfully this organization building has been accomplished, though some of the missteps along the way have been noted in this report.

Third, the response to the leadership and organization development needs of these projects has been reactive--supplementing services or adding new people in response to crisis. A more developmental approach is indicated. Provision needs to be made for on-going training and consultation well beyond the actual transfer. New residents need to be trained, old need to be retrained; the board needs help to develop as it encounters new demands or bumps up against old limitations; the board chairperson needs expert and disinterested advice on group dynamics, conflict management, increasing participation, developing leadership from among the ranks, etc. Such projects should have a line item built into their budget for these purposes.

Fourth, education and training needs to be given more prominence in the process and practical ways found to make it mandatory for eligibility in order to join the co-op or condo. In Denver, there is plenty of evidence that the second wave of Upper Lawrence buyers who arrived after most of the formal training and preparation had occurred, although they were small in number, were the source of the greatest difficulties and have been responsible for the majority of moveouts and delinquencies. Combined with the absence of adequate integration into the process and the new coop community was a last-minute pressure to qualify the late comers in order to fill vacancies and meet financing and other demonstration deadlines. As a result, pre-purchase counseling was probably less thorough and dispassionate; some households who were admitted at the front end of the process to make the project "go" turned out later to be threats to its survival. The challenge is to be sure that all phases of the training reach all participants uniformly and that provision be made to include late coming members and to train new leadership as it emerges.

Finally, some involved in the demonstration make a distinction between co-ops and condominiums with regard to their training and development needs. The view is that condominiums require less group decision-making skills. The evidence from the projects under review is that this distinction is overdrawn. The repairs and/or improvements that involve the largest outlay and which are likely to be the most controversial are typically those to building-wide elements or mechanical systems. In both condos and co-ops, these are subject to collective decision. And while default on monthly charges is not as immediately devastating in a condo as in a co-op, the cumulative effect of fees set too low to cover true operating expenses, as well as the dilemmas posed by non-payers or late payers, are not that different. Filling vacancies, enforcing bylaws and house rules, overseeing management (or self-managing)--all the tough jobs--look much the same in these two forms of ownership, despite their technical distinctions. It is hard to see any significant difference between an optimal tenant preparation design for Wiley Courts and what one might recommend for Upper Lawrence or Brooks-Sloate.

CHAPTER 5

THE CHARACTERISTICS AND EXPERIENCE OF DEMONSTRATION PARTICIPANTS AND RELOCATEES

One of the primary goals of the PHHD was to improve the quality of life of public housing residents. Thus, it is fitting to discuss the characteristics of those who bought homes through the PHHD and how satisfied they are with both the homes they purchased and the help they received. This chapter also provides some evidence as to the financial and social impacts of the program on participants. Finally, it concludes with a description of the characteristics and experiences of a sample of relocatees in Denver. The findings reported in this chapter are from the telephone and in-home surveys described in Chapter 1.

Characteristics of Program Participants

The characteristics of program participants are presented in Table 5.1. These data show that the percent of households with at least one full-time wage earner was quite high in all sites. In six sites, 100 percent had at least one full-time employee, and the lowest percentage for any site was 81.8 percent in Newport News. Overall, 91.3 percent of participating households had at least one full-time wage earner.

In contrast, data on the average incomes of program participants shows considerable variation among the sites that have had sales. They range from a high of $23,389 in Washington D.C. to a low of $11,214 in Reading. It is interesting to note that the two sites

Table 5.1: Characteristics of Participants

City (sample size)	Percent of Households with one Full-time Employee	Average Household Income	Percent of Two Parent Households	Average Age of Household Heads	Race: Percent White	Race: African American	Race: Percent Hispanic	Average Household Size	Average Number of Children Under 16	Years in Public Housing
Baltimore (27)	100.0	19,000	51.9	49	4	96	0	3.6	0.5	15.7
Chicago (15)	93.8	20,187	87.5	55	0	100	0	3.8	1.4	21.9
Denver (71)	93.0	13,557	50.7	39	6	44	49	3.6	1.5	4.3
Los Angeles Co.(9)	100.0	22,833	88.9	45	0	11	89	5.2	1.8	10.5
McKeesport (8)	87.5	16,625	37.5	50	38	50	12	4.4	1.6	17.9
Muskegon Hts. (2)	100.0	19,500	50.0	37	0	100	0	3.0	1.3	8.0
Nashville (67)	86.6	14,008	20.9	40	7	93	0	2.4	0.9	6.4
Newport News (11)	81.8	23,909	81.8	48	0	100	0	4.3	1.5	11.3
Patterson (0)	-	-	-	-	-	-	-	-	-	-
Philadelphia (0)	-	-	-	-	-	-	-	-	-	-
Reading (7)	100.0	11,214	42.9	43	14	29	57	4.3	2.3	8.9
St. Mary's Co (29)	93.1	16,414	41.4	43	3	97	0	5.2	2.8	7.2
Tulsa (0)	-	-	-	-	-	-	-	-	-	-
Washington, D.C. (18)	100.0	23,389	33.3	50	0	100	0	4.5	1.1	11.9
Wichita (0)	-	-	-	-	-	-	-	-	-	-
Wyoming (7)	100.0	22,786	100	36	86	0	14	5.0	3.0	5.1
Total Sample	91.3	16,673	46.7	43	8	74	18	3.7	1.4	8.8

that sold units to cooperatives (Denver and Nashville) had the second and third lowest average incomes among the sites. The average income for all sites was $16,673.

There is also considerable variation in the percentage of two-parent households that participated in the demonstration. They ranged from a high of 100 percent in Wyoming to only 20.9 percent in Nashville. Overall, two-parent households made up 46.7 percent of the demonstration. The average age of household heads for all sites was 43 years of age.

As might be expected, the racial characteristics of participants varied based on the region of the country. Whites made up sizable proportions of program participants in Wyoming and McKeesport, and Hispanics in Denver, Los Angeles, and Reading. In the remaining sites most of the participants were African American. Overall, 8 percent of the participants were white, 74 percent African American and 18 percent Hispanic.

The data on household characteristics show that average household size varied from 2.4 in Nashville to 5.2 in Los Angeles County and St. Mary's County. The average size household for all participating families was 3.7. Moreover, the average number of children under 16 years of age among all participating families was 1.4 children.

Finally, data on the length of time program participants spent in public housing before they bought their homes ranges from an average of 4.3 years in Denver to 21.9 years in Chicago.

Averaging all sites, the length of tenure in public housing was 8.8 years. This average is lowered by several programs which selected program participants off the public housing or Section 8 waiting lists. In fact a total of 18 percent of all program participants were selected off waiting lists and had not actually been public housing residents.

These data clearly indicate that the PHHD program participants are markedly different from those of the average public housing resident. In particular, their incomes are much higher than the typical public housing resident and a much larger percentage of households have at least one member with full time employment. A recent national study of public housing authorities found that the average household income of public housing tenants nationwide was $6,539. The income of PHHD participants was approximately 2.5 times higher. Moreover, nationally only 24 percent of public housing household heads were employed and over three-quarters were single-parent families.

Reasons for Buying and Interest in Selling

There are many reasons why people are interested in owning a home. Some are economic in nature, such as having a good investment, and others are social, such as living in a place with a good reputation or having control over the way the house or yard can be fixed up. To assess the reasons program participants wanted to own a home we asked a series of close-ended questions. At the end of that series we allowed respondents to offer other reasons for buying. Table 5.2 presents the frequency and

Table 5.2: Participant's Reasons for Buying

Reason	Frequency	Percent
To fix up house or yard as want	214	78.7
To have something to leave children	200	74.1
To have good financial investment	182	66.9
To have good place to raise children	176	64.9
To not have to worry about eviction	169	62.4
To be in good neighborhood	165	61.1
Other	120	56.6
To have something to call my own	35	12.9
To take advantage of the good price offered	21	7.7
To lower housing costs	20	7.4

Table 5.3: Most Important Reasons for Buying

Reason	Frequency	Percent
To have good financial investment	71	28.5
To have something to leave children	43	17.3
To have something to call ours	35	14.1
To take advantage of good price	21	8.4
To lower housing costs	20	8.0
To have good place to raise children	19	7.6
To fix up house and yard as want	15	6.0
To not have to worry about eviction	12	4.8

percentage of program participants who agreed with the reasons listed. The "other" category lists the respondents' most frequent additional reasons for wanting to own.

In response to our questions, the three most frequently cited reasons for wanting to own a home were: to be able to fix up the house or yard the way they wanted; to have something to leave their children; and to have a good financial investment.

Respondents were asked if they had other reasons for purchasing. Of those who did, the most frequently cited reasons were to have something they could call their own; to take advantage of the good price offered, and to lower their housing costs. As will be shown later, a number of program participants actually lowered their housing costs by buying their units.

When respondents were asked to identify the single most important reason for buying, however, a very different pattern emerged. As shown in Table 5.3, the three most important reasons for wanting to buy their homes were to have a good financial investment; to have something to leave their children, and to have something to call their own. These results suggest that participants do have both social and economic reasons for wanting to own their homes.

We also wanted to determine if program participants had plans to sell their homes once the resale restrictions expired. Approximately 21 percent of all respondents said they did intend to sell at that time. The majority of these respondents were in Denver, where 43 percent said they planned to sell: Nashville ranked second with 23 percent. It is interesting to note that these are the two cooperative sites. Moreover, given that the resale value of the units is strictly limited in these two sites, the intent to sell would seem to be more an expression of dissatisfaction with living conditions, rather than a desire to profit from the resale. The satisfaction data reported below supports this interpretation.

Satisfaction with House and Neighborhood

One indication of program success or failure is the degree to which the participants are satisfied with their house and neighborhood. As shown in Table 5.4, over 77 percent of the participants are either satisfied or very satisfied with their house, while slightly less than 10 percent are either dissatisfied or very dissatisfied. Most of those expressing dissatisfaction with their house or apartment were in Denver, where approximately 24 percent of all respondents were either dissatisfied or very dissatisfied. Based on discussions with Denver co-op board members, the reasons for this dissatisfaction include problems with the repair work, higher than expected cooperative fees, and a perceived sense that they are still renting their units. If the participants in Denver are dropped from the analysis the results indicate that over 86 percent are either very satisfied or satisfied while only 5 percent are dissatisfied or very dissatisfied.

Another way we assessed the level of satisfaction among program participants was to ask the 116 buyers who moved from other units

Table 5.4: Participant's Ratings of Satisfaction with Residence: Frequency and Percent

City	Very Satisfied	Satisfied	Neutral	Dis-satisfied	Very Dis-satisfied
Baltimore	12 44.4	13 48.2	1 3.7	1 3.7	0 0.0
Chicago	5 31.3	10 62.5	1 6.2	0 0	0 0.0
Denver	13 18.3	23 32.4	18 25.4	10 14.1	7 9.8
Los Angeles	5 55.6	4 44.4	0 0.0	0 0.0	0 0.0
McKeesport	4 50.0	4 50.0	0 0.0	0 0.0	0 0.0
Muskegon Hts	1 50.0	1 50.0	0 0.0	0 0.0	0 0.0
Nashville	19 28.8	32 48.5	11 16.7	4 6.0	0 0.0
Newport News	4 36.4	6 54.5	0 0	1 9.1	0 0.0
Reading	1 14.3	5 71.4	0 0.0	0 0.0	1 14.3
St. Marys Co.	19 65.5	7 24.1	3 10.3	0 0.0	0 0.0
Washington, D.C.	10 55.5	5 27.7	1 5.6	1 5.6	1 5.6
Wyoming	4 57.1	2 28.6	0 0.0	1 14.3	0 0.0
Total	97 35.8	112 41.3	35 12.9	18 6.6	9 3.3

to compare their previous and current house or apartment. As shown in Table 5.5, approximately 70 percent of the respondents thought their current home was either somewhat or much better than their prior home. Only 10 percent thought their new home was somewhat or much worse and almost all of those were in Denver. If the participants in Denver are excluded, 83 percent of the remaining participants thought their new homes to be better than their previous homes while only 4 percent felt their new homes were worse. Overall, with the exception of Denver, these data indicate a high degree of participant satisfaction with their new homes.

Turning to participant satisfaction with their surrounding neighborhoods, Table 5.6 shows that compared to ratings of housing satisfaction, participants report lower levels of neighborhood satisfaction and that these lower ratings are more wide-spread. Approximately 62 percent of the respondents report being either satisfied or very satisfied with their neighborhoods, while approximately 20 percent are either dissatisfied or very dissatisfied. Sizable proportions of respondents in Baltimore, Chicago, Denver, and Reading are dissatisfied with their neighborhoods.

We also asked those who moved from other neighborhoods to compare them to their current ones. Those who moved rated neighborhood satisfaction lower than other participants did. As shown in Table 5.7, approximately 40 percent of these participants reported that their new neighborhood was either somewhat or much

Table 5.5: Participant's Comparison of Previous Housing Unit and Current Unit: Frequency and Percent

City	Much Better	Somewhat Better	About the Same	Somewhat Worse	Much Worse
Baltimore	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0
Chicago	5 71.4	1 14.3	0 0	0 0	1 14.3
Denver	26 37.7	16 23.2	17 24.6	10 14.5	0 0
Los Angeles Co.	7 77.8	1 11.11	0 0	0 0	1 11.1
McKeesport	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0
Muskegon Hts.	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0
Nashville	1 20.00	0 0.0	4 80.00	0 0.0	0 0.0
Newport News	4 100.00	0 0.0	0 0.0	0 0.0	0 0.0
Reading	6 85.7	0 0.0	1 14.3	0 0.0	0 0.0
St. Mary's Co.	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0
Washington, D.C.	13 86.7	1 6.7	1 6.7	0 0	0 0
Wyoming	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0
Total	62 53.5	19 16.4	23 19.8	10 8.6	2 1.7

Table 5.6: Participant's Ratings of Satisfaction with Neighborhood: Frequency and Percent

City	Very Satisfied	Satisfied	Neutral	Dis-satisfied	Very dis-satisfied
Baltimore	1 3.7	9 33.3	7 25.9	6 22.2	4 14.8
Chicago	1 6.3	6 37.5	2 12.5	5 31.2	2 12.5
Denver	9 12.7	23 32.4	14 19.7	13 18.3	12 16.9
Los Angeles	5 55.6	3 33.3	1 11.1	0 0.0	0 0.0
McKeesport	2 25.0	6 75.0	0 0.0	0 0.0	0 0.0
Muskegon Hts.	0 0	1 50.0	0 0.0	1 50.0	0 0.0
Nashville	6 8.9	40 59.7	13 19.4	7 10.5	1 1.5
Newport News	2 18.2	7 63.6	1 9.1	0 0	1 9.1
Reading	1 14.3	0 0.0	3 42.8	2 28.6	1 14.3
St. Mary's Co.	10 34.4	17 58.6	1 3.5	0 0.0	1 3.5
Washington, D.C.	7 38.9	7 38.9	3 16.6	1 5.6	0 0.0
Wyoming	5 71.4	2 28.6	0 0.0	0 0.0	0 0.0
Total	49 18.0	121 44.5	45 16.5	35 12.9	22 8.1

Table 5.7: Participant's Comparison of Present Neighborhood and Previous Neighborhood: Frequency and Percent

City	Much Better	Somewhat Better	About the Same	Somewhat Worse	Much Worse
Baltimore	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0
Chicago	4 57.1	2 28.6	1 14.3	0 0	0 0
Denver	4 5.8	11 15.9	24 34.8	19 27.5	11 15.9
Los Angeles	5 55.6	3 33.3	1 11.1	0 0	0 0
McKeesport	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0
Muskegon Hts.	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0
Nashville	2 40.0	0 0	2 40.0	1 20.0	0 0
Newport News	1 25.0	2 50.0	1 25.0	0 0	0 0
Reading	2 28.6	1 14.3	3 42.8	1 14.3	0 0
St. Marys Co.	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0
Washington, D.C.	6 40.0	3 20.00	5 33.3	1 6.7	0 0
Wyoming	0 0.0	0 0.0	0 0.0	0 0.0	0 0.0
Total	24 20.7	22 19.0	37 31.9	22 19.0	11 9.4

better than their old neighborhood but 28 percent reported that their new neighborhoods were somewhat or much worse. Again the ratings by participants in Denver are primarily responsible for the lion's share of unfavorable comparisons. If participants in Denver are dropped from the calculation, 66 percent of those remaining thought their new neighborhoods were better than the former ones and only 16 percent thought their new neighborhoods were worse.

Program participants were also asked to assess the severity of specific problems in their current neighborhoods. Fifty-eight percent of all respondents considered the presence of drugs and drug users to be either a big problem or somewhat a problem. Respondents in Baltimore and Denver were the most likely to see drugs as a problem. Litter and garbage was identified as a big problem or somewhat of a problem by 51 percent of the respondents. This was most frequently cited among respondents in Baltimore, Denver, and Reading. The percentages of respondents identifying other problems are presented in Table 5.8. Questioned about the fear of being a victim of crime in the neighborhood, approximately 33 percent of all respondents report being somewhat or very fearful while the remaining two-thirds reported little or no fear of being victimized. Fear levels were the highest in Denver.

Respondents were also asked if, in the past year, their neighborhood as a place to live had become better, stayed the same or become worse. Approximately 41 percent felt the

Table 5.8: Neighborhood Problems Perceived by Program Participants: Frequency and Percentage

City	Run Down Buildings	Litter and Garbage	Street Crime	Burgularies	Bothersome People	Drugs Drug Users	Lack of Recreation
Baltimore	20	26	19	18	9	23	18
	74.1	96.3	70.4	66.7	33.3	85.2	66.7
Chicago	11	11	10	11	10	13	13
	68.9	68.9	62.5	68.8	62.5	81.3	81.3
Denver	38	48	39	42	27	52	27
	53.5	67.6	54.9	60.0	38.0	73.2	38.6
Los Angeles	0	3	3	2	1	0	5
	0	33.3	33.3	22.2	11.1	0	55.6
McKeesport	4	0	0	0	0	1	6
	50.0	0	0	0	0	12.5	75.0
Muskegon	1	1	1	1	0	1	0
	50.0	50.0	50.0	50.0	0	50.0	0
Nashville	14	29	19	19	10	29	35
	20.9	43.3	28.4	28.4	15.2	43.3	52.2
Newport News	8	5	3	4	3	7	3
	72.7	45.5	27.3	36.4	27.2	63.6	27.3
Reading	3	6	2	4	1	6	4
	42.9	85.7	28.6	57.1	14.3	85.7	57.1
St. Mary's Co.	0	4	0	2	10	14	7
	0	13.8	0	6.9	34.5	48.3	25.0
Washington	11	7	9	9	4	11	16
	61.1	38.9	50.0	50.0	22.2	61.1	88.9
Wyoming	1	1	0	2	0	0	2
	14.3	14.3	0	28.6	0	0	28.6
Total	111	141	105	114	75	157	136
	40.8	51.8	38.6	42.1	27.7	57.7	50.4

neighborhood had gotten somewhat or much better, 42 percent felt that there had been no major changes, and approximately 17 percent felt their neighborhoods had become worse (Table 5.9). Negative change in neighborhood conditions was seen most often in Baltimore, Denver, and Reading. Positive change was seen by a majority of respondents in Chicago, Newport News, St. Mary's County, and Washington, D.C.

Overall, these data indicate that, with the exception of those in Denver, participants are satisfied with their units but there is considerably less satisfaction with their neighborhoods.

Problems Encountered in Purchasing Their Homes

Buying a home can be a trying experience for any home buyer. To assess the experience of those buying a home through the PHHD we asked participants if they experienced certain problems. With the exception of agreeing on repairs to be made to the units before sale, few participants had problems in purchasing their homes (Table 5.10). Less than 10 percent of the respondents reported problems with the initial application, obtaining credit, securing a loan, or obtaining home owners insurance. The data on individual programs is generally consistent across all programs, except that 50 percent of the respondents in Chicago reported having trouble with the application process. One quarter of all respondents, however, did report problems in agreeing on the repairs to be made to their units before transfer. This complaint was most commonly voiced in Baltimore, Chicago, Denver, and Nashville.

Table 5.9: Participant's Perceptions of Change in Neighborhood During Past Year: Frequency and Percent

City	Much Better	Somewhat Better	About the Same	Somewhat Worse	Much Worse
Baltimore	3 11.1	4 14.8	7 25.9	11 40.7	2 7.4
Chicago	1 6.3	8 50.0	4 25.0	3 18.7	0 0
Denver	5 7.2	16 23.2	29 42.0	15 21.7	4 5.8
Los Angeles	1 12.5	3 37.5	4 50.0	0 0.0	0 0.0
McKeesport	1 12.5	0 0	6 75.0	1 12.5	0 0.0
Muskegon Hts.	0 0.0	0 0	1 50.0	1 50.0	0 0.0
Nashville	8 12.3	16 24.6	36 55.4	5 7.7	0 0.0
Newport News	2 18.2	4 36.4	4 36.4	0 0	1 9.1
Reading	0 0.0	0 0.0	5 71.4	1 14.3	1 14.3
St. Marys Co.	20 69.0	4 13.8	5 17.2	0 0.0	0 0.0
Washington, D.C.	3 16.7	8 44.4	7 38.9	0 0.0	0 0.0
Wyoming	1 14.3	2 28.6	4 57.1	0 0.0	0 0.0
Total	45 16.8	65 24.3	112 42.0	37 13.9	8 3.00

Table 5.10: Problems Encountered in Purchasing Home: Frequency and Percent

City	Initial Application	Clearing Credit	Agreeing on repairs	Obtaining loan	Obtaining insurance
Baltimore	3 11.1	6 22.2	15 55.6	6 22.2	1 3.7
Chicago	8 50.0	3 18.8	5 31.3	4 25.0	2 12.5
Denver	3 4.2	4 5.6	23 32.4	3 4.3	2 3.1
Los Angeles	0 0	0 0	0 0	0 0	0 0
McKeesport	0 0	0 0	2 25.0	0 0	0 0
Muskegon Hts.	0 0	1 50.0	0 0	0 0	0 0
Nashville	1 1.5	4 6.0	17 25.4	3 4.5	1 1.5
Newport News	0 0	1 9.1	0 0	0 0	0 0
Reading	0 0	0 0	1 14.3	0 0	0 0
St. Marys Co.	1 3.5	3 10.3	4 13.8	4 13.8	0 0
Washington, D.C.	1 5.6	2 11.1	2 11.1	0 0	0 0
Wyoming	0 0	0 0	0 0	0 0	0 0
Total	17 6.3	24 8.9	69 25.5	20 7.4	6 2.3

The responses to several other questions provide a further indication of the extent of this problem. Sixty four percent of all respondents reported that repairs were made to their homes just before they bought them, while 35 percent reported that no repairs were made. Of those that reported repairs, approximately 21 percent were dissatisfied or very dissatisfied with those repairs (Table 5.11). Moreover, a total of 60.5 percent of all respondents felt that there were repairs that should have been made prior to sale, but were not (Table 5.12). Respondents in Baltimore, Chicago, and Washington, D.C. were most likely to feel that additional repairs should have been made before they bought their units.

Finally, respondents were asked to rate the condition of their home at closing. As shown in Table 5.13 approximately 70 percent said their homes were in good or excellent shape, while 30 percent said their homes were in either fair or poor condition. The worst ratings were among respondents in Chicago and Denver, while the best were among respondents in Newport News, Muskegon Heights, and Washington, D.C.

The Post-purchase Repair and Improvement Experience

One of the concerns about homeownership programs for low-income people is whether these owners will have the necessary resources to maintain their homes. As reviewed above, many of the local programs in the PHHD offered warranties and established extraordinary maintenance funds to assist the program

Table 5.11: Satisfaction with Repairs Made Before Sale: Frequency and Percent

City	Very Satisfied	Satisfied	Neutral	Dis-satisfied	Very Dis-satisfied
Baltimore	7 28.0	7 28.0	4 16.0	4 16.0	3 12.0
Chicago	2 25.0	3 37.5	0 0.0	1 12.5	2 25.0
Denver	7 25.9	8 29.6	5 18.5	5 18.5	2 7.4
Los Angeles	1 16.7	1 16.7	1 16.7	1 16.7	2 33.3
McKeesport	1 20.0	3 60.0	0 0.0	1 20.0	0 0.0
Muskegon Hts.	1 50.0	1 50.0	0 0.0	0 0.0	0 0.0
Nashville	9 19.2	20 42.5	10 21.3	5 10.6	3 6.4
Newport News	4 50.0	2 25.0	1 12.5	0 0.0	1 12.5
Reading	0 0.0	4 80.0	1 20.0	0 0.0	0 0.0
St. Marys Co.	6 27.3	13 59.1	2 9.1	1 4.5	0 0.0
Washington, D.C.	4 22.2	7 38.9	1 5.6	4 22.2	2 11.1
Wyoming	1 25.0	3 75.0	0 0.0	0 0.0	0 0.0
Total	43 24.3	72 40.7	25 14.1	22 12.4	15 8.5

Table 5.12: Participant's View on Need for Other Repairs: Frequency and Percent

City	Yes	No
Baltimore	21 77.8	6 22.2
Chicago	13 81.3	3 18.7
Denver	46 64.8	25 35.2
Los Angeles	4 44.4	5 55.6
McKeesport	3 37.5	5 62.5
Muskegon Hts.	1 50.0	1 50.0
Nashville	38 56.7	29 43.3
Newport News	3 27.3	8 72.7
Reading	4 57.1	3 42.9
St. Marys Co.	14 48.3	15 51.7
Washington, D.C.	14 82.4	3 17.6
Wyoming	3 42.9	4 57.1
Total	164 60.5	107 39.5

Table 5.13: Ratings of Condition of Unit at Closing: Frequency and Percent

City	Excellent	Good	Fair	Poor
Baltimore	3 11.1	13 48.2	11 40.7	0 0.0
Chicago	0 0	2 12.5	6 37.5	8 50.0
Denver	22 31.0	29 40.9	14 19.7	6 8.4
Los Angeles	3 33.3	4 44.4	1 11.1	1 11.1
McKeesport	2 25.0	4 50.0	2 25.0	0 0.0
Muskegon Hts.	0 0	2 100.0	0 0	0 0.0
Nashville	12 17.9	35 52.2	17 25.4	3 4.5
Newport News	3 27.3	7 63.6	1 9.1	0 0.0
Reading	1 14.3	5 71.4	1 14.3	0 0.0
St. Marys Co.	5 17.2	16 55.2	8 27.5	0 0.0
Washington, D.C.	6 33.3	10 55.6	2 11.1	0 0.0
Wyoming	1 14.3	5 71.4	1 14.3	0 0.0
Total	58 21.3	132 48.5	64 23.5	18 6.6

participants. The post-purchase maintenance experience was the subject of several items on the in-home questionnaire.

In response to a question on whether the sponsoring authority offered a warranty on major building components and systems, a total of 46 percent said that the sponsoring agencies had offered a warranty. There was, of course, considerable variation among local programs. As shown in Table 5.14, almost all of the respondents in Chicago, Los Angeles, McKeesport, and Reading said the sponsoring agency had not offered a warranty, while almost all of those in Muskegon Heights and Newport News said they had been offered a warranty. Respondents in the other cities were split. At a minimum these data suggest that the existence of warranties in the sites that offered them was not well understood by many of the participants. Of those that said they had been given warranties, 58 percent (a total of 74 respondents) had asked their respective housing authorities to make repairs.

We also asked respondents about the types of repairs that had to be made, who made these repairs, and how much it cost them (Table 5.15). The three most frequent types of repairs needed were to the plumbing (33.9 percent), at an average cost of $67; to doors and windows (22.6 percent) at an average cost of $277; and, to heating systems (14.7 percent) at an average cost of $68. In most cases these repairs were either made by the participant or by someone they hired. The average cost of all repairs born by participants was $149 per household. The highest cost for any individual participant, however, was $3,000.

Table 5.14: Participants Awareness and Use of Warranties on the Units Purchased: Frequency and Percent

City	Knowledge of Warranty	Use of Warranty
Baltimore	19 70.4	12 63.2
Chicago	2 12.5	1 50.0
Denver	41 57.8	30 75.0
Los Angeles	0 0.0	1 100.0
McKeesport	1 12.5	1 100.0
Muskegon Hts.	2 100.0	0 0.0
Nashville	21 31.8	13 54.2
Newport News	9 90.0	5 50.0
Reading	1 14.3	1 100.0
St. Marys Co.	16 55.2	4 25.0
Washington, D.C.	8 44.4	5 62.5
Wyoming	4 57.1	1 25.0
Total	124 46.1	74 57.8

Table 5.15: Repairs Made to Units Since Sale (all sites): Frequency and Percent

Types of Repair	Percent Reporting Repair	Who Made Repair PHA	Hired Someone	Self	Cost of Repair to Participant
Electrical system	27	7	12	5	
	10.0	29.2	50.0	20.8	$ 91
Heating system	40	22	9	3	
	14.7	64.7	26.5	8.8	$ 68
Kitchen	35	12	7	16	
	12.9	34.3	20.0	45.7	$ 359
Plumbing system	92	26	27	29	
	33.9	31.7	32.9	35.4	$ 67
Roof	20	9	3	4	
	7.4	56.2	18.8	25.0	$ 111
Siding	9	3	3	2	
	3.3	37.5	37.5	25.0	$ 273
Foundation	14	4	3	4	
	5.1	36.4	27.3	36.4	$ 147
Doors	61	26	11	15	
	22.6	50.0	21.2	28.8	$ 277

Beyond the repairs that had to be made, we also asked participants about discretionary improvements. Table 5.16, shows the three most frequently made improvements as room remodeling (29.2 percent) at an average cost of $746, landscaping (28.2 percent) at an average cost of $205; and kitchen renovation (24.2 percent) at an average cost of $177. The average amount spent in making all improvements was $609. The highest cost for any individual household was $9,100.

Financial Impact of the Demonstration on Participants

The household survey included questions that were designed to assess both the objective and subjective financial impacts of the demonstration on participants. The objective measures included the change in housing costs associated with homeownership and any changes in income or employment that are attributed to homeownership. The subjective measures included several questions that assessed the self-reported financial strain of homeownership.

A comparison of the average rent paid by participants before they purchased a home and the average mortgage payment after purchase is presented in Table 5.17. The average mortgage payment for all respondents was only slightly higher than their previous rent ($294 vs. $280). The site-by-site data, however, show that in Baltimore, Chicago, Los Angeles, and Muskegon Heights average mortgage payments were well below previous rents. In most of the other sites these payments were within $40 or less of each other. This comparison, however, does not include pre-purchase utility

Table 5.16: Improvements Made to Units Since Sale (all units): Frequency and Percent

Type of Improvement	Percent Reporting Improvement	Who did improvement: Hired Someone	Who did improvement: Self	Cost of Improvement
Kitchen renovation	65	15	52	
	24.2	22.4	77.6	$ 177
Bathroom renovation	56	9	46	
	20.7	16.4	83.6	$ 144
Room expansion	12	5	7	
	4.5	41.7	58.3	$1,579
Room remodeling	78	33	45	
	29.2	42.3	57.7	$ 746
Landscaping	75	12	61	
	28.2	16.4	83.6	$ 310
Porch addition	9	2	8	
	3.4	20.0	80.0	$ 535
Security devices	54	21	29	
	20.2	42.0	58.0	$ 283

Table 5.17: Average Prior Rent and Average Mortgage Payments

City	Average Prior Rent	Average Mortgage Payment
Baltimore	405	201
Chicago	430	277
Denver	274	304
Los Angeles Co.	473	401
McKeesport	268	286
Muskegon Heights	209	61
Nashville	199	233
Newport News	253	281
Reading	257	228
St. Mary's Co.	324	336
Washington, D.C.	355	326
Wyoming	329	319
Total	294	280

costs not included in the rent nor post-purchase utility costs. These costs may have a large influence on the comparison of total housing costs before and after ownership.

Data on total housing costs, including rent or mortgage payments and utility payments, shows that the average increase in housing expenses for all participants was a modest $5.00. The site-by-site data, however, indicate that in five sites participants actually lowered their total housing costs by buying a house (Table 5.18). In Baltimore, Chicago, and Muskegon Heights, participating households lowered their housing costs by more than $100 per month. Clearly these sites did not follow the program stipulation that the total housing costs for the buyers should not be less than his or her current rent contribution. In several other sites, however, costs increased substantially. The average increase in McKeesport was $165, in Washington, D.C., $137, in Reading, $68, and in Newport News, $48. In the remaining sites participants showed only modest increases in housing costs.

Respondents were also asked if the number of household members employed had increased or decreased since buying their homes and, if so, whether this change was related to becoming a home owner. Fourteen percent of the respondents reported an increase in the number of people employed while 12.9 percent reported a decrease. Only 12.5 percent of all those who reported a change (9 households), however, attributed it to buying their home. Of

Table 5.18: Change in Total Housing Costs Pre- and Post-ownership

City	Mean	Standard Deviation
Baltimore	$ -130	115.2
Chicago	-163	279.0
Denver	27	131.6
Los Angeles	- 37	50.2
McKeesport	165	49.7
Muskegon Hts.	-232	0.0
Nashville	44	71.6
Newport News	48	171.9
Reading	68	91.3
St. Marys Co.	35	92.6
Washington, D.C.	137	236.0
Wyoming	- 33	98.4
Total	5	162.6

those households, seven reported that an additional family member had gone to work to pay for the increased housing expenses.

Participants were also asked if their incomes had increased or decreased since buying their homes and, if so, was this change attributable to homeownership. Income had increased for 26 percent of the respondents and decreased for 10 percent. However, only 12.2 percent of respondents who reported a change (12 households) attributed it to buying their home. Again, most of those respondents reported that they needed more money to meet housing payments. Overall, at least in the short run, ownership has not had a pervasive impact on household employment and income of program participants.

Respondents were also asked if they had any trouble paying their utility bills and if they found their mortgage payments or cooperative fees to be a major, minor, or negligible strain. Fourteen percent of the respondents reported having trouble paying their utility bills while seven percent felt the mortgage payments were a major strain. An additional 24 percent felt that the mortgage payments were a minor strain.

This sense of financial strain is supported by the number of respondents who reported being late by a month or more in their mortgage payments. Thirteen percent of the respondents reported being late at least once since they assumed ownership and 10 percent were behind on their payments at the time they were interviewed. The sites with the highest percentages of delinquencies were Denver, McKeesport, and St. Mary's County

(Table 5.19). The payment experience of the Denver participants is having a particularly large impact on the overall percentages. When they are dropped from the calculations the percentage of participants that have missed one or more payments drops to 4.5 percent and the percentage delinquent at the time of the interview drops to 2.7 percent.

Perceived Social Impacts

As discussed in Chapter 1, the homeownership opportunities provided through the PHHD were expected to have a positive social impact on the families involved. Although a rigorous assessment of the social impacts of homeownership on low-income people is beyond the scope of this evaluation, respondents were asked to gauge the effect of owning a home on a number of attitudes and behaviors. They were asked if owning their home had a positive, negative, or little effect on how they feel about themselves; their sense of financial security; the amount of control they have over their lives; their involvement in the neighborhood; their involvement in local government; and, the overall quality of their lives. Tables 5.20 through 5.25 present the frequency and percent of respondents who say that homeownership had a positive, neutral, or negative influence on each of these items.

Data on the total sample indicate that 78 percent of the respondents stated that owning a home has made them feel better about themselves and 67 percent reported it makes them feel more financially secure. Only very small percentages of respondents felt that ownership had a negative impact on their self-esteem or

Table 5.19: Frequency and Percent of Respondents who have Missed at Least One Mortgage or Cooperative Fee Payment and Who were Delinquent at the Time of the Interview

City	Have Missed One or More Payment	Delinquent at Time of Interview
Baltimore	0 0.0	0 0.0
Chicago	0 0.0	0 0.0
Denver	22 31.0	18 27.3
Los Angeles	0 0.0	0 0.0
McKeesport	2 25.0	2 25.0
Muskegon Hts.	0 0.0	0 0.0
Nashville	1 1.6	1 1.5
Newport News	1 9.1	0 0.0
Reading	1 14.3	0 0.0
St. Marys Co.	6 20.7	3 10.3
Washington, D.C.	1 5.6	1 5.6
Wyoming	0 0.0	0 0.0
Total	34 12.7	25 9.5

Table 5.20: Self-reported Impact of Homeownership on Attitudes Toward Self: Frequency and Percent

City	Feel Better About Self	Feel Worse About Self	No Impact
Baltimore	19 70.4	0 0.0	8 29.6
Chicago	14 87.5	0 0.0	2 12.5
Denver	49 69.0	5 7.0	17 24.0
Los Angeles	7 87.5	0 0.0	1 12.5
McKeesport	8 100.0	0 0.0	0 0.0
Muskegon Hts.	1 50.0	0 0.0	1 50.0
Nashville	50 74.6	0 0.0	17 25.4
Newport News	11 100.0	0 0.0	0 0.0
Reading	7 100.0	0 0.0	0 0.0
St. Marys Co.	27 93.1	0 0.0	2 6.9
Washington, D.C.	12 66.7	0 0.0	6 33.3
Wyoming	7 100.0	0 0.0	0 0.0
Total	212 78.2	5 1.9	54 19.9

Table 5.21: Self-reported Impact of Homeownership on Sense of Financial Security: Frequency and Percent

City	Feel More Secure	Feel Less Secure	No Impact
Baltimore	18 66.7	1 3.7	8 29.6
Chicago	14 87.5	0 0.0	2 12.5
Denver	36 50.7	14 19.7	21 29.6
Los Angeles	7 87.5	1 12.5	0 0.0
McKeesport	6 75.0	0 0.0	2 25.0
Muskegon Hts.	1 50.0	0 0.0	1 50.0
Nashville	40 59.7	1 1.5	26 38.8
Newport News	9 81.8	0 0.0	2 18.2
Reading	7 100.0	0 0.0	0 0.0
St. Marys Co.	24 82.8	0 0.0	5 17.2
Washington, D.C.	13 72.2	0 0.0	5 27.8
Wyoming	7 100.0	0 0.0	0 0.0
Total	182 67.2	17 6.2	72 26.6

Table 5.22: Self-reported Impact of Homeownership on Sense of Control Over Life: Frequency and Percent

City	Increased Sense of Control	Decreased Sense of Control	No Effect
Baltimore	10 37.0	0 0.0	17 63.0
Chicago	5 31.3	0 0.0	11 68.7
Denver	32 45.1	8 11.3	31 43.6
Los Angeles	7 87.5	0 0.0	1 12.5
McKeesport	8 100.0	0 0.0	0 0.0
Muskegon Hts.	1 50.0	0 0.0	1 50.0
Nashville	33 50.0	0 0.0	33 50.0
Newport News	9 81.8	0 0.0	2 18.2
Reading	5 71.4	0 0.0	2 28.6
St. Marys Co.	16 55.2	0 0.0	13 44.8
Washington, D.C.	10 55.6	2 11.1	6 33.3
Wyoming	5 71.4	0 0.0	2 28.6
Total	141 52.2	10 3.7	119 44.1

Table 5.23: Self-reported Impact of Homeownership on Involvement in Neighborhood: Frequency and Percent

City	More Involved in Neighborhood	Less Involved in Neighborhood	No Change
Baltimore	9 33.3	0 0.0	18 66.7
Chicago	4 25.0	1 6.3	11 68.7
Denver	26 36.6	10 14.1	35 49.3
Los Angeles	4 50.0	1 12.5	3 37.5
McKeesport	0 0.0	0 0.0	8 100.0
Muskegon Hts.	1 50.0	0 0.0	1 50.0
Nashville	19 28.4	0 0.0	48 71.6
Newport News	6 54.6	0 0.0	5 45.4
Reading	3 42.9	1 14.3	3 42.8
St. Marys Co.	11 37.9	4 13.8	14 48.3
Washington, D.C.	10 58.8	1 5.9	6 35.3
Wyoming	5 71.4	0 0.0	2 28.6
Total	98 36.3	18 6.7	154 57.0

Table 5.24: Self-reported Impact of Homeownership on Involvement in Local Government: Frequency and Percent

City	More Involved in Local Government	Less Involved in Local Government	No Change
Baltimore	6 22.2	2 7.4	19 70.4
Chicago	5 31.3	2 12.5	9 56.2
Denver	29 41.4	2 2.9	39 55.7
Los Angeles	3 33.3	1 11.1	5 55.6
McKeesport	3 37.5	0 0.0	5 62.5
Muskegon Hts.	1 50.0	0 0.0	1 50.0
Nashville	15 22.4	1 1.5	51 76.1
Newport News	4 36.4	0 0.0	7 63.6
Reading	4 57.1	0 0.0	3 42.9
St. Marys Co.	12 41.4	0 0.0	17 58.6
Washington, D.C.	9 50.0	0 0.0	9 50.0
Wyoming	4 57.1	0 0.0	3 42.9
Total	95 35.0	8 3.0	168 62.0

Table 5.25: Self-reported Impact of Homeownership on Quality of Life: Frequency and Percent

City	Positive Impact on Life	Negative Impact on Life	No Change
Baltimore	20 74.1	0 0.0	7 25.9
Chicago	14 93.3	0 0.0	1 6.7
Denver	47 67.1	7 10.0	16 22.9
Los Angeles	7 87.5	0 0.0	1 12.5
McKeesport	7 87.5	0 0.0	1 12.5
Muskegon Hts.	1 50.0	0 0.0	1 50.0
Nashville	49 74.2	0 0.0	17 25.8
Newport News	10 100.0	0 0.0	0 0.0
Reading	6 85.7	0 0.0	1 14.3
St. Marys Co.	22 75.9	0 0.0	7 24.1
Washington, D.C.	13 72.2	1 5.6	4 22.2
Wyoming	7 100.0	0 0.0	0 0.0
Total	203 76.0	8 3.0	56 21.0

their sense of financial security and these respondents were overwhelmingly concentrated in Denver. Fifty-two percent of all respondents said owning has given them a greater sense of control over their lives and only four percent (again almost all in Denver) said it had decreased their sense of control over their lives. Somewhat smaller percentages of respondents felt that ownership has influenced the extent to which they are involved in their neighborhoods or in local government. The percentages of respondents reporting increased involvement in these spheres of life were 36 and 35 percent, respectively. The majority of respondents felt that homeownership had no impact on their involvement in their neighborhoods or in local government. A final question in this sequence asked whether homeownership had changed the participants' lives in a positive way, a negative way, or had no impact on their lives. Seventy-six percent of all respondents said it changed their lives in a positive way, while three percent said it changed their lives in a negative way. Again, the negative responses were concentrated among Denver respondents.

Participants Experience With and Attitudes About Counseling and Training

As discussed in Chapter 1, HUD required the sponsoring agencies to provide counseling and training on the rights and responsibilities of homeownership to prospective program participants. Several survey items probed the topics on which participants received instruction, the format of this instruction, and their evaluation of its usefulness.

Respondents were asked if they had received instruction on six topics: the costs of home ownership; personal financial budgeting; home maintenance; obtaining a loan; resolving credit problems and, for those in multifamily sales programs, establishing or running a condo or co-op association. As shown in Table 5.26, 73.2 percent of the respondents reported receiving instruction on the costs of homeownership, and instruction on home maintenance was reported by 58.7 percent of the respondents. Instruction on personal budgeting, obtaining a loan, and resolving credit problems was reported by less than half the respondents. Also, less than half of the respondents in the three multi-family programs that had sales reported receiving instruction in establishing or running a condominium or cooperative association.

Based on our key informant interviews, we can suggest several reasons why the percentage of respondents receiving counseling on these topics was not higher. First, some demonstration programs, including Newport News and Reading, provided instruction or counseling on an "as needed" basis. Participants only received instruction on budgeting or resolving credit problems if they had experienced, or were currently experiencing, a problem. Second, attendance was voluntary at many of the training sessions offered. Some participants, for whatever reason, did not attend. Finally, in several instances training sessions were held with

Table 5.26: Topics, Format and Perceived Usefulness of Instruction Received by Respondents: Frequency and Percent

Topic of Instruction	Frequency and Percent Receiving Instruction	Format of Instruction: One on One	Group	Mix	Percent Rating Instruction Useful
Cost of home-ownership	197 73.2	46 23.7	128 66.0	20 10.3	176 88.4
Personal budgeting	133 49.6	23 18.0	95 74.2	10 7.8	121 91.0
Home maintenance	158 58.7	42 27.8	88 58.3	21 13.9	139 90.8
Obtaining a loan	106 39.7	28 28.9	61 62.9	8 8.2	96 90.6
Resolving Credit problems	83 30.9	14 17.7	58 73.4	7 8.9	79 91.9
Establishing condo or co-op association[1]	105 44.5	6 6.2	75 78.1	15 15.6	95 88.8

[1]This was only asked of those in multifamily programs.

sitting tenants relatively early in the sales process. The selection of participants to fill vacant units often occurred after these sessions were held. In Nashville, for example, sitting tenants were offered a series of six training sessions. The newcomers, however, missed this opportunity. The co-op board has made plans to provide newcomers with training, but this had not happened at the time the survey was conducted.

Table 5.26 also shows that most of the instruction was in group, rather than individual sessions. Moreover, the instruction presented on each of the topics was considered very useful by those who received it.

A summary question asked all respondents whether they were provided with as much help as they needed in buying their home. Table 5.27 reports that 76.8 percent of all respondents felt they had received sufficient help. This figure increases to 84.6 percent when the respondents in Denver are excluded from the analysis. In four cities, sizable proportions of participants felt they did not receive sufficient help. These were respondents in Chicago, Denver, McKeesport, and Reading. Respondents in the remaining sites were generally satisfied with the help they received.

Participation in and Satisfaction with Condo and Co-op Associations.

The three multi-family sales programs that transferred properties involved the creation of one condominium and two cooperative

Table 5.27: Participant's Assessments of Whether They Received Sufficient Help in Buying House: Frequency and Percent

City	Sufficient Help	Insufficient Help
Baltimore	25 92.6	2 7.4
Chicago	4 25.0	12 75.0
Denver	39 54.9	32 45.1
Los Angeles	8 88.9	1 11.1
McKeesport	5 62.5	3 37.5
Muskegon Hts.	2 100.0	0 0.0
Nashville	61 91.0	6 9.0
Newport News	9 81.8	2 18.2
Reading	4 57.1	3 42.9
St. Marys Co.	29 100.0	0 0.0
Washington, D.C.	16 88.9	2 11.1
Wyoming	7 100.0	0 0.0
Total	209 76.8	63 23.2

associations. Once the units were transferred, these associations became responsible for managing the developments. Several questions addressed participant involvement and satisfaction with these organizations.

Program participants in the multi-family sites were asked if they voted in the last election of association officers. Overall, 74.5 percent of the program participants said they voted in the last election of association officers--75 percent in Denver, 71.6 percent in Nashville, and 83.0 percent in Washington, D.C. Respondents were also asked how many meetings of their association they had attended within the last year. The average number in all three sites was seven. Participants in Washington, D.C. attended an average of 13 meetings while those in Denver and Nashville attended an average of eight and four meetings, respectively.

Respondents were also asked to rate the overall performance of their co-op or condo association. Forty-seven percent of the respondents were either satisfied or very satisfied, 21.5 were neutral, and 31.5 were either dissatisfied or very dissatisfied. Ratings of board performance was highest in Nashville; Washington D.C. had the second highest rating. In Denver, a majority of respondents were either dissatisfied or very dissatisfied with the performance of the two boards.

More specific questions on satisfaction with their voice in the association, dues, maintenance and services provided, and rule enforcement indicate that the boards received the lowest ratings in the areas of rule enforcement and the maintenance and services provided. Overall, 47.4 percent of the respondents were either dissatisfied or very dissatisfied with the maintenance and services provided and 30.5 percent were dissatisfied with the way the associations were enforcing or not enforcing the rules.

Characteristics and Experiences of Relocatees in Denver

Almost all of those who relocated were in Denver where all residents were moved to carry out the extensive modernization work. We were able to obtain the names and addresses of those relocated from the phase one buildings and interviewed 34 representatives of the 64 families involved. The other households were no longer residing at the original address and could not be located. Although not a large sample, these data provide some indication of the characteristics and attitudes of those relocated in Denver. Clearly, the incomes of the relocatees in Denver were quite low: almost three-quarters of the relocates had incomes below $5,000 and only 11.8 percent had incomes over $8,000 (Table 5.28). Moreover, only 17.6 percent had one or more persons in the household with full time employment. This suggests that few of these families could have qualified for the homeownership program in Denver. These data also show that over 90 percent of the households were single person or single-parent households and most were of African-American descent. Less than one-third of those interviewed had completed high school.

Table 5.28: Characteristics of Relocatees in Denver

Characteristics	Frequency	Percent
Family income		
Under 5 thousand $	25	73.5
5 to 8 thousand $	3	8.8
8 to 11 thousand $	4	11.8
Don't know	2	5.9
Household employment		
Full-time	6	17.6
Part-time	8	23.5
Unemployed, retired or keeping house	20	58.8
Marital status		
Married	3	8.8
Widowed, divorced, separated	20	58.8
Never married	11	32.4
Race		
White	1	2.9
African American	29	85.3
Hispanic	4	11.3
Number of people in household		
1	8	23.5
2	10	29.4
3	9	26.4
4	2	5.8
5	4	11.8
6	1	2.9
Education of household head		
Completed 0-8 grades	5	14.7
Completed 9-11 grades	18	52.9
Completed high school	8	23.5
Completed high school plus some college	3	8.8

The interviews in Denver also revealed that 44 percent of those relocated have moved at least once in the three to four year period since their original relocation from the units involved in the demonstration; and 18 percent have moved three or more times. Before being relocated, however, the median length of tenure was between eight and nine years and only 26 percent had been in the development for four or fewer years.

When asked if they moved voluntarily, 35.3 percent said yes while 64.7 percent said they had not. When asked if they received an explanation of their legal rights, 67.6 percent said yes while 29.4 percent said no. Moreover, 44.1 percent reported receiving assistance from a relocation counselor, but 55.9 percent said they did not receive such assistance. Given the three to four year time frame since their relocation, however, these data should be interpreted cautiously.

Data on the Denver relocatees' satisfaction with their house and neighborhood indicate that relatively few feel that their new homes and neighborhoods are worse than this former situation. When asked to compare their original unit with the current one, 53 percent said the current unit was somewhat or much better, 35.3 percent said it was about the same, and 12.8 percent said the new neighborhood was somewhat worse. When asked to compare their old neighborhood to the new one 64.7 said the new neighborhood was somewhat or much better, 26.5 percent said it was about the same, and 8.8 said it was somewhat or much worse.

Finally, the relocatees in Denver attribute few financial impacts but some significant social impact to relocation. No respondents reported changes in the employment status of household members that they attributed to the relocation. Many respondents, however, did report that they no longer see many of their close friends they had before they were relocated. The data indicate that 32.4 percent still see all or most of their close friends, 11.8 percent see about half, and 55.9 percent see only a few or none of their close friends. Moreover, there is some evidence that they have had difficulty making new close friends. Only 2.8 percent reported making a lot of friends, 20.6 percent reported making some new close friends, 50 percent reported making only a few close friends, and 26.5 reported making no close friends. In response to a question on visiting relatives, 17.8 percent said this activity has become somewhat or much more difficult due to the relocation.

CHAPTER 6

PROGRAM EFFECTIVENESS AND EFFICIENCY

Introduction

This chapter will draw some conclusions about how effective these programs turned out to be from a variety of vantage points. Given that the programs which have succeeded in closing sales are on-going, and other programs have yet to transfer any units, this assessment must be viewed as preliminary. In the first part of this chapter we assess the extent to which individual housing authority and HUD demonstration goals were met, and the reasons why some PHAs were more successful than others in mounting homeownership programs. We also discuss the problem of home owner mortgage defaults and delinquencies and the issue of long-term affordability. The first section closes with a discussion of five major problems and constraints that caused many housing authorities to fall short of meeting their sales goals. These problems can be attributed to inadequate management, flaws in program design, adverse local market conditions, low tenant incomes and the lack of replacement housing.

In part two, we assess the costs and benefits of the demonstration from the point of view of the four key program participants: home buyers, housing authorities, the federal government and the communities in which the programs are located. Because of the small scale of most operational programs, lack of data on certain program costs and the difficulty of quantifying program benefits, we are unable to complete a formal benefit cost analysis of the PHHD. Incomplete though it is, our assessment clarifies important program issues and presents a systematic framework for future empirical work on this topic.

Meeting Program Goals

The 17 housing authorities that HUD selected to participate in the Public Housing Homeownership Demonstration collectively committed to sell 1,315 units in their inventories to public housing residents. The time frame of the demonstration during which HUD expected all sales to be consummated was 36 months. However, if we mark the official beginning of the demonstration as June 5, 1985, when HUD Secretary Samuel R. Pierce first made public the names of participating housing authorities, and use September 1, 1989 as the ending date of our site-specific data collection effort, the sales period covered by our evaluation is a few days short of 51 months. This is important because a majority of the public housing units that were sold under the demonstration actually closed after the unofficial end of the 36-month demonstration period. Even discounting the demonstration's slow start-up, it suggests that the design and implementation of a public housing home-ownership program takes more time and effort than either HUD or the participating housing authorities initially anticipated.

Goal Achievement--the Overall Perspective. Program effectiveness can be measured on several levels and in different ways. If we define the ultimate goal of a sales program as enabling former public housing residents to become successful, satisfied homeowners, then program effectiveness would only be assessable over the long-term, and would have to be based upon individual buyer's experiences. Given both time and resource constraints, we are unable to assess program effectiveness in this way. We can, however, provide several measures of the extent to which individual and collective program goals were achieved over the 51 months covered by our data collection period. One of these is the extent to which participating housing authorities collectively achieved their sales targets.

Overall, the 17 housing authorities transferred title to 320 public housing units, which is a quarter of the 1,315 units proposed for sale (Table 6.1). At the conclusion of our data collection period, an additional 17 sales were pending--that is, were in the process of being closed. In addition to these 337 sales, housing authorities were making progress toward the sale of another 362 units, which could close sometime during 1990. If these additional sales were to be consummated some four-to-five years after the demonstration started, the Public Housing Homeownership Demonstration will end up having sold a total of 699 units, or 53.2 percent of the total sales goal.

PHA sales activities are discussed below. Suffice it to say, however, that sales progress varied greatly across sites. For example, seven of the 17 PHAs achieved at least 80 percent of their respective sales goals, including four which sold the number of units that they had said they would. At the same time,

Table 6.1: Original Goals for Selling Units and Number of Sales Achieved and Anticipated as of September 1, 1989

Public Housing Authority	Goal (Number of Units)	Number of Sales Achieved	Percent of Sales Achieved	Number of Pending Sales	Total Expect to Sell by End of 1990	Percent to Sell by End of 1990
Baltimore	30	28	93.3	0	28	93.3
Chicago	31	14	45.2	0	14	45.2
Denver	88	88	100.0	0	88	100.0
Los Angeles County	75	9	12.0	0	9	12.0
McKeesport	10	9	90.0	0	9	90.0
Muskegon Hts.	20	2	10.0	0	2	10.0
Nashville	85	85	100.0	0	85	100.0
Newport News	15	15	100.0	0	15	100.0
Paterson	242	0	0.0	0	242	100.0
Philadelphia	300	0	0.0	15	15*	5.0
Reading	8	8	100.0	0	8	100.0
St. Mary's County	50	30	60.0	0	30	60.0
St. Thomas, V.I.	120	0	0.0	0	120	100.0
Tulsa	100	1	1.0	0	1	1.0
Washington, D.C.	28	23	82.1	2	25	89.3
Wichita	50	0	0.0	0	0	0.0
Wyoming	63	8	12.7	0	8	12.7
TOTAL	1,315	320	24.3	17	699	53.2

*Philadelphia currently plans to sell 15 units in a newly designed pilot program. This effort may be expanded if it is successful.

however, eight other housing authorities either sold no units during the combined demonstration-evaluation period, or have achieved less than 15 percent of their sales goals. The reasons for the failure to reach sales goals vary widely and will be discussed below.

Goal Achievement--the Local Perspective. For purposes of this discussion, demonstration programs have been classified into four categories: (1) those which have, or have come close to meeting their original sales goal, (2) those which have no sales to date but show continuing progress toward sales, (3) those which have had some sales but will fall well short of reaching their original goal; and, (4) those which have made little or no progress toward sales.

Goal Achievers. As indicated above, from a strictly numerical standpoint, seven housing authorities have either completed their demonstration sales programs or have met 80 percent or more of their initial sales goal. Four of these successful demonstrations are single family programs, and three are multifamily conversions.

Two small single family programs in Newport News, Va. (15 units) and Reading, Pa. (8 units) achieved 100 percent of their sales goals while another very small program in McKeesport, Pa. achieved a 90 percent success rate with the sale of 9 of 10 houses it targeted for sale. Baltimore's somewhat larger single family program, which targeted 30 scattered site units for sale, fell two units short, achieving 28 sales and a 93.3 percent success rate.

On the multifamily side, the one condominium conversion in the demonstration, in Washington, D.C., achieved an 82 percent success rate. It sold 23 of the 28 townhouse units in the Wylie Courts complex, which was built in 1981 for sale under HUD's Turnkey III program but had been administered as a rental property. At the conclusion of our data collection period, families in two of the remaining units were being reviewed as potential home buyers, one unit was undergoing rehabilitation for later sale, and two units were occupied by long-term renters who are continuing in residence as public housing tenants.

Two public housing authorities successfully closed three limited equity cooperatives. Nashville created the New Edition co-op during the 51 month demonstration-evaluation period. New Edition is an 85-unit complex located on three separate sites that is governed by a single co-op board. Denver also successfully closed two co-ops during this period. Both Upper Lawrence and Arapahoe contain 44 units each and were carved out of different segments of the same 448-unit Curtis Park public housing development that was built in 1954.

In defining goal achievement in numerical terms, it is important to distinguish between the treatment of non-buying tenants in the condominium and cooperative conversions. With respect to the former, title to unsold units remained with the District of Columbia housing authority, which means that these units are not counted as having been sold. In the case of co-op conversions, once title to a project was transferred to the co-op, we treated all units in the transferred complex as having been sold. This means that apartments in a co-op that continue to be occupied by non-buying tenants are counted as having been sold even though they do not produce homeowners. To the extent that co-ops contain continuing renters, we have overestimated a PHA's actual rate of homeownership-producing sales.

In Nashville's case, 8 of the co-op's 85 units are occupied by non-buying tenants, while Denver has no continuing renters in either co-op, although as discussed in detail in Chapter 3, all 44 residents who "bought" units in the Arapahoe co-op are technically tenants of the limited partnership that owns the co-op's buildings, and will be so classified until the co-op buys the buildings from the partnership 15 years after closing.

Another important distinction between condos and co-ops has to do with the means through which continuing renters receive rental assistance once the conversion has occurred. In the case of the one condominium conversion in the demonstration, title to the five unsold units in Wylie Courts continues to be owned and operated by the Washington, D.C. housing authority; non-buying residents are tenants of the housing authority and their units receive HUD operating subsidies. In the case of cooperative conversions, when title to the property is transferred from the PHA to the co-op, federal law requires HUD to cease making any further operating subsidy payments on behalf of the project.

This means that, to the extent that continuing renters receive any on-going rental assistance to keep their co-op rents down to affordable levels, it will be in the form of a Section 8 rental certificate or housing voucher.

No Sales But Continuing Progress. Two multifamily demonstration programs had no sales as of September 1, 1989, but showed continuing progress toward sales. Readers are referred to the attached case studies of Paterson's Brooks-Sloate and St. Thomas's Pearson Gardens conversions for full explanations of why they were unable to close during the demonstration-evaluation period. A brief explanation of their current status and reasons why they have yet to close follows.

Paterson's 242-unit co-op conversion has been slowed by two principal factors. The first is an extended renovation program that is being financed with HUD public housing modernization funds. If HUD pays the modernization debt through an amendment to the housing authority's Annual Contributions Contract, federal law requires that all modernization funds must be obligated at the time title to the project is transferred to the co-op. Most of the modernization funds had been obligated at the time of our final site visit, and completion of all rehab is expected in mid-1990. And, if the second factor, a law suit, slowing the conversion's progress can be overcome, closing should occur at that time.

As discussed more fully in the appendix, both HUD and the Paterson Housing Authority were sued by the local legal services organization and others over the issue of involuntary relocation. Under the provisions of a compromise settlement achieved by the parties to the litigation under the aegis of the federal district court, the housing authority has agreed to permit all Brooks-Sloate residents that choose not to join the co-op to remain in their present apartments as tenants of the co-op. During the lengthy course of the litigation, renovations to Brooks-Sloate continued, but other progress slowed. Although the co-op's interim board of directors continued to meet and conduct organizing business during this period, the housing authority feared that interest in the co-op among the rank and file Brooks-Sloate residents could dwindle. At the conclusion of our data collection period, the housing authority was conducting a final survey of residents to determine their interests in joining the co-op, and was making an intensive effort to encourage those who had joined but who had not made their full equity contribution to the co-op to do so.

Anticipating a worst case scenario, the PHA director requested and conditionally received 92 vouchers from HUD to accommodate the maximum number of potential non-buying residents. This represents 38 percent of all the units in Brooks-Sloate. How many of these potential non-buyers will actually choose to join the co-op, or if they do not, will use their vouchers in their present Brooks-Sloate units, or seek housing in Paterson's private rental market, is not currently known. HUD and the housing authority agree that a fledgling co-op would face extraordinary management problems if fewer than 75-80 percent of the units were occupied by owners. Therefore, whether Brooks-Sloate ever closes will be determined by the individual decisions of the current pool of 92 potential non-buying residents. To reach the minimum threshold of 75 percent owner-occupancy, a third of this pool would have to join the co-op or voluntarily move out.

Built in the 1950s, Pearson Gardens is a 240 unit family complex located on very valuable land just across the street from the St. Thomas waterfront where major tourist ships come to port. Plans call for the conversion of half of Pearson Gardens into a co-op with the other half of the project to remain part of the public housing inventory. In addition to this formidable challenge, St. Thomas's homeownership demonstration also featured the lowest income limits of any housing authority participating in the PHHD. Another unique feature of this project is that it was being designed and managed almost entirely by a consultant engaged by the housing authority. Unfortunately, the consultant's contract expired more than a year ago and has yet to be renewed by the housing authority.

Four years into the demonstration, Pearson Gardens has yet to close, and it will not close in the forseeable future unless the housing authority makes the conversion a higher priority matter. Complicating matters and slowing progress is the stalemate over the relocation of non-buyers to the rental side of the project, and the relocation of co-op members who currently reside on the rental side and who want to move to the homeownership segment.

At the time of our final site visit, the housing authority had not yet approved a relocation plan and was continuing to fill vacancies in the homeownership segment of the project with rental families selected from the PHA's waiting list.

Should the relocation problem eventually be solved and necessary site improvements be made so that the co-op can create its own physical community, the co-op will still face significant financial and social challenges. With respect to the former, the co-op continues to work with financial estimates that were prepared four years ago. The very low level of resident incomes in Pearson Gardens means that the co-op's budget will have to be kept to a minimum, and the planned reserves will not go very far to fill a budget gap. Moreover, although the general condition of the buildings is good, a walk-through of the site suggests that there remains some renovation work which has not been programmed by the housing authority. Should Pearson Gardens go to closing in the coming months, it will face some very rough seas before the sailing gets much smoother.

Some Sales But Will Fall Short. Demonstration programs in three other cities have sold a few houses but will fall far short of reaching their original sales goals. In Chicago, where 31 single family and duplex units were to be sold, 14 sales have been closed. The major problem in Chicago appears to be a lack of staff commitment to the demonstration by PHA management. Currently, a lawyer and a legal aid are handling closings but no one has been assigned to manage the demonstration.

The demonstration program in Los Angeles was designed to sell 75 scattered-site, single-family, duplex and small multifamily units to tenants. Nine of the ten single-family units have been sold. Beyond these nine units, no further sales are expected. Program staff in Los Angeles have had great difficulty finding buyers who are both interested in buying a unit and who can qualify for a mortgage loan. Tenants have shown little interest in purchasing units in multifamily buildings and others can not qualify for financing. Moreover, the cost of converting the small apartment buildings to cooperatives or condominiums contributed to the decision to cancel phase two of their program.

In St. Mary's County, Md., where 50 single family dwellings were to be sold, 30 have been transferred. The 20 unsold units continue to be occupied by renters who are either ineligible or uninterested in buying.

In Wyoming, Michigan where 63 scattered-site, single-family units were to be sold, eight units have been sold. Primarily due to a lack of qualified buyers who can afford the units, a few new sales are expected in Wyoming.

Little or No Progress. A final group of demonstration programs are either starting over or simply have made little or no progress toward sales. In Philadelphia, the original program was designed to sell 300 scattered-site units but its implementation was stalled when the PHA board raised concerns about replacement housing. Once this issue was resolved, management problems and staff turnover further slowed program progress. A revised plan has now been developed to conduct a pilot program to sell 15 scattered-site units. They plan to evaluate this pilot before embarking on a larger scale sales program.

In Wichita, Kansas where 50 units were to be sold, no sales have occurred and it is uncertain if any will ever take place. The original plan, which involved the sale of units needing substantial rehabilitation, was abandoned for a variety of reasons: the election of new city commissioners who were less supportive, the lack of support from the PHA and HUD Regional Office, and lack of interest in the program by local financial institutions.

The demonstration program in Muskegon Heights, Michigan was designed to sell 20 single-family units to tenants. At the current time only two units have been sold and no other sales are anticipated. The problem here is that the city council has raised the sales price, which was originally set at 50 percent of appraised value, to 100 percent of appraised value. This has effectively stalled the program.

Finally, although they were authorized to sell 100 units, only one sale has been made in Tulsa, Oklahoma and no other sales are expected. The problem in Tulsa is that the local economy is depressed and the housing market is extremely soft. Currently there are an estimated 1,500 foreclosed FHA houses on the market. PHA tenants with the means and inclination to buy would rather buy one of those units than a PHA-owned unit. Due to the economic downturn, HUD has approved a suspension of Tulsa's demonstration.

Major Problems and Constraints Encountered in the Demonstrations

Housing authorities encountered a variety of problems that affected their ability to carry out their homeownership demonstrations at the scale and pace originally intended, or, in some cases, to carry them out at all. Although they overlap, these problems can be roughly divided into six categories. These are:

1. Lack of commitment to and/or effective management of the program on the part of the sponsoring agencies or their governing boards;
2. Poor program design;
3. Adverse local market conditions;
4. Low tenant incomes;
5. Lack of replacement housing; and
6. Relocation difficulties.

Although HUD can do nothing to make local market conditions more inviting, nor convince local housing authorities to sell their inventories to tenants if they don't want to, most of the other constraints discussed below can be overcome by policy initiatives.

Lack of Commitment and/or Effective Management. Progress in several demonstration programs was seriously impaired by a lack of commitment to the program by the housing authority, or local governing body. In some instances, the lack of commitment was due to the hiring of new PHA directors or the election or appointment of new city council or housing authority board members who were not supportive of the program, while in other cases, the housing authority had to attend to more pressing problems than mounting a small-scale homeownership program.

In Philadelphia major management problems within the housing authority led to a change in the executive director during the demonstration period. Moreover, a disagreement with HUD over the replacement housing issue and a lack of clear staff responsibility for the sales program inhibited the progress of what was intended to be the largest demonstration program. The Philadelphia PHA has more than 7,000 scattered-site units in its inventory which, because of their dispersed nature and non-standard mechanicals, pose an enormous management problem. The homeownership program was seen as a means of reducing the scattered site inventory. However, as the new leadership readily admits, the design of a workable homeownership program required much more time and high-level staff commitment than the former leadership was prepared to give. Thus, a sales program that was intended to sell 300 single-family units never materialized during the 36 month demonstration period. Within the past year, however, the housing authority designed a 15-unit pilot program for which buyers are now being selected. Depending on the outcome of their own demonstration, the PHA might expand its program at some time in the future.

Chicago's management problems were similar to Philadelphia's although its sales goal was more modest--31 single-family sales. Moreover, the CHAs primary motive for participating in the demonstration--to ingratiate itself to HUD, which was placing a high priority on the homeownership program--does not suggest a genuine commitment to the demonstration's goals.

One major reason why Chicago has only sold 14 units is that after the original program director left CHA, no new director was appointed. Another reason for poor performance is that once the original technical assistance funds were exhausted, no PHA funds were made available for counseling and training prospective buyers. This meant that families had to shop for market rate financing by themselves, with little help from the housing authority. At the time of our final site visit in Chicago, the homeownership demonstration was one of a number of key responsibilities assigned to a housing authority attorney.

In Muskegon Heights division within the community over the goals of a public housing homeownership program combined with a legal ruling that enabled the unit of local government to bring the program to a complete standstill. The housing authority's program was designed to sell 20 single-family, scattered-site units at half their appraised value. Given the generally modest values of these units, which ranged from $15,000-$20,000, qualified buyers would be able to finance their acquisitions with market rate loans. In fact, the housing authority closed two sales at an average price of $7,550. Although there was turnover at the executive level within the housing authority during the demonstration period, it was not this change in personnel that ended up scuttling the program, but rather local elections that changed the composition of the local city council.

Although the mayor of Muskegon Heights supported the program, the newly elected council did not, and a debate ensued over the issue of who held title to public housing. If legal title to public housing was vested in the city, then the city council and not the housing authority could determine the conditions under which the stock could be sold, including setting the sales price. With both the city and the housing authority each contending that they owned public housing, the dispute was finally forwarded to the city's legal counsel for resolution. The attorney upheld the city's position, which allowed the council to effectively double the sales price by voting to sell public housing to tenants at full appraised value.

Based on interviews with local program officials, it is clear that many of the demonstration programs were understaffed. This was particularly true of the multi-family sales programs but it also applies to some of the single-family programs. Understaffing was the result of a number of factors. First, given the lack of experience with homeownership programs, many sponsoring agencies underestimated the amount of staff time needed. This was compounded when unanticipated problems, requiring additional staff time, arose. The difficulty in securing financing in Nashville and Chicago, for example, added to the demands on staff time as did the long drawn out conflict over relocation in Paterson and St. Thomas. In many instances staff assigned to the demonstration also had other responsibilities related to the primary activities of their agencies: managing public housing. These other responsibilities often cut into the time needed to administer the less central demonstration programs. The slow progress of the demonstration program in Philadelphia and in Chicago were partially the result of this problem. In many instances those managing the demonstration have to rely on staff in other PHA departments for assistance such as conducting inspections or arranging for rehabilitation work. In several instances staff in these other departments were said to be less than fully cooperative because of their own work load or because they did not agree with the idea of selling public housing. Overall, given their other responsibilities many PHAs simply did not have the extra staff resources to adequately manage the demonstration programs.

Staff turnover and reorganizations within the sponsoring agencies also hindered the progress of several demonstration programs. The Chicago PHA, for example, has had three different directors over the course of the demonstration and the staff members who designed the demonstration left the authority mid-way through its implementation. In Wyoming, Mich., the executive director of the PHA who authored the proposal for the demonstration left during its implementation and the new executive director needed time to understand the program. The sponsoring authorities in Washington, D.C. and Philadelphia also went through major reorganizations which slowed program progress.

Finally, the majority of sponsoring agencies had no prior experience with homeownership programs. Thus, the staff often assigned to design and manage the programs had little experience and had much to learn about low-income homeownership programs. This was complicated by the unique aspects of the demonstration programs, particularly that the sales involved public housing units.

Flawed Program Design. Miscalculation and poor program design decisions resulted in Wichita's inability to sell any of the 50 scattered-site units the housing authority planned to sell. A change in local political administration ultimately brought Wichita's participation in the demonstration to a formal close, although the program was going nowhere prior to this decision.

Wichita had two kinds of program design problems. First, the housing authority wanted to sell its poorest quality single-family stock to the highest bidder to raise money to rehabilitate units to be sold to public housing tenants and to subsidize their interest rates. But HUD never approved this aspect of the program and HUD's regional office would not approve of the sale of units to the highest bidder. Second, those responsible for designing this program also assumed they could interest local financial institutions in providing loans to public housing tenants interested in participating in the program. When actually contacted, however, none of the local financial institutions were willing to participate in the program. These issues should have been clarified before Wichita was included in the demonstration.

Adverse Local Market Conditions. Due principally to a depressed local real estate market that was a by-product of the prolonged slump in the nation's energy industry, Tulsa was able to market only one of the 100 single-family homes it planned to sell under the homeownership demonstration. After several months of trying unsuccessfully to compete with FHA's vigorous marketing efforts to sell its swollen inventory of federally-held properties, Tulsa formally suspended its participation in the demonstration.

Tulsa's original plan was to sell the scattered-site units at 75 percent of their appraised value using FHA insured market-rate financing. No down payment would be required, with a one year lease-purchase arrangement allowing buyers to accumulate $25 a month to help pay closing costs through agreeing to maintain their units during the lease period, and thus to enjoy a gradual transition into homeownership. The problem was that during the early months of the demonstration, FHA had more than 1,500 single family houses in its inventory and another estimated 2,000 were in the process of being foreclosed. According to Tulsa housing authority officials, while the PHA was attempting to market its sales program, the local FHA office was offering its HUD-held inventory to prospective buyers at even more generous terms, including the use of liberalized underwriting standards to qualify buyers.

Inadequate Tenant Incomes. Since pricing policies are left entirely up to local discretion, one would think that inadequate tenant incomes would not be a serious constraint in mounting successful sales programs. All that a housing authority has to do to maximize sales is to lower prices enough to make them affordable. Under the demonstration, price discounts as high as 100 percent are permissible. For a variety of reasons, however, only two housing authorities chose to give their houses away. Some, like Denver and Nashville, priced their units to enable them to recover the costs of rehabilitating these units, which meant that potential buyers would have to cover a certain amount of debt service in addition to full operating costs. In most other programs rehabilitation costs were financed in other ways, with housing authorities still favoring price-setting policies that resulted in home buyers assuming an average first mortgage burden of nearly $17,100. In general, first mortgage amounts were based on the amount of debt that buyers could carry, given the mortgage terms and 25 to 30 percent housing expense ratios. This meant that the effective sales price of identical houses varied with the incomes of the buyers, but that virtually all buyers assumed some mortgage debt which increased minimum income requirements.

When asked why they set their prices as high as they did, some PHAs responded that they wanted to generate revenues to reinvest in additional housing, while others indicated that "if you give it away, the buyer will treat it as if it has no value." In any event, because they were able to vary the effective price with the incomes of the buyer, income constraints were more likely to affect the pace or extent of housing sales than they were to keep program from getting off the ground. It is clear that without new financing arrangements or dramatic changes in pricing policies, inadequate tenant incomes could limit the potential of homeownership programs. Baltimore is a good case in point.

In Baltimore the housing authority set a goal of selling 30 single-family units to residents of its large scattered-site inventory (approximately 2,600 units). It established seven eligibility criteria:

1. Household must have an income of at least $10,000 a year;
2. Must have lived in present house for at least three years;
3. Must have worked or had another steady source of income for the last three years;
4. Must have at least $500 cash available for a down payment;
5. Must have a good rental history in public housing;
6. Must be able to plan, budget and save; and
7. Must be able to take responsibility for maintenance and upkeep of the house and neighborhood.

The housing authority determined that just 352 residents (13.5 percent) in scattered-site housing met the minimum income requirements of the homeownership program. Letters explaining the program were sent to all 352 families inquiring of their interest in buying their house and 216 families, or 61 percent of those contacted, requested a program application. Of those requesting one, just 79 families (36.6 percent) completed the application. This means that the number of families that made application to buy their house constituted just three percent of all residents of scattered-site housing and only 22 percent of those who were qualified for financing under one of the several publicly supported mortgage programs that were available to the housing authority.

This low qualifying rate is especially surprising because one of the financing programs available to the lowest income buyers made mortgages available at interest rates as low as four percent. The fact is, however, that poor credit histories and outstanding credit problems are, as often as not, the real stumbling block to qualifying for a loan.

Based on their experience to-date, Baltimore's program designers decided that it would be difficult to find the two additional families needed to meet their 30 unit goal and that, given what they believe to be a reasonable and responsible set of eligibility requirements, they had exhausted the effective demand for homeownership among their 2,600 scattered-site public housing residents.

Los Angeles, Chicago and St. Mary's County also had difficulty finding qualified and interested buyers for the modest number of units that they targeted for sale. (See case studies in Volume II).

Lack of Replacement Housing. The PHHD guidelines made no mention of replacement housing and HUD provided no funds for replacement housing. This undoubtedly played some role in discouraging some housing authorities from participating in the demonstration. For most participants, however, this was not a major problem since they were only selling a very small proportion of their overall housing stock. The exception to this, however, was the Philadelphia PHA, which refused to execute its participation agreement with HUD until the agency agreed to allocate funds for new replacement units. HUD did so without acknowledging that those new units were a quid pro quo for the PHA's agreeing to participate in the demonstration. Nevertheless, the fact that Philadelphia received some production funds for replacement housing while no other PHAs did, confuses the replacement housing issue. As it turned out, however, Philadelphia never did get their program off the ground nor, for that matter, were they able to secure sites for this new allocation of public housing units. Ultimately, the housing authority requested and HUD agreed to convert its allocation to Section 8 certificates and vouchers.

According to officials we interviewed in several cities, the fact that HUD allocates no funds specifically for replacement housing will impact the decision as to whether their housing authorities will continue homeownership efforts now that the demonstration period has ended. Given long waiting lists for public housing in many demonstration cities most participating PHAs have indicated an unwillingness to expand their sales efforts without HUD funds for replacement housing.

Relocation Difficulties. The prohibition against involuntary relocation led to controversy and/or slowed program implementation in several cities. Some housing authorities sought to sell single-family units that were occupied by families who were either ineligible or not interested in owning a home by enticing them to move with an offer of alternative housing or Section 8 rental assistance. In the course of the demonstration, relocation had the potential to become a problem in the multifamily sales sites and, to the best of our knowledge, became a real problem in three of five sites, Denver, Paterson and St. Thomas. Each handled the relocation issue very differently. In Denver, the major reconstruction of the two segments of the Curtis Park public housing project that was to eventually become the Upper Lawrence and Arapahoe co-ops, required the relocation of all tenants during the construction period. In Paterson, the substantial modernization of the Brooks-Sloate project, which is scheduled to become a 242 unit co-op, was accomplished with tenants in residence. In St. Thomas the plan is to sell one-half of a 240 unit development. Non-participants will be moved to the half of the development that will be retained by the housing authority or be given housing vouchers to rent from the co-op or move to private housing.

According to Denver Housing Authority officials, all relocation was voluntary, and a team of DHA staff helped families to move, resettle, and get new utility accounts opened. Some tenants accepted apartments in other DHA developments, including its scattered-site properties, while others opted for housing vouchers which they could use in Denver's private rental market. Since all relocation was completed prior to the start of our data collection effort and only two relocated families returned to either co-op as buyers, we were not able to document first-hand the nature of the relocation process. We did, however, interview a number of former Curtis Park residents who indicated that they were force to move. (See Chapter 5) Because their opinion differs with those of the housing authority officials who were involved with the process, we cannot conclude that involuntary relocation did or did not take place in Denver. We can only say that it remains an unresolved sensitive issue.

In Paterson, as discussed in detail in Volume II of this report, legal action was brought against HUD and the housing authority alleging, among other things, that the PHA was forcing non-buying tenants to move out of Brooks-Sloate against their will. The housing authority denied the charge, arguing that under its existing Annual Contributions Contract (ACC), the PHA has the right to move a family from one public housing development to another for a variety of reasons, including a change in family size and the need to modernize a project. If this kind of intra-public housing relocation is permitted under the ACC, the housing authority took the position that it must be permitted under HUD's demonstration regulations.

Under a court-supervised compromise settlement, the Paterson Housing Authority agreed not to require non-buying tenants of Brooks-Sloate to move because they were either not interested in joining the co-op or were not eligible to join. This means that a yet-to-be-determined number of residents will likely opt to remain in Brooks-Sloate as tenants of the co-op, and HUD has committed a sufficient number of housing vouchers to the PHA to accommodate them. The unanswered question is how much more than just a simple majority will it take to form a viable cooperative and what will be the social and financial implications of having a sizable number of renters in residence.

In St. Thomas, at first, neither the consultant nor the VIHA project manager felt that relocation would be an issue in the conversion. The original plan was to offer those who could not or did not wish to join the co-op several options. First, non-buyers who wished to, would be moved to the non-co-op half of the Pearson Gardens development, which will remain part of the public housing inventory. Voluntary relocation to other public housing developments would be another possibility, although low vacancy rates in habitable projects make this a low priority alternative. Finally, if the number of non-buyers who wished to remain in the co-op half of Pearson Gardens were small enough, VIHA could lease a sufficient number of units from the co-op to permit these residents to stay.

In reality, the relocation problem has turned out to be one of the major barriers to converting Pearson Gardens. A substantial number of residents in the co-op half of Pearson Gardens do not want to join the co-op and would willingly move to the non-co-op half of the project. Similarly, a sizable number of residents in the non co-op half of the project would like to buy into the co-op.

Conceptually, a substantial portion of the problem could be solved through a simple exchange of units, with buyers trading apartments with renters who want to move into the co-op and buy a unit. There are three problems with this scenario. First, the size of the two groups is not the same. There are 30-35 families in the co-op portion of the project who do not want to join the co-op and just 24 families in the non co-op side that want to buy a unit. Secondly, these respective groups' space needs are not the same so that a simple exchange of units would not work. Moreover, before even a partial exchange could take place, apartments need to be painted and prepared for their new occupants. Co-op members have volunteered to paint the apartments in the non co-op part of the project rather than wait for the housing authority to do it, if this would speed up the process. Thus far, VIHA has taken the position that full apartment inspections must be done and all necessary repairs completed before any voluntary transfers take place. And, since both manpower and resources to complete the repairs are in short supply, this could take some time.

Finally and most importantly, throughout this very difficult period, VIHA has continued to fill vacancies in the co-op portion of Pearson Gardens that occur through normal turnover, with new renter families taken from the St. Thomas public housing waiting list. That is, rather than saving these units for families in the non co-op portion of Pearson Gardens who wish to join the co-op, VIHA is renting them to new public housing tenants without regard to their ultimate interest in homeownership. Letters from the co-op sponsors to VIHA urging the authority to cease such actions have, thus far, gone unheeded. According to VIHA, there are too few available public housing vacancies to withhold apartments from the market when the demand for low rent housing is so great.

In sum, as of September 1989, there was no workable plan for the relocation of non-buying tenants in Pearson Gardens, and little prospect that the relocation issue would be satisfactorily resolved in the near future.

The Issue of Long-Term Affordability

One of the unknowns at the start-up of any low-income sales program is the ability of the home buyer to keep up with the financial demands of homeownership. The issue of long-term affordability has both demand- and supply-side components, both of which can be affected by certain program design decisions. Thus, for example, with respect to demand, a homeownership program that underwrites mortgages using a 20- or 25-percent housing expense-to-income ratio will, other things equal, provide the home buyer with a greater financial cushion against rising taxes and and utility costs, than would a program that underwrites mortgage loans using a 30- or 35-percent ratio. Housing authorities that discount the incomes of teenagers and other part-time workers before underwriting a family's mortgage loan also provide an additional measure of financial protection. Similarly, although it might reduce the size of its potential sales market, a housing authority that sets relatively high minimum income standards and requires at least one adult in the home-buying household to be employed full-time in occupations that generally provide health insurance and disability benefits are less likely to find its home buyers experiencing housing affordability problems in the future.

On the supply side, warranties against defects in construction and rehabilitation, fully capitalized replacement and operating reserves and other "safety net" type loan and grant programs that are available to home buyers to help finance major repairs, will also help preserve long-term affordability.

The demonstration programs vary dramatically in their recognition and treatment of the long-term affordability issue. On the demand side, housing authorities established widely varying minimum income requirements and utilized housing expense-to-income ratios ranging between 25 and 35 percent. Most, but not all, programs required that at least one adult be employed full-time.

Substantial interprogram variation is also evident on the supply side. For example, while virtually all multifamily programs and most single-family programs planned on capitalizing a reserve fund, in a number of programs, these plans were not implemented. In Washington, D.C. the intended source of the reserve funds was diverted within the agency over a jurisdictional dispute; in Nashville, certain conversion costs exceeded expectations and the PHA deducted some of the overrun from the co-op's intended reserves. Also, we found substantial disagreements between home buyers and housing authorities over how construction and rehabilitation warranties are to be effectuated. In both Washington, D.C. and Denver home buyers believe that the housing authorities are not living up to the commitments embodied in the warranties.

Delinquencies and Defaults.

While affordability is an issue that will only be resolved over time, we can report on the extent to which families have experienced difficulty in meeting their financial obligations within the first year-to-18 months of buying their home. The data was collected in interviews with program directors, and was generally corroborated by the buyers themselves in the home interviews. (See Chapter 5.) Though our data are somewhat incomplete and could be misleading in the case where we attribute move-outs of delinquent buyers to financial difficulties, or when their principal motive for moving could have been non-financial, we did find evidence of potentially serious affordability problems.

According to program officials in the 13 cities in which there was sales activity, eight programs (170 sales) reported no problems with late payments, delinquencies or defaults (Table 6.2). However, five programs, accounting for the sale of 150 units, did report having some problem with late payments or more serious delinquencies. Although we cannot establish a firm delinquency rate, we estimate that between 10 and 15 percent of all initial buyers, including move-outs, experienced some

Table 6.2: Delinquencies, Defaults and Foreclosures (as reported by program managers)

Public Housing Authority	Delinquency, Default and Foreclosure Experience
Baltimore, Md.	28 family sales -- no reported problems
Chicago, Ill.	14 single family sales -- no reported problems
Denver, Colo.	88 multifamily sales in two co-ops -- 7 vacancies as of August 1989; at least twelve turnovers since closing; approximately a third of all shareholders in Upper Lawrence are delinquent, as are a fifth of all shareholders in Arapahoe
Los Angeles, Calif.	9 single family sales -- no reported problems
McKeesport, Pa.	9 single family sales -- one family has been delinquent on two separate occasions
Muskegon Heights, Mich.	2 single family sales -- no reported problems
Nashville, Tenn.	85 multifamily unit co-op sales -- no reported problems
Newport News, Va.	15 single family units sales -- no foreclosures although several owners have missed one or two payments
Reading, Pa.	8 single family sales -- 1 unit repurchased by the PHA to preserve buyer's equity; another homeowner became seriously delinquent due to a heart attack. The housing authority suspended payments until the individual was well enough to return to work.

Table 6.2 (continued)

Public Housing Authority	Delinquency, Default and Foreclosure Experience
St. Mary's County, Md.	30 single family sales -- 1 house taken back by the housing authority when buyer was jailed on a drug conviction. Fourteen other buyers (46.7 percent) have had payment problems.
Tulsa, Okla.	1 single family sale -- no reported problems
Washington, D.C.	23 multifamily sales -- no reported problems
Wyoming, Mich.	8 single family sales -- no reported problems

financial problem in meeting their housing costs within the first 18 months of homeownership. The majority of these, however, were confined to Denver.

The affordability issue can be a variable problem. It can be no more severe than one in nine home buyers in McKeesport having been delinquent on two separate occasions, to 15 families, or half of all buyers, in St. Mary's County having had payment problems during their first months of owning a home. Even more serious financial problems have been encountered in Denver's two cooperatives. A third of all current occupants of Upper Lawrence, and a fifth of those in Arapahoe are reported by management to be behind in their co-op charges. The problem is especially serious in Upper Lawrence, where the incomes of the buyers, which average around $13,000 a year, are too low and employment too unsteady to enable a family to save enough money from current wages to make up past delinquencies.

Assessing the Benefits and Costs of the Demonstration

It is not yet possible to assess the costs and benefits of the homeownership demonstration. Insufficient time has passed to determine whether the social and financial benefits commonly attributed to homeownership do, in fact, accrue to the vast majority of former public housing residents who have bought homes under their local program. At this time, too, few public housing authorities were able to provide us with any sense of the financial impacts that their sales programs will have on their operations. For most participating PHAs, both the numbers and proportions of their inventories that were sold under the demonstration are sufficiently small as to have an inconsequential effect. Therefore, from the housing authority standpoint, at least, an assessment of the costs and benefits of a fully operational Section 5(h) sales program could not rely on data gathered during the demonstration period. Finally, since many of the hypothesized benefits of the program are either non-quantifiable or are difficult to measure, it is unlikely that we could have completed a comprehensive benefit-cost analysis of the demonstration, even if we had more time to do it.

We have learned a great deal about the benefits and costs of selected sales programs and how they are distributed among the various participants. While our assessment falls short of the more formal and rigorous cost benefit analysis that must be completed at a future time, it may still inform the decisions of public housing authorities, residents, policy makers in HUD and legislators in the Congress who must make decisions regarding the future of public housing homeownership programs before long-term costs and benefits can be tallied.

Our assessment of demonstration benefits and costs is organized by the four major participants. These are the public housing resident who elected either to buy or not to buy her/his unit, the public housing authority and local and federal governments.

Costs and Benefits to Public Housing Residents. Public housing residents who buy their house or apartment may accrue a variety of social benefits and at least three types of financial benefits. With respect to the former, we previously indicated that a large percentage of buyers offered non-financial reasons for wanting to own their own home. These included wanting to be able to fix-up their house or yard without first having to get housing authority approval; to have a good place to raise their children; not to have to worry about being evicted; and, most importantly of all, to have something of value to pass on to their children.

The three sources of potential financial benefits that could accrue to home buyers are from the growth of equity due to mortgage pay-down and property appreciation, lower monthly housing payments for the same or better housing than when they were public housing tenants, and tax savings that result from the deductibility of mortgage interest and property taxes. The size of these potential benefits will vary greatly from site-to-site due to differences in local market conditions as well as program parameters such as financing arrangements and resale restrictions. We can, however, give each of them an order of magnitude.

Ignoring for a moment prohibitions against windfall gains and resale restrictions, it is reasonable to conclude that the greatest potential source of financial benefits of homeownership will derive from the housing authority's gradual extinction of the buyer's silent second mortgage. Since, in most cases, market prices were discounted for affordability, this means that, holding constant buyer incomes, potential equity gains will rise with the value of the house purchased and, for houses of similar value, they will be higher for lower-income than for higher-income buyers. The latter will be true because the size of the silent second mortgage that the housing authority gradually forgives over time will be inversely related to the buyer's income. Any community- or neighborhood-wide increase in property values over the ownership period would, of course, increase potential equity gains.

The Chicago Housing Authority will forgive silent second mortgages at the end of five years at which time, buyers will be free to sell their units in the open market. With an average market value of around $37,500 at time of sale and a typical first mortgage of under $20,000, even if property values remain flat, the former public housing tenants who acquired their units in Chicago stand to accrue $17,000-$18,000 dollars in equity under the homeownership demonstration. In Baltimore, both prices and second mortgages were generally lower ($23,434 market value and $5,285 silent second), and twelve of twenty-eight buyers actually paid the full appraised value for their unit, which means that potential equity gains there will depend much more on the future course of property values than on the extinction of the housing authority's second liens. Moreover, unlike Chicago's five year resale restrictions, Baltimore's will last for ten years, although the second lien is systematically reduced by 10 percent per year, which means that the penalty for early sale is less severe than in Chicago where no sales at a profit are permitted during the first five years of ownership.

Perhaps, the site with the greatest potential for equity gains is Washington, D.C., where the average Wylie Courts condominium unit was appraised at more than $62,000, and the average second mortgage exceeded $44,000. Applicable resale restrictions heavily penalize a sale during the first seven years of ownership. In the eighth year, however, gross equity gains are split evenly between the seller and the housing authority and for each additional year that the original buyer remains in the house, the housing authority's share of the proceeds from sale are reduced by another 7 percentage points. Thus, at the end of ten years, for example, the former public housing resident who sells a Wylie Courts unit gets to keep 71 percent of the realized equity. Ignoring paydown on the first mortgage and any property appreciation which would increase equity-buildup, this still amounts to nearly $34,000 in undiscounted gains. At a three percent annual appreciation rate, over a ten year ownership period, the seller of a Wylie Courts condominium unit could realize more than $50,000 in before-tax sales proceeds, after paying off the balance of the first mortgage and the housing authority's share of the equity.

As we indicated earlier, since virtually all housing units sold under the demonstration received some rehabilitation, even if a buyer's housing costs did not change as a result of the transition from owner to renter, the value of the additional housing services received constitute another financial program benefit. This benefit would be even greater if the out-of-pocket costs of owning a house are less than the former public housing resident's rent payments.

One of HUD's rules for the national demonstration was that "In calculating a sales price, total housing costs for the prospective buyer after the sale should not be less than his or her current rent contribution". However, this rule was not always followed. Although our survey responses indicate that for all buyers, payments for mortgage, taxes and utilities were slightly higher than they were for rent and utilities, this comparison excludes maintenance costs, which the household must bear as an owner but not as a tenant. On the other hand, many relatively well-off buyers had been paying substantial rents in public housing. Several buyers in Chicago, for example, were paying $800 or more in rent, which is much more than they are now paying as home owners. The cost savings for Baltimore buyers may not be as great, but for many, they will be considerable. This is because the PHA underwrote mortgage loans using a 25 percent housing expense ratio. In Baltimore, the average home buyer's payment for mortgage, taxes and insurance is $185 a month. This is just 54 percent as high as the average rent these families paid as public housing tenants. Although the added cost of maintaining their houses will narrow the savings, it should not eliminate them.

In general, lower-income families do not benefit from itemizing deductions on their federal income tax returns. For most, the standard deduction is greater than the sum of individual deductible expenses. For some of the higher-income buyers, the deductions for mortgage interest and property tax payments could make itemizing financially beneficial to them. Assuming a 15 percent marginal tax rate, a house appraised at $40,000, for which property taxes average one percent or $400, and a $17,000, nine percent 30-year first mortgage, first year tax savings would amount to around $300.

Public housing tenants who bought a house or apartment under the demonstration can suffer three types of potential financial losses: recapture of the PHA subsidy if they violate resale restrictions; higher homeownership costs for the same or inferior housing they occupied as public housing tenants; and, the added cost (relative to public housing rents) of having to obtain rental housing in the unsubsidized market in the event of a forced sale or foreclosure. First, if they are forced to sell their units before the resale restrictions have expired, they may realize less from the sale than they need to pay back the outstanding balance on their first and second mortgages. Too little time has passed to project whether this will happen to many buyers. At some sites several buyers fell behind in their payments and vacated their units as if they had been renters. In the case of the Upper Lawrence co-op in Denver, the share owners who left their units each lost their $800 down payment. Our survey of home buyers indicates that nearly 15 percent are having or had difficulty making their mortgage or co-op/condo payments, and that around 10 percent are currently delinquent (most of them are in Denver). And of those delinquencies, 60 percent are behind one month in their payments, and 40 percent are two months or more behind. These data suggest that while a large segment of buyers stand to gain substantial equity as a result of buying their house or apartment, a sizable number will lose their modest down payments and whatever little amount of equity they build-up in the early period of ownership.

Second, just as many buyers are receiving more housing for the same money or the same amount of housing for less money, the reverse is true for a minority of demonstration participants. To the extent that families moved into less desirable neighborhoods or bought houses with latent or more obvious construction defects for which they are now financially responsible, the cost of owning could exceed the benefits received.

The third potential loss to the participants is the lack of fall-back mechanism in the event of failure. Nashville is the only program where the housing authority is committed to securing subsidized housing for buyers who fail to make it as homeowners in the New Edition co-op, subject to applicable federal laws and regulations regarding tenant selection preferences. In other demonstration sites, buyers who lose their units because they are unable to keep up with their housing payments will have to secure alternative accommodations in the private market. To the extent that the private market rent for the same or less desirable housing exceeds the former owner's public housing rent, we could say that this difference represents a potential cost to them that could be attributed to the homeownership demonstration.

Costs and Benefits to Public Housing Authorities. Housing authorities elected to participate in the homeownership demonstration for a variety of reasons--some financial and some non-financial in nature--and did so voluntarily. From their perspectives, therefore, the perceived benefits of creating a homeownership program exceeded the perceived costs. On the benefit side, several housing authorities mentioned the importance of empowering individual tenants through homeownership and helping them create an equity interest and stake in their neighborhoods and communities. Since these are more properly classified as benefits to the buyers and their communities, for purposes of our cost benefit analysis, we will not consider them as accruing to housing authorities.

Because HUD continued to pay off the outstanding original debt on the construction and subsequent modernization of public housing projects even after they were sold, the value of this subsidy is neither a cost nor a benefit to the participating housing authorities.

HUD's technical assistance grant, which averaged $35,728 per housing authority, was a benefit, although most housing authorities told us that they spent far more money administering their demonstrations than they received in HUD funds. From an administrative standpoint, therefore, personnel and non-personnel costs exceeded the added revenues housing authorities received as participants in the demonstration.

Another financial benefit, this one reserved for housing authorities that sponsored multifamily conversions, was in the form of a special allocation of housing voucher funding authority from HUD. PHAs can offer vouchers to non-buying tenants who elect to move out of public housing or want to remain in their apartments as tenants of the newly created co-op. We cannot place a value on this financial benefit to selected housing authorities because the two largest conversions--a 242 unit co-op in Paterson and a 120 unit co-op in St. Thomas--have not yet closed, so the number of continuing renters needing voucher assistance in these projects is not known. HUD has, however, reserved up to 92 vouchers for allocation to non-buying residents of Brooks-Sloate, with the actual number to be determined at the time of closing.

Whether they elected to finance the sales themselves or arranged third-party financing for buyers, every PHA that transferred at least one unit to a former tenant received some revenue from the sale. Initial net sales proceeds were positive or negative, however, depending upon the demonstration-related services and activities that were financed from this revenue source. In several cases, because the PHA served as the mortgagee and the home buyers' monthly payments will be paid over 15 years or more, the net present value of sales proceeds might be highly positive while in terms of out-of-pocket costs, the financial impact of the sales program on the housing authority's current condition might be negative. This is probably true for such programs as

McKeesport, Wyoming, Reading, St. Mary's County and Washington, D.C.

The housing authorities that secured third-party financing for their single family home buyers, such as Los Angeles, Chicago, Newport News and Baltimore, received the bulk of their sales proceeds at closing and, after deducting various program-related expenses, most likely have some surplus revenues to supplement their low-income housing activities. For example, Baltimore received nearly half a million dollars from the sale of 28 scattered-site units, while Los Angeles earned around $300,000 for selling nine units, and Newport News raised around $250,000 through the sale of 15 units. Although Chicago earned a somewhat higher $277,000 by selling 14 units, the PHA financed an average of more than $15,000 a unit in rehabilitation out of gross sales proceeds.

The impact of net sales proceeds on the demonstration's two cooperative conversions are quite different. Nashville priced the New Edition co-op at rehabilitation cost, and hoped to recover its entire investment from the proceeds of the co-op`s permanent loan. However, because the sum of the cooperators' down payments and the National Consumer Co-op Bank's first mortgage loan to the co-op was $250,000 less than the housing authority's costs, from the standpoint of net sales proceeds, it had a negative impact.

The jury is still out in Denver's case. That housing authority netted around $1 million from the sale of tax credits in the

Arapahoe conversion but it has sustained losses as a result of serious occupancy and management problems in Upper Lawrence. According to PHA officials, vacancy losses at Upper Lawrence have already cost the housing authority more than $70,000 since closing. Moreover, since the PHA promised to indemnify the co-op against future losses due to shareholder non-payments in order to secure permanent financing, its contingent liability could be substantially more than its current losses.

As Arapahoe's permanent lender, the housing authority receives nearly $10,000 a month in mortgage (or rent) payments. Although the continuation of these payments is contingent on the financial and management health of the co-op, the housing authority's role as special limited partnership is intended to ensure that such problems do not occur. Finally, in order to make the sale of the Arapahoe tax credits attractive to a private investor, the housing authority has indemnified the limited partner against 80 percent of the losses of the tax credits and 80 percent of any recapture of the tax credits that may occur in the future. Although the likelihood that the housing authority will have to make good on this guarantee is small, it does represent a significant contingent liability.

Especially because of the net revenue received from the sale of Arapahoe's tax credits, net sales proceeds are positive but the losses the housing authority has suffered at Upper Lawrence has considerably reduced the surplus revenues generated by its homeownership program.

Federal law prohibits HUD from providing continuing operating subsidies to public housing that it sold to tenants under a Section 5(h) homeownership program. Other things equal, the amount of money that a housing authority receives each year under HUD's operating subsidy system will fall as a result of initiating a homeownership program. Moreover, the larger the sales program, the greater the reduction in operating subsidies. This does not mean, however, that the effect of a sales program on the PHA's financial status will always be negative. Along with a loss of operating subsidies associated with the sale of a given number of units, a PHA should also experience a reduction in total operating costs. It is this relationship between the loss of revenue and the potential reduction in costs that will ultimately determine whether a public housing homeownership program will end up being a net cost or net benefit to the PHA.

Because HUD's public housing operating subsidy system [formally known as the Performance Funding System (PFS)], is so complex, few PHA officials were able to quantify the effect of their sales programs on net PHA receipts. This was true for several reasons. First, because several housing authorities are selling very small percentages of their inventories, the net effects of their homeownership programs on their financial condition will be inconsequential. Secondly, sales-induced changes in a PHA's financial status will not only depend on changes in its operating subsidy, which is largely formula-driven, but on whether the housing authority's actual costs of operating and maintaining the sold units was higher or lower than those predicted by the PFS equation. Since few housing authorities engage in project-based budgeting, they tend not to know how the sale of a given project or certain number of units will affect their overall operating condition. Finally, although we are interested in the impact of homeownership programs, a number of non-sales-induced changes in a PHA's operating status routinely take place each year that will also affect its financial status. These include the initial occupancy of new units added to the inventory through acquisition or development, demolition of an obsolete project, or reoccupancy of a project or projects that had been temporarily vacated due to modernization. No housing authority officials with whom we spoke were able to isolate the financial impact of its sales program from these other changes.

Despite these limitations, it is useful to discuss the potential impact of a public housing homeownership program on a PHA's financial operations, with special reference to changes in HUD operating subsidies if only to help define the framework for future empirical work.

Briefly, the PFS operating subsidy is intended to cover the difference between an allowable level of operating expenses and available income (from rents and investment income). If a "housing authority can operate at a lower level of expenses than allowed under the PFS, or can realize a higher level of income than is estimated under PFS," it gets to keep the extra income to fund additional program activities. If, however, a PHA's "expenses exceed the level allowed under PFS, or if it does not achieve the level of income projected under PFS for reasons within its control, it must increase efficiency, reduce expense levels, or secure funding from other sources" (PFS Handbook 7475.13 REV p. 1-1). Since the sale of units under a homeownership program affects both sides of the operating subsidy equation, we will discuss the expense and income sides separately.

According to the HUD Performance Funding System Handbook, a housing authority's allowable expense level (AEL) is initially established based upon the PFS formula which reflects the past costs of a group of PHAs considered well-managed, and is up-dated each year for inflation and to reflect changing characteristics of the PHA. If a housing authority has not had a change of five percent or 1,000 units in its inventory, the previous year's AEL will be increased by .5 percent, to reflect the generally higher operating costs of aging projects. If, on the other hand, a housing authority has had a change greater than five percent or 1,000 units, the changes in its AEL will be recalculated using the PFS formula that includes variables such as building age, height and bedroom count distribution of the PHA's inventory. Thus, both the direction and magnitude of the changes in a PHA's AEL will be determined by the characteristics of the properties sold.

Other things equal, a PHA's AEL will be higher the older and taller its inventory and the larger its apartments. Similarly, once the five percent sales threshold has been reached, a PHA's

AEL will increase or decrease depending upon the characteristics of the housing units that are sold to tenants. If, for example, a PHA's co-op conversion program targeted for sale older, mid-rise developments containing larger-than-average apartments, and was sufficiently large to have the effect of reducing the PHA's average building age from 10 years to eight; its average project height from five stories to four; and its average unit size from four bedrooms to two, these changes in inventory characteristics would reduce the housing authority's allowable expense level. According to HUD's PFS formula these exchanges would result in a loss of $2 per unit/month, or by $24 per year.

Ignoring for the moment changes on the income side of the PFS formulation, the hypothetical sales program reflected in the above figures would lead to a reduction in the PHA's operating subsidy eligibility on two counts. First, the housing authority would lose the full operating subsidy applicable to those units which it transferred to the co-op(s) and no longer owns. Second, because the units it sold had higher-than-average operating cost characteristics, the PHA's revised AEL, which helps determine the operating subsidy it receives for its remaining units, would also fall. Thus, continuing the above example, if, after completing its current year's sales program, the PHA were to have 1,000 units remaining in inventory, the homeownership program would reduce the housing authority's operating subsidy eligibility for the coming year by $24,000 in addition to the loss caused by the inventory reduction due to sales.

The potential impact on the housing authority's financial condition of the reduction in PFS eligibility would depend on both the scale of its homeownership program and whether the previous costs of operating and maintaining the converted units as public housing were actually higher or lower than those implicit in the PFS equation.

The relative size of the homeownership program is important because a housing authority's overhead costs are pro rated across its entire inventory. Since such centralized administrative costs as the salaries of the executive director and other front office staff, as well as certain PHA expenses such as insurance, do not necessarily decline proportionately with a decline in inventory size, a relatively large sales program could end up burdening the remaining inventory with excessive overhead costs. If the PHA were unable to shed some of its fixed overhead costs, then the loss of units due to sales could have the undesirable effect of reducing housing authority revenues available for maintenance and tenant service.

The potential effects on the PHA's financial operations of a sales program-induced change in AEL will be determined on the basis of whether the PFS system accurately reflects the operating costs of the type of units sold and the quality of PHA management. Since we are not in a position to address the former issue, and management quality varies across housing authorities, we cannot generalize about the financial impact of homeownership programs on housing authority operating costs.

Using HUD public housing production funds, many housing authorities have acquired and rehabilitated single family units for permanent use as public housing. This was especially common in the 1960s and early 1970s, and continues to be the preferred means of increasing public housing inventories in many cities because of the higher quality of life these individual housing units offer families than do apartments in densely developed high-rises. Philadelphia has more than 7,000 scattered-site units, which represents almost one-third of its public housing inventory. While smaller, Baltimore's 2,600 scattered-site units represent approximately 15 percent of its public housing stock. In smaller housing authorities like St. Mary's County, virtually the entire public housing stock is comprised of single-family or townhouse units. When asked why they selected single family units for sale, most housing authority officials mentioned that this stock was disproportionately costly to manage and maintain. The PHAs thought they could simultaneously accomplish two worthwhile goals by selling off a portion of this costly stock: create homeownership opportunities for some of their residents while reducing average operating costs for the remaining inventory.

Although we do not have any empirical evidence that they are correct, the implication of the PHA assessments was that the actual costs of managing their respective single-family inventories were greater than the costs predicted by the PFS formula. This implies that a public housing homeownership program that features single-family sales should cause a smaller reduction in a PHA's operating subsidy than it saves in operating costs.

Under the PFS system, a PHA's allowable expenses "are compared with projected available income and the difference is the housing authority's operating subsidy eligibility" (HUD Handbook 7475.13 REV, p. 1-1). Unlike allowable expenses, which are formula-based, anticipated income is based upon the housing authority's actual rent roll, adjusted for inflation, in the year preceding the fiscal year for which its operating subsidy eligibility is being determined. Based on how the operating subsidy system works, a PHA's financial status should not depend upon the incomes of its tenants. Other things equal, operating subsidies should vary inversely with tenant incomes, with poorer PHAs receiving a smaller proportion of total revenues from rent and a larger proportion from HUD operating subsidies.

We should be able to conclude that, at least from the standpoint of the effects of a homeownership program on its operating subsidy allocation, a housing authority should be indifferent as to the income mix of the projects or dwelling units it sells. If the incomes of the tenants who bought their units are substantially higher than average, the PHA's operating subsidy eligibility for all units remaining in the public housing inventory should increase to offset the income loss (assuming no change in the PHA's AEL). There is no certainty of this, however because HUD requires housing authorities to project anticipated rental income on the basis of a 97 percent occupancy rate, and makes no provisions for rent charges that are not collected from tenants. Therefore, should occupancy and rent collection rates in a particular project be lower than 97 percent for reasons that HUD considers within the PHA's management control, the PFS system will penalize the housing authority accordingly. If, however, a PHA has a HUD-approved Comprehensive Occupancy Plan (COP) for projects with lower occupancy rates, operating subsidies will not be cut as long as progress is being made to reduce vacancies.

While the fact that HUD may reduce operating subsidies for projects suffering from high vacancy rates and collection losses would seem to give housing authorities an incentive to sell such projects, they are generally not ideal candidates for conversion. More often than not, these properties tend to be high-rise family projects in densely configured developments, require substantial amounts of rehabilitation, and are occupied by families who are too poor to support the continuing costs of homeownership.

Costs and Benefits to the Federal Government. The federal government receives two major benefits from a public housing homeownership program. The first benefit is equal to the discounted present value of the continuing operating subsidy that HUD will no longer have to pay for the housing units sold to tenants, adjusted for any increase in operating subsidy eligibility for the remaining inventory caused by a change in the PHA's allowable expense level.

In Newport News, for example, the sale of 15 units will cause the housing authority to lose and the federal government to save approximately $14,717 a year in operating subsidies, or $82 per month for each transferred unit (excluding any further AEL-induced changes in operating subsidies). The potential federal savings is greater in Denver because the PHA's average operating subsidy per unit is a higher $102 per unit per month, and the housing authority disposed of a total of 140 units in order to create two 44-unit co-ops. Twenty units had to be demolished at Upper Lawrence to thin densities and create interior common open space for the co-op. A total of 32 units were demolished and/or merged at Arapahoe to create open space and larger apartments. Thus, ignoring any changes in the housing authority's AEL, the creation of the two cooperatives in Denver will save HUD more than $171,000 per year for the next 20 years or so.

The second federal benefit from a public housing sales program is the savings that accrue as a result of HUD not having to invest in further modernization of units once title has been transferred. The value of this savings is somewhat lower than it might have been in housing authorities like Paterson, that decided to finance the rehabilitation of their homeownership projects using HUD modernization funds. Where housing authorities used non-federal funds to rehabilitate the units to be sold as Denver did, the federal benefit related to future modernization savings will be greater.

Finally, there may also be indirect federal benefits associated with homeownership programs. These may include greater involvement in neighborhood, local and national affairs, increased work incentives as owners' rents do not increase with income as happened when they were public housing tenants and decreased welfare dependency. But these indirect benefits have not been empirically demonstrated and are difficult to quantify.

There are four direct federal costs of a public housing homeownership program. The first and most unambiguous is equal to the discounted present value of housing vouchers or other housing assistance that HUD might allocate to PHAs to rehouse non-buying tenants in the private market or to enable them to remain in their present units as tenants of newly-framed co-ops.

The second federal cost is that of rehabilitating the units to be sold, if the rehabilitation was federally financed. Arguably, if the housing was scheduled for rehabilitation before it became a candidate for sale, a case could then be made that this cost should not be attributed to the homeownership program. If, however, higher rehabilitation standards were used because the property was going to be converted to a co-op, then the difference between this higher cost (up to the CIAP prototype standard) and the average PHA modernization cost could properly be considered a federal cost of the homeownership program.

The third federal cost of a public housing homeownership program is the cost of the technical assistance and other direct support that HUD provides local housing authorities in implementing their efforts. Although four housing authorities requested no technical assistance funds from HUD, thirteen PHAs received technical assistance awards of up to $50,000 each. The average technical assistance grant awarded by HUD was $35,728; the smallest was $4,299 and the largest was $50,000. We found these grant amounts to be insufficient, however, so future technical assistance costs would likely be higher.

The fourth and final major federal cost of a public housing homeownership program equals the loss that results from transferring title to public housing from the public to the private sector. There are two ways of assessing this cost. The first is the value of the outstanding housing authority bonds that were issued when the project was built and subsequently modernized with federal funds or, in the case of scattered-site single family units, when the housing was acquired on the open market and then rehabilitated using public housing development monies. In Paterson, for example, Brooks-Sloate Terrace was built in 1951 at a federal cost of $4.5 million ($18,595 per unit), and financed with 40-year, tax exempt bonds at an interest rate of 2.08 percent. The outstanding balance on the PHA bonds is now less than $400,000 and they will be fully retired in February 1991. During the 1980s, however, the Paterson Housing Authority received more than $24 million in HUD funds to modernize Brooks-Sloate. Therefore, the unpaid balance on the bonds used to finance this work should also be counted as a federal cost of the homeownership demonstration, which would bring the total to around $24.4 million.

The problem with this means of measuring the value to the federal government of the lost public housing inventory is that it bears no relationship to either the market or replacement value of the housing. The second and preferred means of estimating this component of the federal cost of the demonstration is through an appraisal of the market value of the housing being sold. Under this line of reasoning, the cost to the government of building and periodically modernizing the public housing is a sunk cost that may have no actual bearing on the value the market places on it. Market value may be more or less than either the historic cost to build the housing or the outstanding value of the federal bonds. In Brooks-Sloate's case, for example, a 1984 appraisal placed the market value of the 242 unit complex at just over $6.7 million, or $27,814 per unit. Given its location in a desirable section of the city and the additional rehabilitation it has received since 1984, Brooks-Sloate`s value could be even higher today.

Baltimore presents a different situation because current appraisals of the public housing sold in the demonstration are, on average, lower than the housing authority's costs of acquiring and rehabilitating the properties during the 1960s. The PHA's average cost of acquiring and rehabilitating the 28 scattered-site units transferred to tenants under the PHHD was $28,531 a unit, while the average sales price was just $21,967, which is 23 percent less than cost. From a valuation standpoint, it is the latter that would be properly charged as a federal cost of the homeownership demonstration.

Costs and Benefits to the Local Community.

In theory, local governments should benefit from public housing homeownership programs through the positive neighborhood effects they generate. It is too early to determine whether these programs will stabilize neighborhoods, stimulate private investment and otherwise improve the quality of life for the new owners and their neighbors. However, most of the sales programs are already in relatively strong, stable neighborhoods. Those that are not, like Denver, are finding undesirable neighborhood conditions, including fear of crime and vandalism, problems that must be overcome in the marketing of their co-op units. Thus, rather than homeownership acting to stabilize neighborhoods, at least in the short run, poor neighborhood conditions may destabilize homeownership projects.

Because few communities invested local resources in their public housing homeownership programs, there is little to enter on the direct cost side of our benefit cost equation.

The most direct financial benefit of a public housing sales program to local communities is in the form of added tax revenues. The net revenue benefit of privatizing public housing is equal to the discounted present value of the property taxes paid on the newly privatized housing less the payments in lieu of taxes on the property previously paid by the housing authority. Should privatization affect the supply of local public services that will be delivered to the former public housing residents once they become home owners, the difference in cost would be subtracted from the net gain in tax revenues to arrive at the net financial benefit of the homeownership demonstration to the community.

With some exceptions, the small scale of most demonstration programs and relatively low appraised values of the properties being sold suggests that returning public housing units to local tax rolls will not have much of a financial impact on the host community. In McKeesport, for example, annual property tax payments of the nine public housing units that were sold under the PHHD total $5,400, or $600 a unit. The same is true in Reading. In St. Mary's County, each former public housing unit will now pay $700 a year in tax payments over 20 years, which discounted at seven percent is around $7,400.

The revenue effects of privatization programs will be greater for larger programs that are located in high-tax jurisdictions. Paterson is a good case in point. According to PHA officials, if Brooks-Sloate was fully taxable in 1984, the annual tax bill on the 242 unit, $6.7 million complex would have totaled more than $601,000, or $207 per month per unit. As public housing, the PHA gave $50,000 a year to the city in lieu of taxes, which means that privatization would mean a net revenue gain for the city of $551,000 per year. Over 20 years, this accumulates to a net municipal benefit of more than $5.8 million, assuming a seven percent discount rate.

While net revenue gain is a very attractive feature of the homeownership demonstration from the city's point of view, from the buyer's perspective Paterson's high tax rate looms as a near-insurmountable threat to the long-term affordability of homeownership. This is why the housing authority is working very hard to secure tax abatements for Brooks-Sloate. In fact, the PHA believes that full abatement is so important to the ultimate success of the conversion that the co-op's operating budget makes no provision for the payment of local taxes. The same is true in St. Thomas, where the low incomes of most public housing renters would make it very difficult for them to carry the costs of a home that included full payment of local property taxes. Although Pearson Gardens has not yet closed, the Virgin Islands government has already enacted legislation to abate the co-op's taxes for a period of 20 years after closing. St. Thomas will therefore receive no tax revenues from the privatization of Pearson Gardens.

CHAPTER 7

CONCLUSIONS AND POLICY RECOMMENDATIONS

Summary of Major Findings

The findings on program characteristics reported in Chapter 2 show that HUD was successful in including a wide variety of approaches to selling public housing in the PHHD. The 17 programs included in the demonstration varied on all major program aspects. The sponsoring agencies were both large and small: some had previous homeownership experience while others did not. The properties selected for sale included both single and multifamily units and they were conveyed either fee simple, as cooperatives, or as condominiums. Most agencies chose properties in good shape but several properties did need extensive repair. The means of establishing sales prices also varied widely among the demonstration programs, as did the means of guarding against windfall profits, providing for maintenance assistance after sale, and accommodating non-participants.

The findings reported in Chapter 3 indicate that the sponsoring agencies relied on three types of financing: private, state or local bond programs, and purchase money mortgages. Although private financing was present in 65 percent of the sales, a number of agencies experienced difficulty in arranging it. The terms of the financing fluctuated among programs and this had implications for who could qualify for homeownership.

Chapter 4 reported on the type, auspices, and extent of counseling offered to program participants. All but two of the sites relied, at least partially, on outside consultants or agencies to provide this assistance. The topics typically included the costs and responsibilities of homeownership, personal budgeting, and basic home repair and maintenance. Most sponsoring agencies underestimated the time and expense involved in training and counseling participants and most only provided pre-purchase, as opposed to post-purchase counseling.

Characteristics of the program participants reported in Chapter 5 suggest that participating families had higher incomes, were much more likely to have a full-time employee in the household, and were more likely to be two-parent families than the average public housing tenant. A large percentage of the participants are satisfied with their units, but their level of satisfaction with the surrounding neighborhoods is lower. When asked about their experience with the homeownership program the only frequently reported problem was in agreeing with the sponsoring PHAs on repairs to the units before they were transferred. The average monthly increase in housing expenses upon purchasing was $5, although there was considerable variation among sites. At the time of our home interviews approximately 10 percent of the buyers were at least one month behind in their payments.

The survey data also show that participants credited homeownership with positive social impacts, including feeling better about themselves and feeling more financially secure. The percentage of participants receiving counseling or training showed that not all received instruction on important topics. Those that did, however, found it very useful.

Finally, the data on program effectiveness and efficiency show that only 24 percent of the units (320 out of 1,315) intended for sale were transferred four years after the beginning of the demonstration. At best this will increase to 53 percent (699 out of 1,315) if the programs still moving toward sales are successful. The major problems encountered in selling units included lack of commitment to the program or ineffective management; poor program design; adverse local market conditions; low tenant incomes; lack of replacement housing; and prohibitions against involuntary relocation.

Designing a Successful Program

The experience of the 17 authorities that participated in the PHHD suggests a number of factors important to the success of a public housing sales program.

1. **The sponsoring agency, and the governing boards to which it reports, must have a strong commitment to the sale of public housing to tenants.**

As discussed in Chapter 6, a major obstacle to the success of several PHHD programs was the lack of support from the sponsoring agencies or their governing boards. In some instances, this lack of support was due to key actors not agreeing with the idea of selling public housing, even if it was to tenants. In both

Wichita and Muskegon Heights, elections and/or staff turnover resulted in erosion of support for the sale of public housing. In other cases, the lack of support resulted from the PHA's having to cope with more pressing problems. In Chicago, Philadelphia, and St. Thomas, the sponsoring agencies were facing major problems in managing the units they owned and paid insufficient attention to their demonstration programs.

In the more successful programs, on the other hand, key actors were more likely to be committed to the basic idea of selling public housing to tenants, and were willing to commit the necessary financial and human resources to make the program work. A strong commitment is needed to find solutions to the unexpected problems that are likely to surface in the implementation of new programs, such as those involving the sale of public housing to tenants. In Nashville, for example, housing authority staff encountered initial problems in arranging financing for the sales. Program staff had to pursue several alternatives before they were successful. Moreover, they were willing to commit CDBG monies to subsidize the sale of units to public housing tenants. The key actors in Baltimore, Newport News, and Washington, D.C. also seemed extraordinarily dedicated to making the program a success.

The main issue that worked to undermine support for the sale of public housing was the lack of replacement housing. Many PHA board members and staff did not believe it was wise to sell off public housing, even to tenants, when they have long waiting lists. Greater support for the sale of public housing, and thus more successful sales programs, might be expected if replacement housing was offered as part of the program.

2. Program staff should have experience with low-income homeownership programs or should receive training from those who have this experience.

The results of our evaluation indicate that, in general, sponsoring agencies with previous experience in managing low-income homeownership programs have been more successful in transferring units to tenants than agencies with no previous experience. This sales experience came from managing Turnkey III lease-purchase projects and/or from being part of an agency responsible for administering both public housing and community development programs. For example, the program staff in the combined housing and community development agencies, which included Baltimore, Nashville, Newport News, and Washington, who had previous experience in designing and managing homeownership programs programs were among the most successful in transferring units to tenants. This is not to say that only agencies with previous homeownership experience should sponsor these programs, only that where staff have little experience they should receive training on topics such as home-ownership counseling, selecting program participants, and implementing the sales and marketing process, including mortgage financing.

3. Lead responsibility for implementing the program should be assigned to a person who does not have other major public housing responsibilities, and the program should be adequately staffed.

Responsibility for a sales program should be assigned to an individual who has the time to adequately manage the program. The failure to achieve the sales goals in several demonstrations (including Chicago and Philadelphia) was at least partially attributable to the program manager and key staff not having sufficient time, given other on-going responsibilities, to manage it effectively. In fact, virtually all the sponsoring agencies, whether successful or not, underestimated the staff demands of their program.

There are several reasons these programs are so staff-intensive. First, although HUD's demonstration guidelines provided PHAs maximum flexibility in tailoring programs to local needs, each PHA still had to create its own program from the ground up. It required many hours of staff time to target the units to be sold, set rehabilitation standards, arrange for the units to be rehabilitated, establish eligibility requirements, develop a system for screening applicants, create a pricing structure and financing system, and then market the program to tenants.

Moreover, it is one thing to design a program on paper and quite another to carry out the legal work involved in making the program a reality. The legal and technical aspects of multi-family conversions are especially complicated, time-consuming, and costly to complete. Arranging permanent financing or creating a housing authority purchase money mortgage program for a single-family sales initiative is no simple matter, but it is easy compared to the difficulty of structuring and arranging the financing of a cooperative.

Finally, the process of preparing public housing tenants to assume the responsibilities of homeownership is far more labor-intensive than any PHA realized. What some people euphemistically call counseling is a catch-all word that embraces a wide variety of activities ranging from group meetings to inform large numbers of potential buyers about homeownership, to classroom instruction, to one-on-one casework that can extend over long periods of time. While many of these activities are carried out under third party contracts rather than provided directly by housing authority staff, the PHA must be involved in all phases of the buyer preparation process.

4. Units appropriate for homeownership should be selected for sale.

In discussing the selection of sales units with program officials, most emphasized the importance of selecting units that were appropriate for homeownership. These were typically defined as single-family, duplex, townhouse or smaller low-rise developments. Highrise and large multi-family developments were not considered appropriate for homeownership since they felt there would be little tenant interest in purchasing these units.

The concept of homeownership in our society is closely associated with single-family housing. Although this has changed some in recent years with the proliferation of condominiums and cooperatives, the goal of most Americans, including many public housing residents, is still to own a single-family house. Thus, generating interest in buying a unit among public housing tenants appears to have been much easier when single-family units were being sold.

Selling the idea of cooperative ownership was more difficult, especially in places like Denver and Nashville where there is virtually no prior experience with multi-family ownership. Public housing tenants, like many other people, have a difficult time understanding cooperative ownership. Moreover, some tenants expressed reluctance in buying multi-family units because they were concerned that the actions of other program participants might jeopardize their investment. Program staff should expect a more difficult time selling the idea of multi-family homeownership to prospective participants.

The location of the units selected for sale must also be considered. Many of the participants in Baltimore and Denver were very dissatisfied with the condition of the surrounding neighborhoods. A small island of home owners in a run-down, largely rental area is not likely to have a dramatic uplifting effect on the rest of the neighborhood. It is, however, likely to lead to dissatisfied program participants.

Finally, the condition of the units must be considered in the selection of units to sell. PHHD guidelines require that all housing units be in good condition before they are sold. This, of course, makes good sense since low-income families will be hard-pressed to pay for major repairs and replacements after the purchase. The strategy pursued by most of the sponsoring agencies was to select units that were in good or excellent shape so that only modest repair work was needed before being transferred to tenants. This strategy simplified program administration and avoided the need to find funding for major repairs. It does, however, remove some of the best units from the public housing inventory.

A second approach is to select units in need of substantial rehabilitation and make the necessary repairs and improvements before sale. Denver and Paterson were the only two programs that selected units needing substantial rehabilitation. The advantage here is that the homeownership program can be used to address the need to repair these units. This approach also retains the better units as public housing. The disadvantage of this approach is that the administration of the program is complicated and funds have to be found for the rehabilitation. In Denver, all the original tenants had to be relocated to allow for the rehabilitation and, in Paterson, the rehabilitation work took much longer than expected.

Financing for these repairs can come from several sources including CDBG monies, sales proceeds, and CIAP modernization funds. CDBG monies can be used as they were in Washington, D.C. and Nashville, but they are often scarce, and many cities would rather use them for priority community development needs outside of the public housing stock. Sales proceeds can be used to reimburse a housing fund as was the case in Denver, but this may require sales prices that would price many public housing tenants out of the program. Finally, CIAP monies can be used to make repairs before the sale, as was done in Paterson, but many PHAs are reluctant to use these scarce funds to make repairs on units they will be selling. Sponsoring agencies need to have a particularly strong commitment to the program if they intend to perform major rehabilitation on the units to be sold.

5. Participants should be carefully screened.

Many program officials stressed the importance of careful screening of participants in the success of their programs. In almost all instances the screening process involved checking incomes, employment histories, credit ratings, and previous rent paying histories. This may not be enough. Some of the sponsoring agencies also sought recommendations from the managers of the developments in which the prospective participants lived, and a fewer number even visited prospective buyers in their current homes to inspect their housekeeping habits. The manager recommendations addressed the applicants' housekeeping habits, social behavior and involvement in community affairs, including involvement in the local tenant council. In phase one of Denver's program, the screening process for admission into the Upper Lawrence co-op did not include housing manager recommendations on prospective program participants and, according to the staff, this resulted in the selection of some problem families. Thus, in selecting buyers for units in the Arapahoe co-op, the PHA sought written recommendations from the project managers. In Nashville individual meetings were held with all prospective applicants to assess their motivation and commitment to becoming a contributing member of the co-op.

In several demonstration programs, units were selected based on careful screening of residents prior to the PHHD. In Newport News, for example, only employed families with good rent paying histories and recommendations from project managers were offered the scattered-site units that were eventually sold under the demonstration. In Nashville a number of the units to be sold were newly constructed and the agency only offered these units to families who expressed interest in and qualified for the homeownership program. This made screening for program participation much easier and minimized relocation problems.

6. The scale of the homeownership program should be commensurate with tenant interest and eligibility.

One of the problems encountered by local PHHD sponsors was a lower than anticipated number of tenants who were both interested in and qualified to participate in the homeownership opportunities provided. In Chicago, Los Angeles, St. Mary's County, and Wyoming, the failure to reach program goals can be partially attributed to a lack of interested and/or qualified buyers for the units selected for sale. Moreover, program staff in some cities that reached their sales goals commented on the difficulty of finding buyers. In Baltimore, for example, program staff had difficulty finding 30 interested and qualified buyers among their 2,600 occupants of scattered-site public housing units in the city.

Tenant interest in purchasing a home appears to be a function of two main factors: the attractiveness of the units being offered for sale and the pricing of the units. Not surprisingly, public housing tenants are more interested in single-family and the more attractive multifamily units. Furthermore, many are also concerned with the physical and social conditions of the surrounding neighborhood. In several cities, including McKeesport and Denver, program staff identified the conditions in the surrounding area as an obstacle to marketing units to tenants. The pricing of the units also influenced tenant interest in the program. As reported in Chapter 5, a large proportion of respondents mentioned a good financial investment or a good price as their most important reason for wanting to participate in the program. Moreover, the comparison of pre- and post-purchase housing expenses indicates that many participants actually lowered their housing costs by buying a home. Clearly, tenant interest will be higher if they feel they are paying a good price for the units.

Program eligibility is also influenced by the pricing scheme adopted and the minimum income and other requirements set for program participation. Pricing strategies based on affordability, as opposed to a fixed value, have the potential to include lower-income tenants, as the sale price can be lowered to zero. In this case, the minimum income would be based on that needed to cover operating costs (i.e., utilities, taxes, insurance and maintenance). In many of the demonstration programs, sales proceeds were used for a variety of PHA needs including maintenance reserve funds, program administration, replacement housing, and reimbursement to the sponsoring agency for the cost of rehabilitating the units sold. These needs for sales income raised the purchase prices and the amount of income needed to participate in the program.

The second major factor affecting eligibility was the choice of a financing mechanism. When private or mortgage revenue bond financing is used, program participants must often meet the standard eligibility requirements established by financial institutions and mortgage insurers. Many PHA tenants, however, have consumer debts that exceed allowable ratios or have poor credit histories that disqualify them for private or revenue bond financing. When the PHAs serve as their own mortgagor they are able to establish credit underwriting criteria that more readily meet the needs of their buyers.

In designing a program, then, local officials should realistically appraise the number of tenants who will be both interested in and eligible for the program given the attractiveness, location, pricing and financing being considered. This might involve an analysis of income data held by the sponsoring PHA but would also require more intensive marketing efforts to gauge the true extent of tenant interest. Only then can a realistic assessment of the demand for public housing homeownership be determined.

7. Homeownership training and counseling should be provided to all participants.

Thorough training and counseling was frequently mentioned by local program staff as a key element of successful homeownership programs. This was particularly true among staff involved in multi-family conversion programs. As mentioned in Chapter 4, program staff and the consultants hired to assist with the counseling effort often made a distinction between counseling, which involved one-on-one assistance with specific issues or problems, and training, which involved the presentation of generic information about homeownership to groups of buyers, and to members of co-op and condominium boards. Both types of assistance are necessary for a successful program. Initial counseling and/or training sessions typically address the costs and responsibilities of homeownership and present the basic terms of the homeownership programs. These sessions are designed to help tenants form a realistic view of homeownership, including the opportunities and potential pitfalls, and to help them decide whether they want to participate in the program. Follow-up sessions on resolving credit problems and obtaining a loan are particularly important in programs relying on private or mortgage revenue bond financing. This normally involves one-on-one assistance, as many problems are relatively unique and some tenants may have difficulty filling out applications. Instruction on financial budgeting is also needed to assist program participants in adjusting their spending habits to the financial demands of homeownership. Moreover, instruction in home maintenance is needed to help ensure that program participants can handle routine maintenance and repairs to their units. The Nashville PHHD program had one of the more extensive maintenance training programs. Program participants were provided individualized instruction on basic maintenance activities, given a maintenance manual showing how to perform common repairs, and provided a tool box with a basic set of tools.

Beyond these basic topics, counseling and training in multi-family conversions also need to cover the basic idea of a cooperative or condominium; the role of the board; the development of various legal documents (including bylaws, articles of incorporation, and subscription and occupancy agreements); how to develop and negotiate a management contract; condo or co-op financing, budgeting, and record keeping; how to develop maintenance and replacement policies; and membership and community relations. Clearly this training requires a substantial commitment of time and resources and should be handled by a professional counselor. It is also clear that the condo or cop-op board will require assistance beyond the time they take title to the properties. Provisions should be made for this assistance.

Given the lack of homeownership counseling experience among housing authority staff and the time commitment required, most

PHAs will want to hire outside assistance to handle the counseling. The work program for these outside contractors needs to be carefully considered and sufficient funding must be provided. Several PHHD programs exhausted their counseling and training budgets before the program was complete.

8. Develop an effective and fair strategy for accommodating non-participants.

In multi-family conversions, the handling of non-participants is likely to be one of the most difficult issues to resolve. On the one hand, program guidelines prohibit the involuntary relocation of tenants. On the other, tenant buyers often want all units to be occupied by owners, not renters.

An effective resolution of this conflict will include a combination of methods. First, one of the criteria in choosing a development for sale should be tenant interest in and capacity for buying their units. By selecting a development with strong tenant interest the problem posed by non-participants can be minimized. Second, non-participants can be enticed to move with an offer of more attractive housing. This may include other attractive multi-family developments, Section 8 certificates, housing vouchers, or scattered-site public housing. Third, the number of non-participants can be reduced during the often lengthy development and training phase by replacing those who voluntarily move out with families eligible for and interested in buying the units. Finally, the housing authority can retain ownership of condominium units occupied by those who refuse to move and offer Section 8 certificates or vouchers to the remaining non-participants in co-ops. The non-participants in co-ops may, in fact, have a positive financial impact on the co-op as their voucher-enhanced rents are likely to be higher than the charges being carried by co-op members. Thus, as in Nashville, these continuing renters may help subsidize the co-op. As the renters move out the units can then be made available to new owners.

9. Sponsoring agencies should make an effort to ensure units are in good repair before sale and offer a warranty on appliances, mechanicals and major structural items.

As reported in Chapter 5, the major source of participant dissatisfaction with the demonstration programs was with the repairs, or lack of repairs, made to units before transfer. This suggests that sponsoring agencies should pay greater attention to this aspect of their programs.

Virtually all of the sponsoring agencies performed, or had outside contractors perform, inspection of the units to identify repair needs before transfer. Moreover, a number of programs, including Chicago, Denver, Newport News, Reading and Nashville, sought tenant suggestions for improvements before sale. This does not necessarily mean, however, that these repairs were done, or done to the new home buyer's satisfaction. Other survey results show that a majority of participants felt that needed repairs had not been made and about one-fifth were dissatisfied with the repairs that were made. Clearly, the process of determining and carrying out repairs should receive careful attention in homeownership programs.

The results of our assessment also suggest that a warranty on major structural and mechanical systems is an important component of a homeownership program. Of those who were aware of being offered one, a large number of new owners had asked the sponsoring housing authorities to make repairs covered under the provisions of their warranties. It is impossible to determine how many of the home buyers could have afforded these repairs on their own, but certainly many of them could not have afforded major repair expenses.

Policy Recommendations

The findings of this evaluation suggest that any large scale public housing home ownership program will need to address several factors that act to constrain the sale of units to tenants. The main three are the inability of many public housing tenants to afford the costs of the home ownership; the characteristics of the public housing stock; and concerns about replacement housing.

To expand the potential of the PHHD program, HUD would have to make several major changes in the demonstration guidelines. First, legislation would have to be enacted to permit housing vouchers to be allocated to lower-income homeowners. The findings of this assessment suggest that a large portion of public housing tenants could not afford the costs of home ownership even if the units were given to them at no cost. The minimum incomes set in St. Thomas and Paterson, the two sites where units were being transferred at no cost, were still substantially above the mean income of all public housing residents. Moreover, in most demonstration programs local officials felt a need to charge positive sales prices either to recoup program expenses, including the cost of rehabilitating the units before sale, or to instill in participants a sense of commitment to the programs and a sense of ownership in the properties. Thus a substantial expansion in the number of sales to public housing residents would require the use of vouchers to assist the lower-income buyers with the costs of home ownership. Back-up voucher assistance will also be needed by some of the lower-income buyers whose incomes are likely to lag behind the rate of inflation, who may experience intermittent lay-offs, or who may incur unanticipated medical expenses due to an illness in the family, any of which may cause them to fall behind in their housing payments.

Second, to expand the sales of public housing to tenants HUD would have to make at least some replacement housing available to the sponsoring authorities. The main reason given by local officials for not wanting to expand their public housing sales programs was the lack of replacement housing. Given the length of the waiting lists, local officials could not justify a major reduction in their rental housing inventory. Replacement housing does not necessarily have to be provided on a one-for-one basis, but will be needed to interest local authorities in the program and to help meet the backlog of local housing needs.

Finally, if housing authorities are going to target for sale multifamily projects needing substantial repairs, Congress should appropriate additional modernization funds expressly for this purpose. These monies are scarce and housing authorities were reluctant to use them to repair units that would be leaving their inventories. Moreover, local communities were reluctant to allocate locally controlled funds, such as CDBG monies, to the public housing sales programs given other pressing local needs and where done, at least partial reimbursement was required. This raised the cost of ownership and priced some residents out of the programs.

Based on the mixed success of the housing authorities involved in the demonstration, the sale of public housing to tenants should not become an as-of-right option for housing authorities under a general set of HUD guidelines. Rather, HUD should promulgate a set of implementing regulations for Section 5(h) sales programs that, among other things, would require careful HUD review of homeownership plans to ensure that the PHA is fully capable of designing and administering a successful program. In this review special attention should be paid to the proposed rehabilitation standards, inspection procedures, the creation and enforcement of building warranties, and the capitalization of maintenance and replacement reserves. A requirement that properties be in good condition at the time of sale is essential given the inability of most public housing residents to afford the cost of major repairs. Program guidelines should specify a process for determining repair needs that includes independent inspection and tenant consultation. The sponsoring authorities should also be required to include a means of assisting buyers with any major repair needs within two years of the sale.

HUD should also pay special attention to the plans for providing counseling and training to program participants. Despite HUD's pre-purchase counseling requirements, the quality of counseling varied dramatically among PHAs and very few housing authorities have implemented post-purchase assistance programs. In the early stages of the program, counseling should focus on helping prospective participants make the decision of whether or not to participate and on helping them understand their rights if they choose not to. To ensure a balanced presentation, this counseling should be handled by an independent professional housing counselor. All those who decide to participate should receive further counseling and training on personal financial budgeting, home maintenance, the process of purchasing a home and, when needed, credit counseling. For programs of any appreciable size (say 10 or more participants) this counseling should also be handled by a professional counseling agency.

Given the importance of counseling and its labor intensive nature, HUD also needs to make more technical assistance monies available to the sponsoring agencies. The amount of the grant should be commensurate with the size and complexity of the programs being proposed. The $50,000 limit in the PHHD was clearly insufficient for the multifamily conversions.

Although our findings suggest that PHHD program participants did not buy their units strictly for financial reasons, it would still seem prudent for HUD to require PHA homeownership programs to include prohibitions against windfall profits. HUD's existing five year minimum resale restriction, allowing PHAs to extend it at their option, is reasonable and ought to be preserved. Longer restrictions not only make it more difficult for buyers to accumulate equity through their investment in homeownership, but it also limits their geographic mobility. If they are forced to sell their unit at a below market price, they will be unable to acquire another house in the unsubsidized market.

Given the turnover of tenants in Denver, the litigation over involuntary relocation in Paterson, and the yet to be resolved issue of relocation in St. Thomas, HUD must make a more definitive rule regarding involuntary relocation. The compromise settlement in the Paterson litigation set the most restrictive and unambiguous definition of this term. The court ruled out the possibility of moving non-buyers against their will from an apartment in a building to be converted, to another public housing unit in a building that is not slated for sale. The experience in the Nashville PHHD shows that non-participants can be accommodated through selectively placing interested and qualified buyers in the units to be sold during the development phase of the conversion; voluntary relocation facilitated with offers or other public housing; Section 8 certificates or housing vouchers; and through provisions which allow non-participants to remain in their units as renters. To help the sponsoring agencies accommodate non-participants, however, HUD must provide PHAs with a sufficient number of housing vouchers to accommodate non-buying tenants in multifamily conversions.

The PHHD experience indicates that virtually all multifamily conversions will involve a number of non-participants who, with the assistance of vouchers, will remain in their apartments as tenants of the condominium or cooperative. However, rents on the converted public housing units are no longer regulated once HUD transfers title to the co-op, nor are there any rent regulations associated with the voucher program. This means that co-op boards who do not want renters in their developments can force them out by raising their rents to unaffordable levels. This problem will be avoided in Paterson under the compromise settlement in which the co-op agreed not to increase rents for apartments occupied by renters beyond the prevailing Section 8 fair market rents. HUD should adopt this requirement for all multi-family conversions.

Since as many as one in ten PHHD program participants moved out of their houses or apartments for financial or other reasons within the first eighteen months of sale, HUD should consider ways to preserve such families' priority for readmission into assisted housing, when their default is due to circumstances beyond their control. These circumstances might include the layoff of a major wage earner, health problems, or other reasonable excuses. In Nashville, the sponsoring agency adopted such a policy as part of its demonstration but conditioned it on HUD allowing this under its Federal Selection Preferences for public housing authorities.

Given the creative but controversial use of the low income housing tax credit in Denver, HUD must clearly define what constitutes homeownership within the context of Section 5(h). Although the housing authority is convinced that there are no practical distinctions between the rights and entitlements of the Arapahoe cooperators and co-op shareholders in other developments, the members themselves believe otherwise. They thought they were buying a home and instead became members of a rental co-op. The co-op will not own the buildings for fifteen years. Given that this is a homeownership program, it seems reasonable to require that properties be transferred to the tenants within a specified period of time. For example, a three year time period seems reasonable and would allow for lease-purchase arrangements.

The sponsoring PHAs should be permitted to keep all sales proceeds and be required to design reinvestment programs that will expand lower-income housing activities as part of their homeownership program applications. Even where housing authorities plan to finance their own sales, the monthly payments from buyers can serve as a subsidy stream to write down the effective interest costs on non-public housing or new construction sponsored by the PHA or other non-profit housing producers.

Although it was not always followed by the sponsoring agencies, a PHHD guideline required that the total housing costs for the prospective buyer after the sale should not be less than his or her public housing rent. We see no compelling rationale for this restriction and suggest that it be dropped from any future guidelines. It is prudent, in fact, to structure programs so that after-sale housing costs will be lower than 30 percent of income to allow for imprecise cost estimates and uncontrollable increases in housing costs over time. Sponsoring agencies should be given latitude in establishing reasonable pricing strategies.

Finally, HUD must continue to monitor the progress and impacts of the PHHD. Two of the multifamily programs have yet to close and the full impacts of the demonstration will not be evident for several more years. Close attention should be paid to the long-term affordability issue and the problem of defaults and delinquencies. HUD should also monitor the social dimensions of public housing homeownership which were emphasized when the demonstration was announced. "Through homeownership," the Secretary said, "these families will now have the opportunity to participate more fully in their communities and neighborhoods." The extent and fruits of this participation, and the benefits not only to the buyers, but to their neighbors and neighborhoods, may yet prove to be the most significant program impacts. Only time will tell.