U.S. Department of Housing and Urban Development
Office of Policy Development and Research

Home Improvement Financing

HOME IMPROVEMENT FINANCING

Prepared by

Arthur D. Little, Inc.

under

Contract Number H-2511

Office of Policy Development and Research

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Washington, D.C. 20410

September 1977

FOREWORD

Preserving and improving our existing housing has become a key element of our national effort to provide American families with sound housing in good neighborhoods. This report on home improvement financing brings together a wide range of information on how homeowners acquire funds to repair and renovate their homes.

A major topic addressed is how HUD's Title I Property Improvement Loan Program fits into the overall home improvement financing complex. The Title I program was created in 1934 both to increase employment in the building industry and to improve the nation's housing. The program has been responsible for helping to make home improvement lending a part of the ordinary business of financial institutions. Since 1934 over thirty-one million loans have been insured under the program.

Home improvement expenditures have doubled since 1970. In 1976 alone, $29 billion were spent on projects ranging from "paint-up and fix-up" to substantial renovation. In fact, home improvement lending has become such good business that a wide range of institutions are now actively providing families with financing--usually without need for either Federal or private loan insurance.

This report, which provides us with some of the fundamental information needed to bolster home improvement activity, was supervised by John Maxim and Howard Sumka of HUD's Division of Community Conservation Research in the Office of Policy Development and Research.

Donna E. Shalala

Donna E. Shalala
Assistant Secretary for
Policy Development and Research

ACKNOWLEDGEMENTS

This project was directed by Harry G. Foden. Principal authors of this report, in addition to Mr. Foden, were Robert Dubinsky and Dorothea Hass. Other team members included: Robert Calef, Sherry Gordon, Robert Kvall, Gary Marple, Ellen Metcalf, Joseph Modica, Herman Prescott, John Reed, Blair Shick, Allan Sloan, Thomas Stack (Opinion Research Corporation), Sonya Strong, and Charles Williams.

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EXECUTIVE SUMMARY

A. INTRODUCTION

This report describes the results of a study of home improvement financing, the objectives of which were to:

(1) Understand how the home improvement market functions.

(2) Determine the nature of home improvements and the factors which determine whether home improvements are undertaken.

(3) Determine the extent to which the availability of home improvement financing affects homeowners' decisions to improve their property.

(4) Determine the extent to which financing is available to those wishing to carry out home improvements and the terms and conditions under which it is available.

(5) Determine the current and potential role of HUD's Title I Property Improvement Loan Program in the financing of home improvements.

(6) Develop recommendations concerning the future of the Title I program.

(7) Develop recommendations concerning the need for additional research and for initiatives by HUD which would make financing more readily available for home improvements.

Work on the contract was initiated on June 29, 1976. A limited field reconnaissance was undertaken in five localities (Kansas City, Kansas/Missouri; Minneapolis/St. Paul, Minnesota; Louisville, Kentucky; Reading, Pennsylvania; and Newburgh, New York), during which informal discussions were held with lenders, contractors, building material suppliers and public officials. The field reconnaissance was intended to provide insights and information about home improvement financing which could serve as:

- An important resource for a report on the Title I Property Improvement Loan Program;
- A basis for understanding in detail the interactions and interrelationships among borrowers, lenders, contractors, and government agencies; and
- A means of testing initial hypotheses and impressions.

Concurrently with the field reconnaissance, arrangements were made to obtain HUD data on the Title I program--information on the institutions using the program, the size and terms of loans, default rates, etc. Computer printouts for 1975 and early 1976 were used to obtain the basic data for our work and to develop a special program to generate the reports needed. The Title I data were supplemented by information from FHA reports and other sources.

Following the field reconnaissance and a preliminary analysis of the Title I data, a detailed analysis of data from a number of sources--private and public--was carried out. Publications of the Bureau of the Census, the Federal Deposit Insurance Corporation, the Federal Reserve Board and the Urban Institute as well as those of private organizations such as Standard and Poors, the Bureau of Building Marketing Research and the American Bankers Association were reviewed and analyzed to establish estimates of expenditures made nationally for home improvements.

Because of time constraints, a national survey of homeowners and financial institutions was not feasibile. Instead arrangements were made to conduct a total of 18 panels in 8 metropolitan areas. Appendix A lists the areas where the panels were held and the specification of the panels. These panels provided information about the attitudinal and institutional factors which influence decisions to undertake home improvements as well as insights into the experience of homeowners and lenders with home improvement financing.

Although the data obtained during the field reconnaissance cannot be used to make generalizations about home improvement lending or about Title I on a national basis--since no formal questionnaire or statistically selected sample was used and discussions were not conducted according to a prescribed format--the data provided myriad useful insights into financing practices and attitudes of financial officials toward home improvement lending.

Information obtained through the panels was intended to build on the field reconnaissance work. Among the aspects covered during the panel discussions with homeowners were:

- The factors leading to a decision to undertake home improvements;
- The types of home improvements undertaken;
- The methods used to pay for home improvements (savings, loans, credit cards, do-it-yourself, etc.);
- Experience in obtaining financing, if required;
- Difficulties encountered in obtaining financing; and
- Familiarity with Title I insurance.

Among the subjects covered in panel discussions with loan officers were:

- The role of home improvement loans in overall lending;
- Attitudes toward home improvement loans--security, profitability;
- Criteria for making home improvement loans;
- The role of insurance in home improvement lending; and
- Experience with Title I insurance.

Panels with contractors discussed such aspects of home improvements as:

- The importance of home improvements to the contractor's total business;
- Outlook for the home improvement field;
- Costs of typical home improvements;
- Financing arrangements used;
- The role of the contractor in obtaining consumer financing;
- Attitudes toward financial institutions; and
- Awareness of Title I insurance.

Reports from secondary sources provided useful statistical data on the magnitude of installment lending, changes in savings patterns, and expenditures for home improvements, but the secondary source data presented a number of problems. First, data relating to home improvement activity and financing are inconsistent. Census figures differ from other available data and there is no commonly accepted set of definitions. Second, data on financial institutions and lending activity are not collected in a common format. Different types of financial institutions report to different government agencies in different manners. The Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board do not use common reporting forms or definitions. Their reports present data in different formats and for different geographic areas. Credit unions do not report specifically on home improvement lending. Most of the available financial data were based on lending institutions' call reports, which provide information on assets held at a particular time, but data were not available on loan activity by individual institutions for a particular period of time.. To understand the home improvement lending market it was necessary to collect data from numerous sources, combine it to the degree possible, and make estimates of overall activity.

Our field reconnaissance was carried out prior to the date when reports required by the Home Mortgage Disclosure Act of 1975 were made available to the public. The Act should provide data that can be used in the future to analyze lending patterns, but a significant amount of manpower will be required to collect and evaluate the meaning of the data. The Home Mortgage Disclosure Act of 1975 (Title III of Public Law 94-200; 89 State 1125 et seq.) became effective on June 28, 1976, and required commercial banks, savings banks, savings and loan associations, homestead associations, and credit unions that operate within a Standard Metropolitan Statistical Area (SMSA) and which make federally related mortgage loans to make available to the public by September 30, 1976, by Census tract (or for the first full fiscal year ending prior to

July 1, 1976, by zip code) mortgage loan activity by number of loans and by principal amount. One of the reporting categories required was: "Total Home Improvement Loans (except on multi-family dwellings)." Lenders with total assets of less than $10 million are exempted from this requirement, as are lenders who are required to prepare similar reports under state law. The report will be compiled annually and it is intended to provide citizens and public officials ". . . with sufficient information to enable them to determine whether depository institutions are fulfilling their obligations to serve the housing needs of the communities and neighborhoods in which they are located and to assist public officials in the determination of the distribution of public sector investments in a manner designed to improve the private investment environment."

B. HOME IMPROVEMENTS

Home improvement projects can range from "paint up and fix up" to substantial improvement in the condition of a building, including room additions. This study excluded both substantial rehabilitation and normal maintenance-type work. It focused on repairs, replacement and renovations in accordance with definitions prepared by the Urban Institute and consistent with definitions of the U.S. Bureau of the Census. Of the $29.0 billion of home improvements in 1976, $11.3 billion were spent for repairs, $12.3 billion for renovations, and $5.3 billion for replacements.

The way in which home improvements are carried out depends on their cost and their complexity. Small painting jobs, wallpapering and paneling lend themselves to do-it-yourself activity. Large projects, such as room additions and conversions and construction or installations requiring special skills (e.g., plastering and electrical work, the latter, in particular, because of the greater consumer concern for safety) are generally turned over to professionals. It is in connection with major projects such as room additions, exterior siding and roof repair that outside contractors often get involved with not only the project, but also the financing.

But do-it-yourself is growing, in part due to rising costs for labor, in part due to a mistrust of contractors by homeowners, and in part due to the attitude of homeowners toward home improvements as a form of recreation or a way to develop pride in an accomplishment. Estimates of the proportion of jobs undertaken as do-it-yourself projects range from 33 percent to 48 percent of all home improvements. Building Supply News estimated that between 1973 and 1975 do-it-yourself home improvements grew 62 percent, from $8.9 billion to $14.4 billion, while expenditures for professionally done projects grew only 16 percent, from $13.4 billion to $15.3 billion.

A survey of homeowners revealed that more than one-half rated their abilities at do-it-yourself at least comparable to that of professionals and that nearly one-third viewed home improvement activities as a form of recreation.

The most common home improvements undertaken--interior and exterior painting, wallpapering, installing lighting fixtures, paneling walls and installing floor tile--are relatively inexpensive. The average cost of six of the seven most common home improvements in 1975 (the year in which Building Supply News undertook a special survey of home improvements) ranged from $96 to $197. Interior and exterior painting (undertaken most often by single-family homeowners) and wallpapering account for 46 percent of all expenditures for maintenance and repair. With the exception of carpeting (which represents roughly one-sixth of total home improvement expenditures), most of these improvement projects are relatively inexpensive, falling into the "repair and maintenance" category rather than the "capital improvement" category.

On the basis of housing surveys and studies as well as on homeowner panels, there appear to be three primary factors which influence the decision to undertake a home improvement. Depending upon the homeowner and his or her property, all three factors may weigh in the decision to undertake non-emergency, or in some cases even emergency, repairs. These factors include:

- the owner's perception of neighborhood quality;
- pride of ownership, including wanting one's home to be more livable and/or more attractive; and
- the owner's technical capability to undertake the improvement.

C. FINANCING HOME IMPROVEMENTS

The limited statistics available about the financing of home improvements, supplemented by discussions with homeowner panelists and persons familiar with the home improvement field, indicate that a significant, but unknown, portion of home improvements are paid for with cash, either from savings, family borrowing or weekly take-home pay. There is a decided reluctance on the part of homeowners to incur debt to pay for home improvements, particularly among the moderate income wage earner who feels some uncertainty about future job security.

A clear message from the consumer panels was that many homeowners, particularly those with moderate incomes, try to avoid financing and particularly any form of financing which involves a lien on their property. To the extent possible, they tried to pay for improvements from cash, accumulated by various forms of saving.

However, more than half of the home improvement expenditures in 1975 went for items costly enough that most homeowners might require some form of credit. In 1975, five types of home improvement projects accounted for the greatest dollar value; their average project costs suggest that most homeowners might seek some form of credit. Roughly 35 percent of all home improvement expenditures went for jobs costing $1500 or more; kitchen remodeling, room additions, and exterior siding together represented expenditures of nearly $9 billion.

The homeowner has many options for financing home improvements:

<u>The 30- to 45-day billing</u>. Under this option, homeowners are billed after the work is completed, with payment usually 30 to 45 days after the receipt of the bill.

<u>Revolving Charge Accounts and Credit Cards</u>. Revolving charge accounts, which became popular after World War II, became nearly universal in the sixties when financial institutions entered the credit-card business. The most recent extension of this type of credit is the combination checking-charge account, which permits overdrafts up to a fixed amount at an agreed-upon rate of interest.

<u>Installment Loans</u>. This type of loan, of which home improvement loans are one type, is used for larger, longer-term credit requirements.

<u>Secured Loans</u>. If the expenditure is very large (say $5000 or more), requiring an extended period of repayment (e.g., 5 years or longer), lenders are likely to insist that the loan be secured by a mortgage on the property.

While it is not possible to calculate the amount of home improvement expenditures that is financed, it appears that roughly half the $25.2 billion spent in 1975 went for items costly enough to require credit for most homeowners.

From a limited inquiry into the nature of the credit-granting process, several major factors emerged. First, consumer installment credit (excluding that associated with purchase money home mortgage) has had extremely rapid growth over the last two decades. Total outstandings grew from $38.8 billion in 1955 to $70.9 billion in 1965 to $186.2 billion in 1976. Despite the reduction in economic growth during the recent recession, installment credit outstandings grew more than $26 billion between 1974 and 1976 alone. However, only $5 billion of the $186.2 billion outstandings at the close of 1976 - less than 2.7 percent - is characterized as home improvement financing by the Federal Reserve Board estimates.

One of the fastest growing forms of consumer credit--in terms of numbers of transactions as well as total outstandings--is that known as open-end or revolving credit. With the advent of the two major bank credit cards in the late '60s, revolving credit balances held by banks alone grew from $1.3 billion in 1968 to $25.5 billion in 1976. In addition, total balances held from another recently developed form of revolving credit - the check overdraft loan account - amounted to another $4.8 billion in 1976. On the basis of our panels with consumers and conversations with hardware store and lumber yard managers and bank credit card executives, we believe that a significant amount of this form of bank-issued credit is attributable to home improvements in the $50 to $500 range.

We suspect that the same holds true with respect to revolving credit issued and held by retail sellers. While the data provided by the Federal Reserve Board do not differentiate between revolving and fixed installment balances held by retailers, credit executives indicate that a comparable growth in the area of seller revolving credit has been occurring and that this is another common source for the financing of the smaller home improvements. Fixed installment credit (i.e., non-revolving) held by retailers is another major source of home improvement financing. This form of credit - analogous to the direct bank loan - is typically used for the larger purchases associated with home improvements.

It is not possible to identify exactly how funds are obtained to undertake improvements not carried out with home improvement loans. While data on home improvement loans are readily available, such is not the case with other forms of financing available for home improvements.

The critical factor in the consumer credit financing process is that associated with determining the credit-worthiness of the buyer. This will determine whether credit will be extended at all, the amounts which will be extended and, in some instances, the rates of finance charge which will be assessed and/or the type of credit grantor involved. By and large, however, while individual credit-granting firms might assess different rates depending on the kind of credit plan or the extent to which collateral is available, they do not offer different rate schedules based on the degrees of credit-worthiness; that is, a prospective borrower deemed by a bank or retailer to be unsuitable for credit on one application will have no better opportunity to obtain credit at a higher rate of finance charge from that same source. His or her choice will most likely be to seek the more expensive credit from a finance company.

Virtually all credit grantors approach an applicant's income in terms of the expenses that person is likely to sustain in order to maintain his standard of living. If all income is required to meet the expenses of necessities, a credit grantor is likely to conclude that there is no remaining capacity to sustain extended credit. Thus, a low-income homeowner may have an excellent credit rating in terms of past performance in meeting mortgage obligations but still be perceived as lacking the income capacity to handle any additional credit for home improvements. In this sense, a credit grantor evaluates an applicant in much the same manner that a prudent individual would establish his or her own budgetary controls.

Since individual expense obligations play a major role in measuring the role of income size in the credit-granting decision, it does not necessarily follow that low income alone will preclude the opportunity to obtain credit. A major study of retail credit operations in New York state in 1974 shows that 17 percent of a sample of credit card holders had incomes of $10,000 or less.

Since both bank credit card and department store credit cards are important financing sources of the smaller home improvements, it is likely that low-income homowners have at least some access to this form of financing.

This experience, however, is not translatable to the more expensive home improvements, since credit cards can be extended with maximum limits as low as $100 and $200. Although we were unable to identify any precise data, we suspect that the majority of lower-income homeowners lack adequate access to credit for the $2,000 to $5,000 range of improvements by virtue of their limited capacity to sustain an extended payment schedule.

Homeownership in and of itself is recognized as a significant contributing factor in evaluating the overall environment of an applicant's credit-worthiness, but not a major determinant. That is to say that homeownership is considerably indicative of a desirable degree of social and community stability, but is not as important as income or the proven ability (because of education or past experience) to obtain and hold income-producing employment in the future. In addition, homeownership is often viewed as an important indicator of proven ability to manage credit obligations because of the probability that ownership was achieved through a mortgage.

One attribute of homeownership which has become of increasing importance in the past year is the extent to which ownership equity has been drastically increased by inflation. This gives credit grantors an opportunity - either through first mortgage refinancing or the obtaining of a second mortgage - to extend credit under circumstances where it would not have been available in the past. Since this is a recent phenomenon, there is insufficient experience to know whether consumers, whether low-income or otherwise, are truly interested in pursuing this emerging source of credit alternative. As mentioned earlier, much of what we learned in consumer panels indicates that consumers are extremely reluctant to refinance or further encumber their homes.

Installment loans assist consumers (as opposed to commercial borrowers) in purchasing a wide range of goods and services. Installment loans are usually small (typically $2000-5000), short-term (typically 3-7 years), and, with the exception of automobile loans, unsecured (not guaranteed by collateral).

The interest rates for different kinds of installment loans are influenced by a variety of factors--the credit-worthiness of the borrower, the presence of security (collateral), the cost of money, the amount of the loan, and kind of lender involved. Smaller loans tend to bear higher interest rates because of the higher ratio of fixed operating costs to the amount involved. Loans secured by collateral tend to be cheaper than those which are unsecured. For example, auto loans are typically cheaper than any other because they tend to be larger, usually constitute the largest share of a bank's consumer loan portfolio, and are secured by the collateral value of the car. Finance companies have the highest loan rates because of their association with the higher risk end of the market; credit unions usually offer the lowest rates.

Over the last 15 years, commercial banks have gradually increased their share of the total market for consumer installment credit from 39 percent to over 48 percent in 1975. Conversely, both finance companies and retailers have experienced a decline in their respective shares. Over the same period credit unions have trebled the size of their consumer loan investments.

Despite its phenomenal growth, installment lending is still, in terms of dollar volume, a relatively minor lending activity when viewed in the context of the total banking industry. In 1975, installment loans amounted to only 10 percent of total bank loans outstanding.

In 1976, when home improvement expenditures totalled $29 billion (of which $18.8 billion was spent by single-family owner-occupants and $1.4 billion by owner-occupants of housing with two to four units), home improvement loans were used to finance $5 billion of this total; Title I loans accounted for $814 million.* Although home improvement expenditures have risen sharply, doubling since 1970, the share paid for by home improvement loans has remained about the same. However, the percent of home improvement activity which is financed through home improvement loans fluctuates. It reached a peak for the decade of 26 percent in 1973, before dropping back to 17 percent in 1976.

D. THE ROLE OF THE TITLE I PROPERTY IMPROVEMENT LOAN PROGRAM

The Title I Property Improvement Loan Program was initiated in 1934 with the dual objectives of increasing employment in the building industry and improving the country's housing stock. The program provides insurance to approved lenders for loans which finance home improvements that meet Title I requirements.

The program is operated on a co-insurer basis, on the premise that this gives lenders an incentive toward maintaining acceptable lending standards. Title I will reimburse the lender for 90 percent of the loss in the event of borrower default, up to a total reimbursement maximum equal to the lender's insurance reserve, which is calculated on the basis of the lender's past use of Title I.

The cost of Title I insurance is borne by the lender, who pays an annual premium of one-half of one percent of the net proceeds of the loan.

*Because of the relative magnitudes of home improvement expenditures, most of the emphasis in this report is on single-family units, although multi-family, owner-occupied units are cited where relevant.

Four types of loans are eligible for Title I insurance:

<u>Class 1(a) Loans</u>--for the repair, alteration, or improvement of a single-family dwelling or non-residential structure;

<u>Class 1(b) Loans</u>--for the repair, alteration, conversion, or improvement of a multiple family dwelling;

<u>Class 2(a) Loans</u>--for the construction of a non-residential, non-agricultural structure, such as a garage or service building;

<u>Class 2(b) Loans</u>--for the construction of an agricultural structure.

Class 1(a) and Class 2 loans cannot exceed $10,000; Class 1(b) loans cannot exceed $5,000 per dwelling unit, and the total amount of the loan cannot exceed $25,000. Loans over $7,500 must be secured by a lien.

This report addresses only Class 1 type loans.

The duration of Title I loans must be at least six months and not more than 12 years and 32 days. The interest rate cannot exceed the amount specified by program regulation--currently 12 percent annual percentage rate--and no points or discounts can be charged.

Title I is quite specific about what constitutes home improvements under the program. HUD has determined that certain types of improvements cannot be financed through Title I because either they 1) are luxury items and do not improve the basic livability of the dwelling, 2) are subject to selling abuse, or 3) are not a permanent part of the realty, such as draperies and free-standing household appliances.

Title I was never intended to encourage loans to borrowers who might not otherwise be eligible. Title I borrowers must be credit-worthy in the eyes of the lender. The lender must find "the borrower to be solvent, with reasonable ability to pay the obligation, and in other respects a reasonable credit risk."

The Title I program has been a popular and successful endeavor. The program has been funded through premium income. Since its enactment in 1934, Title I has insured over thirty-one million home improvement loans totaling over $25 billion. It has served the purpose for which it was intended and in the process, by providing insurance against loss, helped to demonstrate to lenders the acceptability and financial soundness of consumer installment lending. Much of its success can be attributed to the fact that the program has been administered with a minimum of fuss and red tape; Title I leaves the loan decision in the hands of the lender, and HUD reviews by exception, only when there is a claim. Title I stands out as a model for federal-private cooperation.

Despite its success, however, the role of Title I in home improvement has diminished in recent years, to the point where its impact nationwide in facilitating improvements is no longer significant. In 1976, less than three percent of total home improvement expenditures were insured under Title I. This represented 16 percent of all home improvement loans.

There are three main reasons for the diminishing role of Title I. First, Title I insures home improvement loans, and today these loans play a minor role in home improvement; only 17 percent of all 1976 home improvement expenditures were financed by home improvement loans. Second, lenders now see home improvement loans as very safe; in 1975 only about 21 percent of all home improvement loans were insured by either Title I or private insurers.* Finally, Title I must now compete with private insurers for what little demand there is for home improvement insurance; in 1975 * private insurers accounted for slightly more than one-fourth of the insured home improvement loans, and their share has been increasing.

Title I's current small role is the result of long-term financial and market trends, and thus the outlook is for a continuing small role. While it may be possible to slow the decline in the use of Title I, or even increase it marginally, the fact remains that the demand for the kind of insurance Title I provides has dwindled, and it is hard to imagine that Title I will ever gain play a dominant role in home improvement credit.

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*1976 data on private insurance is not yet available.

The use of Title I has been declining over the past two decades. Although the dollar volume of Title I loans has grown since 1945, the growth has been far behind the growth in home improvement loans. In 1945, 83 percent of the value of all home improvement loans were insured under Title I; in 1976, only 16 percent were insured.

The decline in the use of Title I is more apparent when number of loans, rather than dollar amounts, is considered, for this removes inflation from Title I growth. In terms of number of loans Title I insured, 501,401 loans were insured in 1945, 1,024,698 in 1955, 502,480 in 1965, and 279,411 in 1976.

In the early post-war years, dealer loans accounted for a large share of Title I loans. Contractors and retailers of home improvement materials were arranging financing for their customers, then selling these so-called "dealer loans" to approved Title I lenders, following much the same practice automobile dealers use today. In 1953, dealer loans accounted for at least 75% of all Title I loans. The post-war construction boom attracted new operators, some of whom were inept or dishonest or both, and it was inevitable that the Title I program would suffer abuses. In the early fifties, dealer abuses were brought to light, and stricter regulations were enacted to prevent them from recurring. This was a major contributor to a precipitous decline in Title I loans, as doubtful dealer loans were excluded from the program, both because of the new Title I regulations and because of the wariness with which lenders began to view the remodeling industry and dealer lending. Similar trends are evident in other types of consumer lending.

Interest rates have from time to time been a determinant in the use of Title I. In the thirties and forties, lenders could charge somewhat higher interest for Title I loans than for other home improvement loans, because Title I loans, along with FHA mortgages, were exempt from usury laws in many states. In these states, the interest rate allowed for Title I loans was higher than the interest rate permitted under the usury laws. In the credit boom following the war, however, usury laws were modified in many states which allowed interest to be determined by market forces and other factors such as federal monetary policies. The result was that interest rates for installment loans increased to levels comparable with, and in some cases higher than, the interest allowed under Title I, and use of Title I declined.

Changes in program regulations allowing higher interest rates and maximum terms and lowering the insurance premium have lagged behind market forces, and when they were modified did not halt the decline in Title I usage, but may have served to temporize it. When the allowable maximum term was increased in 1956 from five years to seven years and the premium lowered from .65 percent to .55 percent, the program utilization stabilized until the early sixties when the program began to decline once again. Raising of the maximum interest rate in 1968 (from 9.8 percent to 10.6 percent) and again in 1974 (from 10.6 percent to 12 percent) has not significantly affected the general trend of declining program participation. The percentage of home improvement loan dollars written with Title I insurance was 15 percent in 1975 and 16 percent in 1976.

Another trend has been the shift in the users of the Title I program. In 1950 loans made by state and national banks represented 84.8 percent of all Title I loans. Finance companies were responsible for 10.2 percent, savings and loans 4.7 percent, and other financial institutions .3 percent of the Title I loan volume. By 1975, the banks' share of the program had dropped to 53.1 percent and savings and loan associations were responsible for 21.6 percent, credit unions for 20 percent, savings banks 4.6 percent and other financial institutions .7 percent. Finance companies no longer participated in the Title I program. This shift in usage reflects the changing role of different financial institutions in serving the needs of the consumer credit market.

However, the troubles with dealer loans, the interest rates, the shift away from banks to credit unions and savings and loan associations--these are all peripheral to the central issue. The inescapable conclusion is that the decline in Title I use is due mainly to the fact that bankers no longer see the need to insure home improvement loans. Home improvement loans are viewed by bankers as the "safest" of consumer loans.

In a survey of its bank members, the American Banking Association asked member institutions to express dollar losses on outstanding consumer loans. According to this survey, losses were lowest on home improvement and mobile home loans, and were highest on personal loans. Dollar losses were also very low on non-Title I insured home improvement loans. The banks lost 19¢ on every $100 of Title I home improvement loans, 25-30¢ on non-Title I home improvement loans. In contrast, banks lost $1.46 on every $100 loaned for personal use.

There appears to be a small but growing market for loan insurance that is more flexible than Title I. Private companies now insure about one-fourth of all insured home improvement loans.

The dominant company is Insurance Credit Services(ICS); home improvement loan insurance is its only business, and it writes about 80% of the non-Title I insurance. ICS has about 1,200 clients, over 1,100 of whom are commercial banks.

Some 28 of the 100 largest banks are clients of ICS. In 1975, ICS insured about 71,400 loans worth $200 million. Their average loan was approximately $2,800 and average term 53 months.

A distant second to ICS is United Guarantee Corporation (UG), which has about 15% of the non-Title I insurance. UG's principal business is insurance for first mortgage loans on single-family residences. Home improvement loan insurance was made available in 1971. The firm wants to grow slowly, and is selective in the lenders it insures. Currently, UG has about 500 clients, most of whom are small savings and loan associations and credit unions. In 1975, about 11,000 loans with net proceeds of about $34 million were insured by UG. After some initial difficulties, the business is now considered profitable.

The appeal of private insurance is its flexibility. There is no limit, other than competition and usury laws, on the interest rate that can be charged, and the cost and the coverage can be varied and tailored to lender needs. Private insurers will insure loans for improvements such as swimming pools and tennis courts which are ineligible under Title I. Private insurers have a general $10,000 limitation, but consider larger loans on a case-by-case basis. ICS limits the term to twelve years, but United Guarantee will insure fifteen-year loans.

ICS coverage is similar to Title I - 90 percent of any loss - but the premium rate varies from $.50 to $1.50 per $100 of coverage, depending upon the institution's rating, which is calculated on past loan experience and an evaluation of the institution's lending practices.

United Guarantee has a fixed premium for all institutions, but offers different coverage options. For 90 percent coverage, the insurance rate is one-half of one percent; for 95 percent coverage, the rate is three-fourths of one percent; and for 100 percent coverage, the rate is one percent.

ICS plays an active role in assisting lenders to set up home improvement loan programs, and provides ongoing technical assistance and monitoring of lending activities.

All of the private insurers contacted stressed speedy claims processing, which they believe is significantly shorter and less bureaucratic than exists in the Title I program.

It is probable that, in the future, the private insurers can expand their business at the expense of Title I as it is currently operated, particularly if they are willing to devote the resources to make lenders aware of the availability of private insurance programs.

E. UNMET NEEDS FOR HOME IMPROVEMENT FINANCING

It is difficult to determine how many homeowners might not be able to secure the financing they need for home improvements. We were not able to collect data to document whether redlining or discrimination occurs in home improvement loans, although a limited amount of data which is available suggests that it may occur, but much less so than in the granting of mortgages. This is not surprising since to a significant degree, lending judgments about home improvement loans are based predominantly on personal income and credit standards, not the value of the property being improved or the cost of the improvements. We suspect that where credit-worthiness is marginal, the location of the property and the sex and race of the borrower are taken into account by the lender, but it was not possible in this study to separate these prejudicial considerations from the credit-worthiness of the borrower. We found no evidence of discriminatory application of credit-worthiness standards, although the methodology used precluded contacts with a significant enough number and types of prospective borrowers.

We did find that a surprisingly large percentage of homeowners may not be sufficiently credit-worthy to obtain the financing they need to maintain their property, either because of low incomes or obligations which make their credit ratings poor. In 1975, nearly 35 percent of all homeowners had incomes less than $10,000; 15 percent had incomes less than $5,000. Many of these lower-income homeowners are elderly living on fixed incomes and unable to afford the home improvements required or to repay borrowed funds. Many of these lower-income homeowners live in structures likely to require repairs, replacements and renovations; 44 percent of those with incomes of less than $5,000 in 1975 live in houses built prior to 1940.

Thus the lack of money is indeed a major constraint on home maintenance and improvement. However, the lack of money is not evidence of dysfunction in consumer lending, and is not readily remedied by changes in consumer lending policies and practices. The credit-worthiness standards reflect the lender's view of his fiduciary responsibility to his depositors and his estimate of potential default and non-payment. (The success of Title I was due largely to the fact that it did not intervene in credit-worthiness standards or lending terms and conditions.) Thus the central message of this report is that the monetary constraint on homeowners is not so much a problem of finance as it is one of income and credit history. To view the problem of lower-income homeowners as a financing problem is misleading in that what these homeowners need is subsidies because of their low income. With some exceptions, lower-income homeowners do not need loans; they need additional income to make improvements or repay loans.

Because most improvements are paid for in cash or short-term credit and because the problem of lower-income homeowners is really an income problem, financing home improvements does not appear to be one of the key determinants of neighborhood conservation and stability.

The Title I program was never designed to serve the needs of lower-income homeowners or homeowners with bad credit. Such people do not qualify for the Title I program as currently operated. Only homeowners with reasonable credit ratings who are judged likely to repay the loan are eligible for a Title I loan. Therefore, there is probably a need to provide other ways for lower-income homeowners to secure financing for improvements to their property.

Federal assistance for lower-income homeowners has been limited. The HUD-funded Section 312 loan program enacted in the Housing and Urban Development Act of 1964, which provides rehabilitation and improvement loans at 3 percent interest in designated project areas, was an attempt to increase the availability of financing for lower-income families. It has never been funded at a large scale and through 1975 had been responsible for only 44,616 loans. Rural homeowners could take advantage of the Farmer's Home Administration Section 502 loan program.

In recent years, states and local governments have become interested in home improvement-type activities for a number of reasons, including a general interest in existing housing, the high cost of new construction, the flexible funds available through the Community Development Block Grant (CDBG) program, and the need to find alternative financing mechanisms to the 312 loan program.

States and local agencies have found that many lower-income homeowners cannot afford to repay borrowed funds and have developed grant programs to pay for the improvements or to reduce the amount of financing required. Many of these incorporate use of Title I loans. These local initiatives seem preferable to national program strategies because they are able to design programs to fit local needs and circumstances and to work in conjunction with other public improvement actions. Some programs, such as those in Boston or the State of Minnesota, have been able to achieve an impressive and significant program volume. While there are risks in relying on locally designed and administered programs, the potential benefits seem to outweigh any potential negative results.

Lack of money is not the only constraint on home maintenance, and in fact for some owners it may not be the principal constraint. Many lower-income homeowners do not know enough about house maintenance to know what needs to be done, nor enough about the home repair industry to know where to turn for counsel. Some homeowners are reluctant to undertake improvements in the mistaken belief that it would lead to their property being reassessed. The well-to-do homeowner is likely to be equally ignorant, but he will simply call in a contractor, who will answer his questions and organize and oversee the work. The lower-income homeowner is not likely to be contemplating an outlay of a size to be of interest to a contractor, and he may be unable to organize the work on his own or may not be skillful enough or physically able to do the work himself.

Thus there appears to be a major need for technical guidance for lower-income homeowners. The extent of this need and way to fulfill it would be appropriate areas for future research.

F. ASSISTANCE TO LOW-INCOME HOMEOWNERS

The programs which utilize Title I as part of an assistance program to homeowners for property improvement can be classified into one of the following general program types:

- Home improvement loans using state-issued bond proceeds and insured under Title I.

- Interest subsidy programs which pay part of the interest cost to borrowers whose loans are insured under Title I.

- Grant programs to enable lower-income people to improve their ability to qualify for a home improvement loan.

- Technical assistance and referral services to borrowers to assist them in securing private financing.

The Minnesota program, for example, has sought to expand the usefulness of Title I by providing borrowers with interest subsidies or grants, thereby enabling them to qualify for a Title I loan. This approach does not interfere with the normal credit practices of the Title I institutions (they class the interest subsidy or grant as a form of income), but does increase the number of borrowers who can use Title I. This approach really operates "at the margin", by improving the position of those who almost qualify without help, but does not aid the lower-income groups substantially. In Worcester, Massachusetts, up to 25 percent of the loan may be obtained as grants. Title I loans may become possible because the grant is considered by the lender as income. (In other localities, grants are made, but the Title I program is not utilized.)

The technical assistance program which has been set up in Worcester, Massachusetts is designed to enable homeowners to better evaluate their home improvement requirements, to select contractors and to prepare the loan application. Many of these loans are insured under Title I.

These various approaches are new, and experience with defaults is limited, but they appear to be promising. Their overall impact, however, will probably be limited. Even with such assistance most lower-income homeowners will not be able to qualify for either insured or uninsured improvement loans. Their incomes are such that the limited assistance available through interest subsidies will not be sufficient to enable them to meet private credit standards or repay loans.

G. RECOMMENDATIONS

1. Title I Program Changes

While major changes should not be made in the Title I program, there are a number of modifications suggested by private lenders that should be considered to make the program more attractive or improve its usefulness by making the program more flexible and responsive to lenders' needs.

Our study indicated the administration of the program would be improved and made more responsive to lender needs and borrower needs through better communication between HUD and the lending community and state and local government housing officials. Our field reconnaissance indicated that many lending institutions and public officials are either unfamiliar with the Title I program or are prejudiced against it because they assume it is a typical HUD mortgage program requiring a great deal of paperwork.

Such an informational program could focus on three particularly promising uses of Title I which would have a public purpose and benefit--the use of Title I to finance energy-saving improvements or the purchase of solar energy systems; the opportunities for developing programs combining

Title I with state and local improvements and rehabilitation programs to serve a group of homeowners not currently eligible for Title I loans; and the liberalization of the program's terms so that it can better facilitate larger scale improvements and rehabilitation activities.

At this time, we recommend that the Title I program be continued. It is not clear, based on the information collected during the initial phase of our work and lacking the benefits of the data from a national survey of financial institutions, what impact the discontinuance of the Title I program would have on the availability of financing. We would surmise that, because Title I serves such a small part of the overall market, the effect would not be dramatic, though some borrowers might have more trouble securing financing. However, given the fact that it is difficult to determine the impact that terminating the program would have, the size of the program, which is not insignificant by comparison with other HUD programs, and the self-supporting nature of the program, it seems appropriate to continue to make Title I assistance available with careful monitoring of the program to assess its usefulness. There does not appear to be any compelling reason to terminate the program at this time. If market conditions and circumstances result in the continued further decline in the use of Title I, it may reach a point where the operation of the program is no longer warranted.

Regardless of the future of the program, Title I should be viewed as a highly successful federal program which provides many lessons and insights into how a federal program can serve as a catalyst for private sector activity and for bringing about significant change and improvements in the nation's housing stock.

2. <u>Meeting the Problems of Low-Income Homeowners</u>

We recommend that HUD address the problem of the income deficiencies and information needs of the lower-income homeowner group, including the elderly and widows, who constitute a substantial portion of this group.

Modifying existing Federal property improvement programs or designing new ones does not seem to be the most effective way to deal with the needs of lower-income homeowners because Federal categorical programs probably cannot provide sufficient program or administrative flexibility to take into account that circumstances among communities and between neighborhoods in a community vary widely.

We do not believe that the Title I program should be redesigned to assist low-income homeowners. The institutional structure of Title I operations--local financial institutions applying private market credit standards--does not lend itself to the problems and needs of low-income families. Title I institutions do not serve low-income groups and they are not equipped to deal with the special evaluations involved in low-income lending. They also are not accustomed nor set up to provide the kind of technical assistance and counseling that many low-income borrowers would require. It would also be expected that lenders would be reluctant to lend to this particular market. Neither private lenders nor the program concept of Title I seem to address the concerns and needs of the low-income homeowner.

The financing problems of low-income homeowners should be addressed through programs designed to meet the problems of that group rather than attempting to modify or restructure Title I. Such programs normally lend themselves to public agency administration.

HUD's major emphasis should be on supporting state and local programs that have been or could be funded out of CDBG funds. Such initiatives already have the momentum and flexibility to fill the current gap between the needs of lower-income homeowners and available public resources. The funding mechanism is established; the basic administrative structure already exists in many communities (and can readily be established in others) and additional funds can be made available in a relatively short time. Importantly, with locally-designed and administered CDBG-funded programs, assistance can be more readily tailored to individual and community and neighborhood circumstances. Neither private lenders nor the Federal government possess the capability to provide on a large scale the level of consumer assistance that is needed.

Reliance on state and local initiatives presents risks. There is the possibility that many communities may not spend their funds in the most efficient or effective manner, that national concerns or priorities will be overlooked, or that administrative overhead will become excessive. However, we believe that such risks are worth taking to gain the benefits of local knowledge and close contact with the homeowners.

To increase the scale and extent of state and local efforts, HUD should take the following steps:

(1) Provide financial incentives for communities to establish home improvement programs or to increase the level of such efforts. The funding of state and local home improvement programs could be increased through one or more incentive funding programs. For example, building on the concept of "Action Grants", it would be possible to provide, in essence, a CDBG add-on which would be earmarked for home improvement activities and available only if spent for this purpose as part of a program available community-wide. The additional funding might or might not be

related to an expansion of the program. This approach would require a careful program review by HUD as well as an annual review of expenditures. These incentive programs would also provide the opportunity to encourage communities to focus on the needs of the low-income homeowner. They provide the opportunity for target funding without incurring the negative features of a target like the 312 program.

Another approach would be for HUD to make available to local governments discretionary grants for home improvement activities. Such a grant program's objective could be to fund innovative approaches or it could be more oriented to funding specified home improvement activities in a large number of communities. The funds made available to local agencies could be used by them for total or partial grants, interest subsidies or direct loans, with the method chosen depending on local needs and local circumstances.

Intent to provide improvement-type assistance could be given greater weight in the evaluative criteria used to select recipients of discretionary CDBG grants.

(2) A locally-oriented improvement assistance strategy seems appropriate for metropolitan areas and large communities but many communities will be too small to support an improvement program or will lack the will to establish their own program. David Gressel in Financing Techniques for Local Rehabilitation Programs (NAHRO, Washington, D.C., 1976) points out that a 312 type program requires a minimum staff of 3 professionals and a minimum budget of $60,000. Such a staff can process 50-60 loans a year. A Neighborhood Housing Services project has similar budget and staff requirements. Such an administrative unit may be too expensive given the expected volume of activity and may not be justified in many communities. For example, in 1976, communities under 5000 received CDBG grants that averaged $155,000 and communities of 5000-9999 averaged $280,000. It would not be expected that most could support local improvement programs. Moreover, some units of government may not want to go to the trouble of establishing such a program.

For those communities which are too small to afford a sizable enough local home improvement program, HUD has several options:

- In order to provide adequate funding and insure a reasonable level of efficiency, it could encourage several communities within a region to establish multi-locality programs through area-wide or metropolitan agencies interested in housing or community development.

- In some communities, HUD's encouragement of non-profit groups to develop programs under contract to local governments may represent the best approach to providing an agency to serve a number of small communities.

- For communities not able for one reason or another to participate in a cooperative program effort, HUD assistance could be made available through state housing finance agencies, either somewhat along the lines of the Minnesota program or in a manner similar to Section 8 funding which seems to be an innovative approach to making home improvement financing available in smaller communities. The state provides 1) loans to make capital more available in areas where there may be a shortage or where lenders do not want to assume the risks of particular borrowers, 2) interest subsidies to homeowners who have low income and find it difficult to repay loans, and 3) grants to homeowners whose income is so low that they cannot afford to borrow any money.

  HUD support of state programs could take several forms. As with state set-asides for Section 8, states could be provided allocations of funds covering program and administrative costs to distribute within their states. On the other hand, HUD might choose to provide only incentive funds such as administrative costs or grant funds and require the states to secure their own capital through state appropriation or bonds sales if they wished to establish direct loan programs. Finally, the HUD role might be limited to one of encouraging States to establish improvement programs and providing whatever technical assistance was requested.

(3) HUD should develop and financially support programs to train local staff in such areas as home improvement counseling, loan program management, credit analysis, home improvement techniques and contract compliance. Many communities have staff who are skilled in rehabilitation, but as home improvement programs become larger in scale, the need for counseling capability will increase. Communities which do not have programs aimed at home improvement would benefit from guidance and advice on how to establish such programs. The systematic dissemination of information about the experience of communities in home improvement programs would be a valuable adjunct of such efforts, as would the development of general program or administrative guides for various types of improvement programs.

(4) Even if one or several of these recommendations are adopted, there still may be gaps in the delivery network at the local level so that, concurrently with other initiatives, it will still be important to make the existing Federal improvement programs more useful and adaptable to the needs of the lower-income housing. These programs should be reviewed within the context of overall HUD objectives to identify ways that their operation can be improved and expanded.

3. Additional Research on Home Improvement Financing

The specific research recommended for consideration is as follows:

(a) Formally evaluate and test the various types of state and local home improvement programs now underway.

(b) Obtain additional information about consumers and the factors surrounding their home improvements.

(c) Obtain additional information about the elderly home-owners.

(d) Undertake special analyses of data from the Home Mortgage Disclosure Act.

(e) Develop information about the motivation for and practices of home improvement among absentee owners.

I. THE HOME IMPROVEMENT MARKET

A. DEFINITION OF HOME IMPROVEMENTS

Home improvement projects can range from "paint up and fix up" to substantial improvement in the condition of a building, including room additions. Under the terms of this contract, the study excludes both substantial rehabilitation and normal maintenance-type work. It focuses on repairs, replacement and renovations in accordance with definitions prepared by the Urban Institute and consistent with definitions of the U.S. Bureau of the Census.

- Repairs. Repairs include: minor repairs of existing fixtures, structure and sites; and major repairs of principal fixtures and components in existing structural, mechanical and electrical systems, inside and outside the existing structure. Repair expenditures are classified normally as "operating expense" rather than as additional capital investment. Repairs also include painting, patching, papering, floor sanding, furnace cleaning or adjustment, correction of defects in fixtures and components without replacement, as in heating and central air conditioning, plumbing, roofing, siding, floors, walls, stairs, windows, cabinets, walks, and driveways. The term "repairs" coincides with the term "maintenance and repairs" used by the Bureau of the Census.

- Replacements. Replacements include: replacement of principal fixtures and components in existing structural, mechanical, and electrical systems, inside and outside the existing structure. Replacement expenditures represent additional capital investment resulting in unaltered usage. Replacements include replacing a furnace, boiler, entire electrical wiring system, central air conditioning, all water pipes, septic tank, cesspool, water heater, bathtub, shower, toilet, sink, washbasin, laundry tub, garbage disposal, all kitchen cabinets, stove, refrigerator, dishwasher, outside walls, siding, roof, walks, and driveways. The term "replacement" coincides with the term "major replacements" used by the Bureau of the Census.

- Renovations. Renovations include: major changes of existing systems and spaces through alteration, addition or conversion, which may involve expansion of existing structure or the installation of ancillary improvements on the site. Renovation expenditures represent additional capital investment resulting in enhanced, expanded or new usage.

Renovation includes installation of additional or newly present heating and central air conditioning components, plumbing fixtures; remodeling existing spaces to create new or expanded rooms; adding a wing, room, porch, garage, shed, carport, retaining wall, patio, swimming pool; raising the roof; digging out and converting a basement. The term "renovations" coincides with the term "additions and alterations" used by the Bureau of the Census.

Of the $29.0 billion of home improvements in 1976, $11.3 billion were spent for repairs, $12.3 billion for renovations, and $5.3 billion for replacements. (Table 1.)

B. HOW HOME IMPROVEMENTS ARE CARRIED OUT

The way in which home improvements are carried out depends on their cost and their complexity. Small painting jobs, wallpapering and paneling lend themselves to do-it-yourself activity. Large projects, such as room additions and conversions and construction or installations requiring special skills (e.g., plastering and electrical work, the latter, in particular, because of the greater consumer concern for safety) are generally turned over to professionals. It is in connection with major projects such as room additions, exterior siding and roof repair that outside contractors often get involved with not only the project, but also the financing.

But do-it-yourself is growing, in part due to rising costs for labor and materials, in part due to a mistrust of contractors by homeowners, and in part due to the attitude of homeowners toward home improvements as a form of recreation or a way to develop pride in an accomplishment. Estimates of the proportion of jobs undertaken as do-it-yourself projects range from 33 percent (Bureau of the Census[1]) to 48 percent (Building Supply News[2]) of all home improvements. Building Supply News estimates that between 1973 and 1975 do-it-yourself home improvements grew 62 percent, from $8.9 billion to $14.4 billion,[3] while expenditures for professionally done projects grew only 16 percent, from $13.4 billion[4] to $15.3 billion.

A survey (by Building Supply News) of homeowners revealed that more than one-half rated their abilities at do-it-yourself at least comparable to that of professionals and that nearly one-third viewed home improvement activities as a form of recreation.

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(1) U.S. Bureau of the Census. Construction Reports: 1976 Annual Report. Residential Alterations and Repairs. Expenditures on Residential Additions, Alterations, Maintenance, and Repairs and Replacements. U.S. Department of Commerce, Washington, D.C., May 1977.

(2) Building Supply News. Homeowners Remodeling/Modernization Study. Bureau of Building Marketing Research, Chicago, Illinois, September 1976.

(3) Ibid.

(4) Ibid.

TABLE 1

HOME IMPROVEMENT EXPENDITURES BY TYPE OF IMPROVEMENT

(in millions)
1976

		Construction		
	Maintenance and Repairs $	Additions & Alterations (Renovations) $	Major Replacements $	Total Expenditures $
Heating, Central Air-conditioning	577	750	730	2,057
Plumbing	1,058	508	984	2,550
Roofing	777	-	1,370	2,147
Painting	4,541	-	-	4,541
Siding	263	-	1,454	1,717
Remodeling	-	1,913	-	1,913
Other*	4,162	9,143	803	14,108
TOTAL	11,378	12,314	5,341	29,033

*Includes $2.5 billion for non-residential-structure improvements, such as walks and driveways, swimming pools, detached garages, patios and sheds.

Source: Construction Reports: Bureau of the Census 1976 Annual Report.

As one panelist said about do-it-yourself: "I can do a better job myself. I would rather do everything myself. So many contractors do not give a damn." Another said: "If I hadn't done it myself with my neighbor, I couldn't have afforded it."

The most common home improvements undertaken--interior and exterior painting, wallpapering, installing lighting fixtures, paneling walls and installing floor tile--are relatively inexpensive. The average cost of six of the seven most common home improvements in 1975 (the year in which Building Supply News undertook a special survey of home improvements) ranged from $96 to $197. (Table 2.) Interior and exterior painting (undertaken most often by single-family homeowners) and wallpapering account for 46 percent of all expenditures for maintenance and repair. With the exception of carpeting (which represents roughly one-sixth of total home improvement expenditures), most of these improvement projects are relatively inexpensive, falling into the "repair and maintenance" category rather than the "capital improvement" category.

C. HOMEOWNER ATTITUDES AND MOTIVATIONS FOR UNDERTAKING IMPROVEMENTS

Home improvements can be classified in terms of their urgency, their purpose and the way in which they are apt to be funded. Viewed from this perspective, home improvements can be classified into one of four job categories:

Category (1): Emergencies - such as correcting a damaged roof, water in the basement, weather or fire damage;

Category (2): Normal Maintenance and Repair - such as painting, redecorating, replacing a roof or a heating system;

Category (3): Structural Changes or Renovations - in response, for example, to changing family needs, such as an additional bedroom for a new child, a laundry room or a second bathroom for growing children or an "in-law" apartment for one's widowed mother to live with the family in a manner that minimizes conflict; and

Category (4): Improvements - undertaken only to make the house more "livable", as is often the case with kitchen remodeling, the addition of a recreation room or a swimming pool.

The improvements in Categories (1) and (2) correspond primarily to repairs and replacements, while those in Categories (3) and (4) correspond to renovations. According to a number of panelists, another type of improvement which has been increasing in frequency and importance during the last two to three years is one that improves energy efficiency. Such improvements include insulation, windows, siding, vapor barriers, new burners, chimney heat savers, and flue heat recirculators.

TABLE 2

AVERAGE COST OF MOST COMMON HOME IMPROVEMENTS IN 1975

Most Common Home Improvements*	Average Cost in 1975 Dollars
Interior Painting	96
Exterior Painting	177
Carpeting	600
Wallpaper	127
Lighting Fixtures	96
Wall Paneling	180
Floor Tile	197

*Ranked by estimated number of jobs done in 1975, i.e. interior painting most common improvement, exterior painting second, carpeting third, etc.

SOURCE: Building Supply News
Homeowners Remodeling/Modernization Study, 1976, p. 16.

Improvements in the Category (1), Emergencies, are unavoidable. For many homeowners some form of credit is likely to be necessary since advance planning for such an expenditure is less likely than for other categories of repairs and improvement. In some cases, the emergency is partially or wholly covered by insurance, for example, as in damage from water or ice during a severe winter.

Improvements in Category (2), Normal Maintenance and Repair, are postponable to a significant degree. The homeowner can save toward payment or can plan any borrowings to cover the cost.

Other than for emergencies and for normal maintenance and repair, the decision to modernize or improve is prompted by a desire on the part of the homeowner to improve the size and quality of the home. Improvements to meet changing needs or to improve livability, Categories (3) and (4), are also ones where a viable alternative is to sell the existing home and buy another. Rising land and housing prices, the increased differentials between interest rates on new and existing mortgages and the increased cost of living generally have combined to favor making home improvements to the currently occupied dwelling over purchasing a new home.

Discretionary improvements of this type appear to be made with only limited concern about a return on the investment involved, although homeowners generally try to avoid improvements which are so expensive that the price of the house would be far in excess of others in the neighborhood or are so personalized that other buyers would hesitate to purchase the house. Internal improvements are considered to be merited by the resultant increase in livability (for the homeowner or, importantly, for good tenants in owner-occupied multi-family structures), coupled with the belief that inflation and the resultant increases in housing prices will enable the homeowner to recoup his investment. As a Chicago homeowner put it, "Ten years ago I bought my house for $26,000. Today I think I can get anywhere from $55,000 to $65,000 for it." Careful calculations about the possibility of recouping investment do not appear to be the practice. Nor do most homeowners typically base their willingness to make internal improvements on precise assessment of neighborhood conditions.

External investments are approached differently. Because they are more visible, and a building permit is more difficult to bypass than in the case of internal improvements, the local code enforcement assessment and taxing policies have an important bearing on the decision. Many believe that improvements to their property will result in higher assessments and taxes. As one panelist in Denver indicated, "I think at this point in time I would look at any future thing that would be done outside where people can see it and really justify it. If your taxes are going to increase $300 to $400, over a ten-year period, that's

$4000. That's just going to taxes. To me that could be spent better elsewhere." In addition, neighborhood conditions* are given more consideration, although there seems to be a general feeling that actions of individual homeowners can and do set an example for the neighborhood and everyone benefits.

Panelists, regardless of their income group, show a keen interest in maintaining and improving their homes. For some, a significant portion of discretionary income and a large percentage of their free time are devoted toward this end. Even those panelists with moderate incomes indicated that they have spent large sums of money on upgrading and improving their homes.

The panels indicated that home improvements appear to be a continuous process; once one job has been completed, other--generally more ambitious--projects are undertaken. For the do-it-yourselfer, the pride of accomplishment plays a big role; for the homeowner relying on a professional, the improvement in living space and the demonstration that it can be done are factors. From a financing standpoint, this means that many homeowners have experience in financing such improvements, have established credit and are knowledgeable about the avenues open to them.

D. FACTORS INFLUENCING THE DECISION TO MAKE HOME IMPROVEMENTS

On the basis of housing surveys and studies as well as on homeowner panels, there appear to be three primary factors which influence the decision to undertake a home improvement. Depending upon the homeowner and his or her property, all three factors may weigh in the decision to undertake non-emergency, or in some cases, even emergency repairs. These factors include:

- the owner's perception of neighborhood quality,
- pride of ownership, including wanting one's home to be more livable and/or more attractive, and
- the owner's technical capability to undertake the improvement.

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*Our contract was concerned with the actions of individual owners and was not oriented toward the neighborhood setting of the unit or toward any external forces. Neighborhood or external considerations were to be considered only to the extent that they impact on the individual owners.

1. Effect of Neighborhood Quality

Among panelists, improving the home was felt to be a way of encouraging the upkeep of the neighborhood, so neighborhood has a positive, rather than negative, impact on the decision to improve. The neighborhood often plays a more subtle but powerful positive role, as well. Most panelists felt that they lived in good neighborhoods. Friends made over time were cited often as strong reasons for improving rather than moving, and the location of the neighborhood in terms of access to good schools, shopping, and the like were mentioned as powerful deterrents to moving. Even those homeowners living in what some would categorize as deteriorating neighborhoods continue to maintain and improve their homes. There are several reasons for this--deteriorating neighborhoods are not always consciously recognized; property values have escalated sufficiently, even in these areas, so that residents may not realize that their homes are not appreciating to the same extent as those in other neighborhoods; and many residents simply cannot afford to move into other neighborhoods because to replace their house in another neighborhood will cost them more, in interest rates, in taxes and in the cost of the home. If they do not keep up their homes, they are likely to decline in value and make it more difficult to retrieve their investment.

This attitude toward the neighborhood is consistent with the findings of the 1975 Annual Survey of Housing, which showed that the vast majority of homeowners (87.3 percent) characterized their neighborhoods as good or excellent; only 8.6 percent indicated a desire to move because of neighborhood conditions. Table 3 reflects the attitude toward housing and neighborhoods taken by owners and renters. Four-fifths of the homeowners throughout the United States and in central cities have a positive view of their home and neighborhood, whereas only two-thirds of the renters hold such a view. Hence, satisfaction with one's total environment correlates more with home ownership than with urban/suburban or non-metropolitan locations.

But there are areas where neighborhood conditions discourage home improvement investment altogether or limit it to the maintenance necessary to prevent serious problems. These areas comprise neighborhoods which are in transition for one reason or another. Change may be occurring because of a change in the ethnic composition of the neighborhood, in the availability of neighborhood services, in the prevalent lifestyle or the age, income or class of new homeowners in the neighborhood.

2. Pride of Ownership

Except in obviously and rapidly declining neighborhoods, motivation for property upkeep among owner-occupants is likely to depend not so much on prevailing market conditions as on personal

TABLE 3

HOMEOWNER AND RENTER ATTITUDES TOWARD HOUSING STRUCTURE AND NEIGHBORHOOD

	Total Number of Units	Percent Who Regard Structure as Excellent or Good	Percent Who Regard Neighborhood as Excellent or Good
Homeowners			
Total U.S.	46,867	89.2	87.3
In Central Cities	11,280	88.4	81.1
Renters			
Total U.S.	25,656	68.3	73.0
In Central Cities	11,469	65.0	64.6

SOURCE: U.S. Bureau of the Census Annual Housing Survey: 1975, Part B, Indicators of Housing and Neighborhood Quality (U.S. Government Printing Office, Washington, D.C.)

desire for a nice home. In undertaking improvements, homeowners differ in their definitions of a livable environment and the extent to which they are willing and/or able to create such an environment. Frequently their definitions of livable environments and housing repair and maintenance are dependent upon their age and financial resources.

A Boston housing study classified four groups of homeowners by their attitude toward their property and their maintenance strategy:(1)

- The modernizers, who shortly after purchasing a home, invest a great deal of money trying to make older homes conform to contemporary, suburban housing images. These homeowners are likely to be young, do much of the work themselves and finance either through home improvement loans and/or savings.

- The fixers, more concerned about good mechanical and structural conditions than modern appearance, who make improvements over a longer time frame. Homeowners falling into this category are older and less affluent than the modernizers.

- The decorators, who have a shorter term commitment to the property, concentrate on finishes (paint and wallpaper). These homeowners are more conscious of a return on their investment because they frequently hope to move on to better housing.

- The menders, often elderly, on a fixed income or financially over-extended and unable to take adequate care of the property.

While the Boston study focused on multi-family owner-occupants, the results of the study are consonant with attitudes expressed in the homeowner panels carried out as part of our study. Homeowners fix up their properties for their own satisfaction with little concern about financial returns. For example, a Houston panelist said, "If you plan to stay there, the sky is the limit on what you spend on it, if it pleases you." A Denver panelist commented, "I didn't do any of my home improvements on the basis of getting my money out of the home if I sold. I was told... I was stupid to do it; that I wouldn't get my money out... but it (home value) has tripled."

The Boston-based study focused upon triple-decker housing, a valuable housing resource in Boston, representing 25% of owner-occupied units in Boston and a major source of low-cost rental units within

(1) Boston Urban Observatory: Working Class Housing: A Study of Triple Deckers in Boston, Boston, MA, May 1975.

the city.* In its most common form, the triple-decker is a detached wood frame structure on a small lot. The owner lives in one level and rents out the other two levels. Although triple-deckers are not so prevalent in other cities, analogous small multi-family buildings characterize middle- and working-class sections of many other cities.

The authors found that triple-decker homeowners continue to fix up their properties despite inadequate financial returns. They are "individuals who place their faith in the presumed benefits of homeownership, largely unaware that they are subsidizing the limited incomes of their tenants and that their expectation of stable property appreciation may never be met...To maintain and/or replace these owners is critical to Boston's housing supply."

In owner-occupied triple-deckers, rents were found to be inadequate to cover even fixed expenses, so that the owner is forced to pay for maintenance. Unlike most absentee owners who either raise rents or obtain bank loans or refinance, homeowners were reluctant both to raise rents (because of fear of losing good tenants) and to increase or extend their mortgages.

Information derived from our panel of multi-family homeowners corroborates the triple-decker study. The multi-family dwellings were located in older "mature" neighborhoods. Their homes were typical of those in the area and homeowner incomes were predominantly middle-income, $10,000-20,000. The homeowners who participated in this panel had a very positive, almost "cherishing" attitude toward their tenants, who were long-term renters or, in one or two instances, relatives. Because of their long association with owners, tenants were regarded as "family members" and owners tended to make improvements for their tenants before they made them for themselves. Improvements rarely led to an increase in rents. Panelists claimed that they undertook improvements because they wanted to attract or retain stable tenants whose lifestyle was similar to that of the owners. This attitude is reflected in the panelists' comments, as follows:

> "I want the place to be the type of place I would be in myself, because that's the type of tenants I want living there."

> "Things could have stayed the way they were, but I found a lady tenant I liked, so I went the extra step to make her comfortable."

> "You fix it up for the type of tenant you want, then maintain it to keep the tenant."

*Over sixty percent of triple deckers are owner-occupied.

Homeowners view their houses as reflections of their lifestyle, creativity and status. Their efforts to modify structures to express their identity are reflected in their willingness to undertake home improvements despite the fact that they may not realize a financial return on their investment and the fact that despite the age of the structure, they make their most costly improvements in the first year they move into their home. Homeowners may not recapture their investment through increased value or appreciation for several reasons: (1) the improvement is really an alteration; it converts the interior or exterior design to the owner's taste but does not improve the value of the property, and (2) the owner is overinvesting in his property. Because of its site, neighborhood and/or the prevailing market for homes of a particular architectural expression and/or neighborhood he will sell the house for less than he has invested in it. The realization that certain improvements may not be economical is often not considered. However, panelists, particularly those with incomes in the range of $15,000-20,000, reiterated that they undertook improvements to make their homes more livable and that the inability to realize a return on their investment would not and did not deter them from undertaking major renovations.

Homeowners are most inclined to make repairs and alterations when they first move into a house. Conversely, the longer one resides in a house the less he or she spends on its upkeep. In 1976, homeowners spent more home improvement money on structures moved into during 1975-1976 than any other year (Table 4). The relatively small amount spent by persons who have lived in their homes 25 years or more may be due to the fact that such homes are owned to a large extent by elderly living on fixed incomes. (Difficulties experienced by the elderly financing needed property maintenance are discussed in Chapter IV.)

3. Owner's Technical Capability to Undertake Home Improvements

Adequate maintenance of one's home requires considerable familiarity with its basic structure, building materials, type of heating, electrical and plumbing systems and methods of repairing and replacing them. Decisions on when to replace a roof rather than patch it will depend largely upon the climate, roofing materials and maintenance it has received over the years. While manufacturers' guarantees provide some measure of longevity for hot water heaters and furnaces, homeowners have very few standards to follow when trying to decide if it makes more sense to rebuild the front steps or just repair them.

Once the decision to repair or replace has been made, a homeowner is faced with the selection of building materials and construction techniques which will not degrade the dwelling's structural integrity and whether to undertake the work himself or subcontract out all or a portion of it. Once these decisions have been made, a homeowner must

TABLE 4

AVERAGE EXPENDITURE FOR OWNER-OCCUPIED ONE-UNIT DWELLINGS BY YEAR MOVED INTO STRUCTURE, 1976

Year Moved into Structure	Average Expenditure ($)
1975 - 1976	730
1970 - 1974	484
1960 - 1969	434
1950 - 1959	378
Before 1950	274

SOURCE: U.S. Bureau of the Census. Residential Alterations and Repairs, 1976, Table 11.

decide whether or not to finance the work from cash on hand or savings, secure a loan or use a revolving charge account or other form of short-term credit. At first glance the process by which homeowners undertake and finance home improvements appears random and irrational. Low-income homeowners who served as panelists were putting off emergency repairs at the probable cost of a much greater outlay in the future. They were reluctant to pay financing costs but accepted inflation in building materials and labor, which in the long run meant delayed improvements were much more expensive than financing them that currently through a home improvement loan.

Many of the lower-income panelists and the majority of the nation's homeowners with incomes under $3000 are females. Because women have not been encouraged to learn the basic principles and skills of carpentry, electricity or plumbing, these female-headed households are less able to undertake the extensive do-it-yourself activity which is increasingly prevalent in low- and middle-income male-headed households.

The exact processes by which the nation's owner-occupied housing stock is maintained are unclear. Conclusions drawn from the panels and housing studies indicate that there are informal communication networks within extended families, in neighborhoods and among friends. These groups exchange information on how extensive a repair job will be, what it should cost and whom to hire. Contractors who served on the panels claimed that they obtained the majority of their work through referrals and that their best advertisement was by word of mouth. We were unable to determine what percentage of the nation's homeowners is served by this network but it would probably be more than half.

Homeowners who are not a part of this network--either because they are first-time homeowners new to a neighborhood, do not come from a family or tradition of homeownership, or are widows who relied on their husbands for home repairs--are at a distinct disadvantage. They view themselves to be at the mercy of unscrupulous contractors who will recommend unneeded repairs and overcharge them. Interviews with bankers confirmed this. West Coast bankers said costly security fencing and locks were being foisted off on gullible inner-city homeowners, and the banks were refusing to offer financing to either the contractors or homeowners for such improvements. Contractors who served on panels admitted that, "Poorer people accept the prices. Middle-class people question the costs."

II. FINANCING HOME IMPROVEMENTS

A. PERSONAL EXPENDITURES

The limited statistics available about the financing of home improvements, supplemented by discussions with homeowner panelists and persons familiar with the home improvement field, indicate that a significant, but unknown, portion of home improvements are paid for with cash, either from savings, family borrowing or weekly take-home pay. There is a decided reluctance on the part of homeowners to incur debt to pay for home improvements, particularly among the moderate income wage-earner, who feels some uncertainty about future job security.

A clear message from the consumer panels was that many homeowners, particularly those with moderate incomes, try to avoid financing and particularly any form of financing which involves a lien on their property. To the extent possible, they tried to pay for improvements from cash, accumulated by various forms of saving. A favorite form of saving was that made possible by reduction in number of declared dependents on the income tax deduction form; tax refunds were then used to pay for improvements. Another form of enforced saving mentioned frequently was the use of payroll deductions for credit union savings. Some consumers continued to make payments into an account even after having paid off their car loans as a way to build up savings. Passbook loans or specially earmarked savings accounts were also used.

However, more than half of the home improvement expenditures in 1975 went for items costly enough that most homeowners might require some form of credit. In 1975, five types of home improvement projects accounted for the greatest dollar value (Table 5); their average project costs suggest that most homeowners might seek some form of credit. Roughly 35 percent of all home improvement expenditures went for jobs costing $1500 or more; kitchen remodeling, room additions, and exterior siding together represented expenditures of nearly $9 billion.

A special tabulation(1) from the survey of Residential Alterations and Repairs, shows that the number of home improvement jobs undertaken increases with level of income as does the amount spent for home improvements (Tables 6 and 7). The percent of home improvements financed varied by both location and income group, but in no case were more than 32 percent of the expenditures financed or 5.2 percent of the jobs financed. Those in the annual income ranges of $10,000 to $14,999 and $25,000 or more financed the most home

(1) Franklin D. James, Back to the City: An Appraisal of Housing Reinvestment and Population Change in Urban America, Urban Institute Working Paper 0241-01, Washington, D. C., May 1977.

TABLE 5

TOP FIVE HOME IMPROVEMENTS IN DOLLAR VALUE

Improvement	Value (In $ Millions)	Average Cost Per Improvement In 1975 Dollars
Carpeting	$ 4,155	$ 600
Kitchen Remodeling	3,593	1,459
Room Additions	3,117	3,797
Exterior Siding	2,168	1,921
New Roofing	2,112	686

SOURCE: Building Supply News
Homeowners Remodeling/Modernization Study, 1976, p. 13 and 16.

TABLE 6

AVERAGE RATES OF HOME MAINTENANCE AND IMPROVEMENT WORK BY OWNER-OCCUPANTS OF ONE-FAMILY HOMES IN CENTRAL CITIES AND SUBURBS, 1974-1976

	Average Number of Home Improvement Jobs per Quarter per 100 Housing Units			Average Expenditures per Quarter for Home Maintenance and Improvement Work per Housing Unit		
	Central Cities	Suburbs	SMSAs	Central Cities	Suburbs	SMSAs
Household Income						
Less than $5000	22.0	24.6	23.3	54.3	48.4	53.0
$5000-9999	30.1	31.0	30.6	63.8	55.8	59.3
$10,000-14,999	38.4	42.7	41.2	118.1	94.1	102.7
$15,000-24,999	44.7	48.8	47.5	107.5	106.9	107.1
$25,000 or more	48.4	59.3	56.3	210.8	179.5	187.9
Household Race						
White	36.2	42.3	40.2	97.0	100.4	99.2
Black	29.9	35.1	31.3	87.5	64.7	81.2
Duration of Occupancy						
Less than 2 yrs.	64.9	59.8	61.5	157.7	139.3	145.5
2-3 years	41.6	45.9	44.7	108.3	85.8	92.2
4-5 years	33.0	43.5	39.5	101.3	81.0	88.6
6-10 years	35.8	43.4	40.6	114.2	106.2	109.1
11 yrs. or more	28.5	55.1	41.4	77.7	148.7	111.9

Source: Special tabulation of public use data from the Survey of Residential Alterations and Repairs. Four quarterly surveys were used in the Statistical analysis:

1st Quarter 1974
3rd Quarter 1974
3rd Quarter 1975
1st Quarter 1976

Franklin D. James, Back to the City: An Appraisal of Housing Reinvestment and Population Change in Urban America, Urban Institute Working Paper 0241-01, Washington, D.C., May 1977.

TABLE 7

PERCENT OF HOME MAINTENANCE AND IMPROVEMENT WORK
WHICH WAS FINANCED IN CENTRAL CITIES AND SUBURBS: 1974-1976

	Percent of Home Maintenance and Improvement Jobs Financed			Percent of Home Maintenance and Improvement Expenditures Financed		
	Central Cities	Suburbs	SMSAs	Central Cities	Suburbs	SMSAs
Household Income						
Less than $5000	2.0	4.4	3.4	3.7	13.7	8.1
$5000-9999	3.5	3.6	3.6	19.9	9.1	14.2
$10,000-14,999	5.2	3.3	3.9	32.1	23.1	27.1
$15,000-24,999	1.5	2.1	1.9	11.3	17.5	15.5
$25,000 or more	1.2	8.1	4.8	1.2	30.1	21.4
Household Race						
White	2.3	3.3	3.0	13.2	18.8	16.9
Black	6.3	2.6	5.1	36.6	16.1	32.0
Duration of Occupancy						
Less than 2 yrs.	4.4	5.6	5.2	26.4	21.3	23.1
2-3 years	3.1	2.2	2.5	20.6	22.7	22.0
4-5 years	5.0	3.9	4.3	25.3	19.8	22.2
6-10 years	3.1	4.1	3.0	16.7	32.0	26.1
11 yrs. or more	1.8	2.0	1.4	9.3	9.4	7.4

Source: Special tabulation of public use data from the Survey of Resident Alterations and Repairs. Four quarterly surveys were used in the Statistical analysis:

1st Quarter 1974
3rd Quarter 1974
3rd Quarter 1975
1st Quarter 1976

Franklin D. James, Back to the City: An Appraisal of Housing Reinvestment and Population Change in Urban America, Urban Institute Working Paper 0241-01, Washington, D.C., May 1977.

improvement jobs (Table 7). Those with incomes less than $5,000 financed the fewest--3.7 percent in central cities, 13.7 percent in the suburbs and 8.1 percent for the SMSA as a whole--and made the fewest expenditures; approximately one-seventh of the level of the expenditures by the group in the $10,000-$14,999 income range and one-tenth the level of the $25,000 plus income group. The income groups below $10,000 financed the lowest percentage of expenditures. While blacks spent less than whites on home improvements, they financed a larger percentage.

The homeowner has many options for financing home improvements:

The 30- to 45-day billing. Most retailers and tradesmen will extend credit to homeowners by billing them after the work is completed. The usual practice is to pay within 30 to 45 days of receipt of the bill. This delayed payment option gives the homeowner the option to accumulate necessary cash (e.g., from savings) or obtain an independent source of credit.

Revolving Charge Accounts and Credit Cards. Since World War II, large retailers have extended credit to their customers through revolving charge accounts. In the sixties, this form of credit became nearly universal when financial institutions entered the credit-card business. The most recent extension of this type of credit is the combination checking-charge account, which permits overdrafts up to a fixed amount at an agreed-upon rate of interest.

Installment Loans. For larger, longer-term credit (say, $1000 or more for six months or longer) the borrower is likely to take out an installment loan, that is, a loan to be paid off in regular (usually monthly) installments. Home improvement loans are installment loans.

Secured Loans. If the expenditure is very large (say $5000 or more), requiring an extended period of repayment (e.g., 5 years or longer) lenders are likely to insist that the loan be secured by a mortgage on the property.

B. INSTALLMENT LENDING

Installment loans assist consumers (as opposed to commercial borrowers) in purchasing a wide range of goods and services:

- automobiles
- mobile homes
- home improvements
- houshold appliances
- education
- personal expenditures, such as travel, medical bills, and other non-specified uses

Installment loans are usually small (typically $2000-5000), short-term (typically 3-7 years), and, with the exception of automobile loans, unsecured (not guaranteed by collateral).

The interest rates for different kinds of installment loans are influenced by a variety of factors--the credit-worthiness of the borrower, the presence of security (collateral), the cost of money, the amount of the loan, and kind of lender involved. Smaller loans tend to bear higher interest rates because of the higher ratio of fixed operating costs to the amount involved. Loans secured by collateral tend to be cheaper than those which are unsecured. For example, auto loans are typically cheaper than any other because they tend to be larger, usually constitute the largest share of a bank's consumer loan portfolio, and are secured by the collateral value of the car. Finance companies have the highest loan rates because of their association with the higher risk end of the market; credit unions usually offer the lowest rates.

Over the last 15 years, commercial banks have gradually increased their share of the total market for consumer installment credit from 39 percent to over 48 percent in 1975. Conversely, both finance companies and retailers have experienced a decline in their respective shares. Over the same period credit unions have trebled the size of their consumer loan investments.

Despite its phenomenal growth, installment lending is still, in terms of dollar volume, a relatively minor lending activity when viewed in the context of the total banking industry. In 1975, installment loans amounted to only 10 percent of total bank loans outstanding.

C. HOME IMPROVEMENT LENDING

In 1976, when home improvement expenditures totalled $29 billion (of which $18.8 billion was spent by single-family owner-occupants and $1.4 billion by owner-occupants of housing with two to four units), home improvement loans were used to finance $5 billion of this total; Title I loans accounted for $814 million (Figure 1).(1) Although home improvement expenditures have risen sharply, doubling since 1970, the share paid for by home improvement loans has remained about the same. Other forms of credit, stimulated by the post-war spurt in both consumer credit and homeowner affluence (Figure 2) apparently account for the large portion of the home

(1) Because of the relative magnitudes of home improvement expenditures, most of the emphasis in this report is on single-family units, although multi-family, owner-occupied units are cited where relevant.

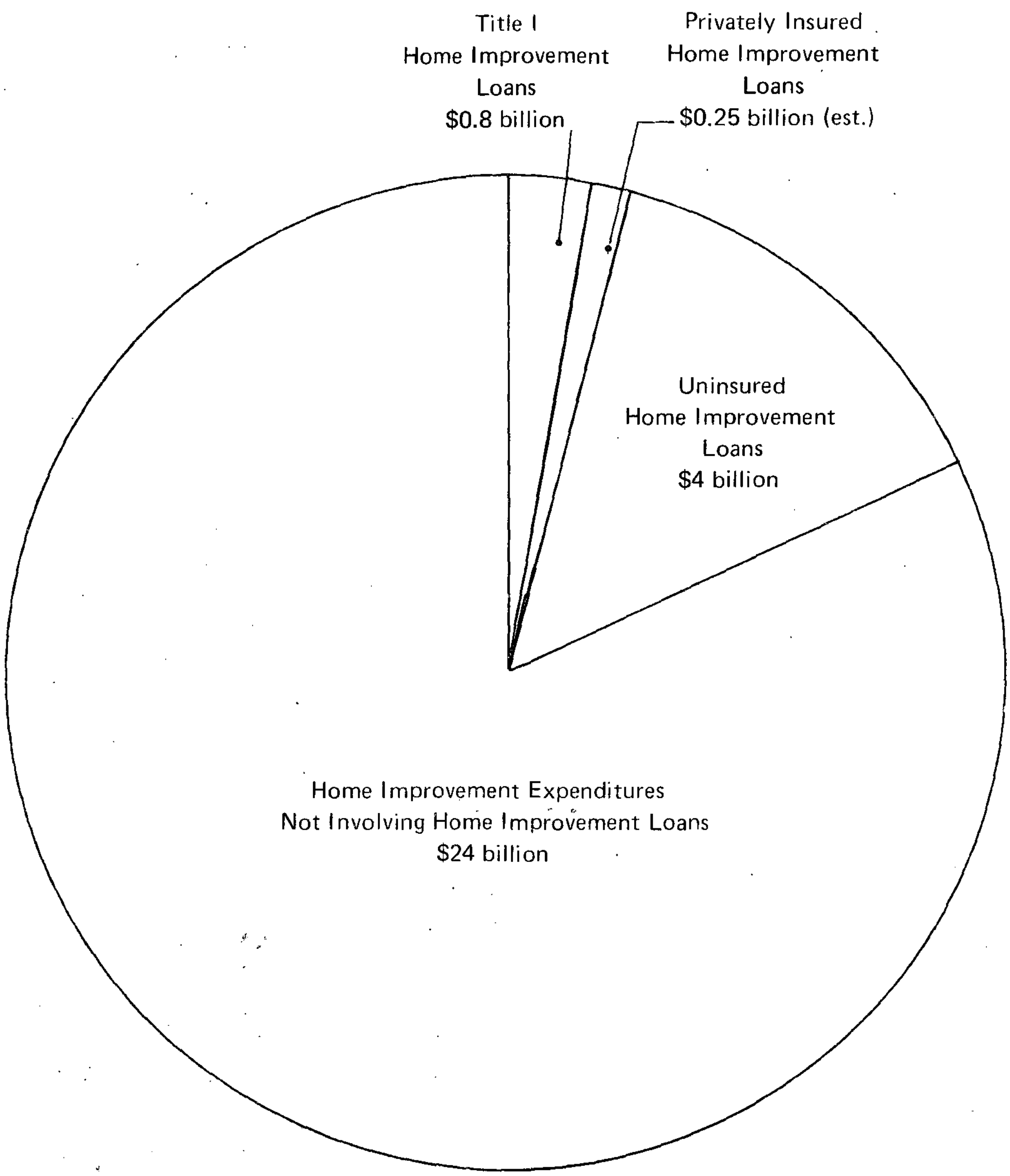
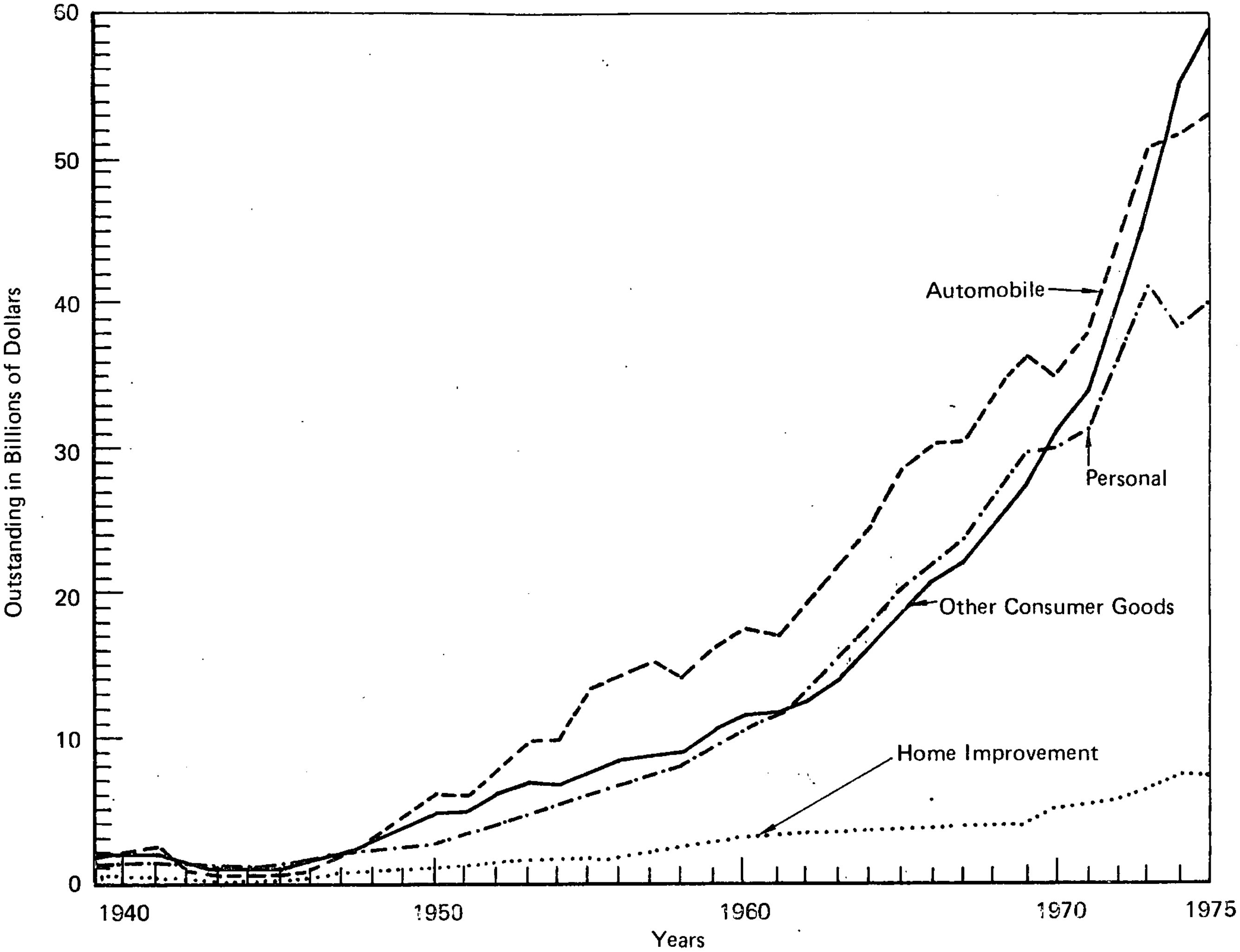


FIGURE 1 DISTRIBUTION OF THE LOAN AND NON-LOAN HOME IMPROVEMENT MARKET, 1976



Note: Data presented here – based on outstanding balances of all consumer loans, not the total new loan amounts extended each year. The Federal Reserve Board altered its categories of consumer credit in 1974. Categories past 1974 have been reconstructed on the basis of conversations with Federal Reserve Staff.

Source: *Federal Reserve Bulletin*, selected issues.

FIGURE 2 **GROWTH IN MAJOR TYPES OF CONSUMER INSTALLMENT CREDIT, OUTSTANDING 1939–1975**

improvements not covered by cash expenditures. As shown in Table 5, the average cost of six out of the seven most common home improvements in 1975 ranged from $96 to $180, amounts which most homeowners could pay in cash.

While it is not possible to calculate the amount of home improvement expenditures that is financed, it appears that roughly half the $25.2 billion spent in 1975 went for items costly enough to require credit for most homeowners. Table 8 breaks down the $25 billion, both by type of work (plumbing, painting, roofing, etc.) and by type of improvement (maintenance and repair, and construction). The maintenance-construction split is roughly 40-60 percent, and has been so for the last decade. Table 6 shows the five types of home improvement projects having the greatest dollar value in 1975; these accounted for slightly more than half the total $25 billion, and their average project costs are high enough to suggest that most homeowners undertaking them would seek some form of credit.

Home improvement loans represent about the same percent of home improvement expenditures today that they did a decade ago. However, the percent of home improvement activity which is financed through home improvement loans fluctuates. It reached a peak for the decade of 26 percent in 1973, before dropping back to 17 percent in 1976 (Table 9).

The special role of the Title I Home Improvement Loan Program is discussed in Chapter III.

D. OTHER FORMS OF HOME IMPROVEMENT FINANCING

Since our research efforts indicated that the bulk of home improvements were, in fact, being financed by personal credit alternatives not associated (or identified in data sources) with home improvement loans *per se*, we made a limited inquiry into the nature of the credit-granting process. These inquiries consisted of a review of current literature and telephone conversations with major credit-granting sources around the country.

From this line of inquiry emerged several major factors. First, consumer installment credit (excluding that associated with purchase money home mortgage) has had extremely rapid growth over the last two decades. Total outstandings grew from $38.8 billion in 1955 to $70.9 billion in 1965 to $186.2 billion in 1976. Despite the reduction in economic growth during the recent recession, installment credit outstandings grew more than $26 billion between 1974 and 1976 alone. However, only $5 billion of the $186.2 billion outstandings at the close of 1976 - less than 2.7 percent - is characterized as home improvement financing by

TABLE 8

HOME IMPROVEMENT EXPENDITURES FINANCED THROUGH HOME IMPROVEMENT LOANS 1967 - 1976

	Total Expenditures ($Million)	Home Improvement Loans Extended ($Million)	Home Improvement Loans as a Percent of Total Expenditures
1967	11,687	2,113	18.1
1968	12,703	2,268	17.9
1969	13,535	2,278	16.8
1970	14,770	2,963	20.1
1971	16,299	3,244	19.9
1972	17,498	4,006	22.9
1973	18,512	4,828	26.1
1974	21,114	4,854	23.0
1975	25,239	4,333	17.2
1976	29,034	5,034	17.3

SOURCE: "Residential Alterations and Repairs", Construction Reports, Bureau of the Census, Selected Issues, Industry Surveys: Current Building Analysis; and Federal Reserve Bulletin, Selected Issues.

the Federal Reserve Board estimates.

One of the fastest growing forms of consumer credit--in terms of numbers of transactions as well as total outstandings--is that known as open-end or revolving credit. With the advent of the two major bank credit cards in the late '60s, revolving credit balances held by banks alone grew from $1.3 billion in 1968 to $25.5 billion in 1976. In addition, total balances held from another recently developed form of revolving credit - the check overdraft loan account - amounted to another $4.8 billion in 1976. On the basis of our panels with consumers and conversations with hardware store and lumber yard managers and bank credit card executives, we believe that a significant amount of this form of bank-issued credit is attributable to home improvements in the $50 to $500 range.

We suspect that the same holds true with respect to revolving credit issued and held by retail sellers. While the data provided by the Federal Reserve Board do not differentiate between revolving and fixed installment balances held by retailers, credit executives indicate that a comparable growth in the area of seller revolving credit has been occurring and that this is another common source for the financing of the smaller home improvements. Fixed installment credit (i.e., non-revolving) held by retailers is another major source of home improvement financing. This form of credit - analogous to the direct bank loan - is typically used for the larger purchases associated with home improvements. For example, one nationwide retail chain indicated to us that installment plans were available up to 60 months in duration for purchases associated with home improvements at a rate of finance charge which was somewhat less than that associated with installment financing of durable goods (e.g., major appliances).

Panelists exhibited an awareness of the different financing options that are available and the terms and conditions of loans from different types of financial institutions. Some panelists indicated that they borrowed from their credit union because interest rates were more favorable than from other sources. It was common for those needing financing to borrow against their savings account, which reduced their interest rate and preserved the capital they had saved. When the subject arose everyone agreed it was wise to avoid dealing with finance companies because their rates were too high. None wanted to refinance their existing mortgage to pay for improvements, because current interest rates are higher than the rate on their current mortgage.

The long-term commitment incurred by refinancing or by second mortgages seems to be something consumers wish to avoid. A panelist in Chicago expressed it well when he said, concerning financing his basement improvement with a credit card, "As long as I know I can pay it back, it's better to owe 18% for one month than 15% for one year."

But it is not possible to identify exactly how funds are obtained to undertake improvements not carried out with home improvement loans. While data on home improvement loans are readily available, such is not the case with other forms of financing available for home improvements.

E. CREDIT STANDARD IN CONSUMER LENDING

The critical factor in the consumer credit financing process is that associated with determining the credit-worthiness of the buyer. This will determine whether credit will be extended at all, the amounts which will be extended and, in some instances, the rates of finance charge which will be assessed and/or the type of credit grantor involved. By and large, however, while individual credit-granting firms might assess different rates depending on the kind of credit plan or to the extent to which collateral is available, they do not offer different rate schedules based on the degrees of credit-worthiness; that is, a prospective borrower deemed by a bank or retailer to be unsuitable for credit on one application will have no better opportunity to obtain credit at a higher rate of finance charge from that same source. His or her choice will most likely be to seek the more expensive credit from a finance company.

It is widely accepted among the credit-granting community that retailers regularly employ more liberal standards of credit-worthiness, particularly for revolving credit, than financial institutions. Retailers offer credit as an adjunct of merchandising goods and services, their primary source of profit, whereas financial institutions must earn all of their profit from the credit operation itself. This leads most experts to believe - with some corroboration by independent studies - that retailers are content to run their credit operations at breakeven, or even at some loss, in order to maximize their profits on sales.

However, there is considerable uncertainty over the extent to which precise objectivity is available in identifying and measuring credit-worthiness. The prohibitions against discrimination found in the Federal Equal Credit Opportunity Act and comparable state legislation have led all major credit grantors to seriously re-examine their credit-granting policies in recent years. And, while the ready availability of computerized analysis has contributed to refinements in evaluation techniques, there seems to be considerable variance in the approaches used by different credit grantors.

Income is perhaps the most important variable in credit-worthiness because of its direct relevance as a measure of the capacity of the applicant to make future payments. In addition, income bears some relationship to education, socio-economic status and other hard-to-measure intangibles associated in one degree or another with reliability, i.e., future employment (income generating) capacity, stability in the community, etc.

Virtually all credit grantors approach an applicant's income in terms of the expenses that person is likely to sustain in order to maintain his standard of living. If all income is required to meet the expenses of necessities, a credit grantor is likely to conclude that there is no remaining capacity to sustain extended credit. Thus, a low-income homeowner may have an excellent credit rating in terms of past performance in meeting mortgage obligations but still be perceived as lacking the income capacity to handle any additional credit for home improvements. In this sense, a credit grantor evaluates an applicant in much the same manner that a prudent individual would establish his or her own budgetary controls.

Since individual expense obligations play a major role in measuring the role of income size in the credit-granting decision, it does not necessarily follow that low income alone will preclude the opportunity to obtain credit. A major study of retail credit operations in New York state in 1974[(1)] shows that 17 percent of a sample of credit card holders had incomes of $10,000 or less. While these lower-income groups do not hold many travel and entertainment credit cards (Table 9), they hold several department store and bank credit cards (Tables 10 and 11).

Since both bank credit card and department store credit cards are important financing sources of the smaller home improvements, it is likely that low-income homeowners have at least some access to this form of financing.

This experience, however, is not translatable to the more-expensive home improvements, since credit cards can be extended with maximum limits as low as $100 and $200. Although we were unable to identify any precise data, we suspect that the majority of lower-income homeowners lack adequate access to credit for the $2,000 to $5,000 range of improvements by virtue of their limited capacity to sustain an extended payment schedule.

Homeownership in and of itself is recognized as a significant contributing factor in evaluating the overall environment of an applicant's credit-worthiness, but not a major determinant. That is to say that homeownership is considerably indicative of a desirable degree of social and community stability, but is not as important as income size or the proven ability (because of education or past experience) to obtain and hold income-producing employment in the future. In addition, homeownership is often viewed as an important indicator of proven ability to manage credit obligations because of the probability that ownership was achieved through a mortgage.

One attribute of homeownership which has become of increasing importance in the past year is the extent to which ownership equity has been drastically increased by inflation. This gives credit grantors an opportunity - either through first mortgage refinancing or the

(1) Dunkelberg and Shey, Retail Credit Card Use in New York, Columbia University Press, 1975.

TABLE 9

DISTRIBUTION OF TRAVEL AND ENTERTAINMENT CREDIT CARDS

	Percent of Sample[a]	NUMBER OF CARDS				
		None	One	Two	Three of More	All
Income Groups						
$5,000 and under	2.2	100%	*%	*%	*%	100%
$5,001 -7,500	6.7	97	3	*	*	100
$7,501-10,000	8.4	98	2	*	*	100
$10,001-15,000	24.7	88	10	2	*	100
$15,001-20,000	26.4	76	16	7	1	100
$20,001-25,000	12.8	65	33	1	1	100
Over $25,000	17.7	51	43	5	1	100
ALL	100.0	77%	19%	3%	1%	100%
Age of Family Head						
Under 30	15.7	79%	18%	3%	*%	100%
30-34	12.6	65	29	6	*	100
35-39	11.4	75	19	4	2	100
40-44	11.8	79	14	2	5	100
45-49	12.2	74	25	1	*	100
50-54	12.2	79	16	5	*	100
55-64	17.4	82	17	1	*	100
65 and over	6.2	90	10	*	*	100
ALL	100.0	77%	19%	3%	1%	100%
Occupation						
Professional	15.9	61%	36%	3%	*%	100%
Technical	6.3	85	12	3	*	100
Supervisors; managers; self-employed	20.9	64	32	4	*	100
Clerical; sales	18.8	82	13	4	*	100
Craftsmen; foremen	8.8	90	4	*	6	100
Service workers	7.6	76	15	7	2	100
Operatives; unskilled	7.5	97	3	*	*	100
Misc. (students; housewives; retired)	14.2	89	11	*	*	100
ALL	100.0	77%	19%	3%	1%	100%

[a]Adds to less than 100 percent due to the omission of 19 cases (14 unweighted) for which income was not ascertained, and 8 cases (1 unweighted) for age.
*Less than one-half of one percent.

SOURCE: Dunkelberg and Shey, Retail Credit Card Use in New York, Columbia University Press, 1975.

TABLE 10

DISTRIBUTION OF DEPARTMENT STORE CREDIT CARDS

	Percent of Sample[b]	NUMBER OF CARDS[a] One	Two	Three	Four	Five or More
Income Groups						
$5,000 and under	2.2	5%	26%	8%	31%	30%
$5,001-7,500	6.7	17	18	30	7	27
$7,501-10,000	8.4	25	19	25	18	14
$10,001-15,000	24.7	13	20	17	12	38
$15,001-20,000	26.4	7	13	20	24	36
$20,001-25,000	12.8	4	12	20	12	54
Over $25,000	17.7	6	11	9	13	62
ALL	100.0	10%	16%	18%	16%	40%
Age of Family Head						
Under 30	15.7	18%	11%	16%	27%	28%
30-34	12.6	8	22	21	7	43
35-39	11.4	6	14	20	21	40
40-44	11.8	10	16	24	17	35
45-49	12.2	15	18	8	5	55
50-54	12.2	9	16	15	19	43
55-64	17.4	10	13	20	15	42
65 and over	6.2	9	27	17	15	33
ALL	100.0	10%	16%	18%	16%	40%
Occupation						
Professional	15.9	8%	14%	6%	19%	53%
Technical	6.3	18	25	7	14	36
Supervisors; managers; self-employed	20.9	4	17	16	14	48
Clerical; sales	18.8	13	13	22	21	32
Craftsmen; foremen	8.8	12	24	27	5	33
Service workers	7.6	11	12	30	12	36
Operatives; unskilled	7.5	23	19	14	15	31
Misc. (students; housewives; retired)	14.2	10	12	21	21	36
ALL	100.0	10%	16%	18%	16%	40%

[a]Since this is a sample of retail credit users, all respondents held at least one account.

[b]Adds to less than 100 percent due to the ommission of 19 cases (14 unweighted) for which income was not ascertained, and 8 cases (1 unweighted) for age.

SOURCE: Dunkelberg and Shey, Retail Credit Card Use in New York, Columbia University Press, 1975.

TABLE 11

DISTRIBUTION OF BANK CREDIT CARDS

	Percent of Sample[a]	NUMBER OF CARDS: None	One	Two or More	All
Income Groups					
$5,000 and under	2.2	77%	13%	10%	100%
$5,001-7,500	6.7	53	45	2	100
$7,501-10,000	8.4	51	33	16	100
$10,001-15,000	24.7	39	48	13	100
$15,001-20,000	26.4	21	41	38	100
$20,001-25,000	12.8	23	38	39	100
Over $25,000	17.7	22	38	40	100
ALL	100.0	33%	41%	26%	100%
Age of Family Head					
Under 30[b]	15.7	29%	46%	25%	100%
30-34	12.6	19	55	26	100
35-39	11.4	17	42	41	100
40-44	11.8	31	36	33	100
45-49	12.2	42	35	23	100
50-54	12.2	44	36	20	100
55-64	17.4	33	40	27	100
65 and over	6.2	71	23	6	100
ALL	100.0	33%	41%	26%	100%
Occupation					
Professional	15.9	18%	41%	41%	100%
Technical	6.3	16	53	31	100
Supervisors; managers; self-employed	20.9	24	46	30	100
Clerical; sales	18.8	35	44	21	100
Craftsmen; foremen	8.8	42	29	29	100
Service workers	7.6	22	49	29	100
Operatives; unskilled	7.5	64	27	9	100
Misc. (students; housewives; retired)	14.2	54	31	15	100
ALL	100.0	33%	41%	26%	100%

[a]Adds to less than 100 percent due to the omission of 19 cases (14 unweighted) for which income was not ascertained, and 8 cases (1 unweighted) for age.

[b]Less than 5 percent of the sample was under 25 years of age.

SOURCE: Dunkelberg and Shey, Retail Credit Card Use in New York, Columbia University Press, 1975.

obtaining of a second mortgage - to extend credit under circumstances where it would not have been available in the past. Since this is a recent phenomenon, there is insufficient experience to know whether consumers, whether low-income or otherwise, are truly interested in pursuing this emerging source of credit alternative. As mentioned earlier, much of what we learned in consumer panels indicates that consumers are extremely reluctant to refinance or further encumber their homes.

III. THE ROLE OF THE TITLE I PROPERTY IMPROVEMENT LOAN PROGRAM

A. ORIGINAL PROVISIONS AND OBJECTIVES OF TITLE I

The Title I Property Improvement Loan Program* is authorized by Title I, Section 2, of the National Housing Act as amended (Public Law 73-479; 48 Stat. 124b; 12 U.S.C. 1703). It was enacted in 1934 with the objective of increasing employment in the building industry by facilitating increased property maintenance and improvements. Under the program, HUD provides insurance against borrower default, on a co-insurance basis, to approved private or public lenders who make home improvement loans. Lenders pay a premium--one-half of one percent of the net proceeds of the loan--for the insurance which compensates lenders for 90 percent of the loss on individual loans up to a maximum of 10 percent of the value of all loans made by an institution since 1950, less an annual formula reduction of 10 percent per year.

1. Special Features

The Title I program was an innovative program in many respects when it was first enacted in 1934. Over 40 years later it still has a number of special and unusual features about it which are worth noting:

- The mandate and the purpose of the program are broadly defined. The program is flexible and can be used for a variety of purposes in differing circumstances. The program can be used not only for improving existing housing--be it single-family or multi-family--but it can also be used for the construction of a variety of agricultural, commercial or industrial structures.** Small improvements can be financed as well as rather substantial ones. It can provide financing for a short term or for as long as twelve years. While over the years the loan term, amount and maximum interest rate have been revised, the basic structure and approach of the program been maintained.

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*The description of Title I is derived from:

Title I Property Improvement Loan Operating Handbook (4700.1), June 1973.

FHA Regulation (RHA 2000): Property Improvement and Mobile Home Loan Insurance.

National Housing Act (Public Law 479, 73rd Congress, 48 Stat. 124b, 12 U.S.C. 170 et sq.)

**Our research was limited to improvements to existing housing, excluding mobile homes.

- The program relies primarily on private initiative and the federal role is designed to respond to and support private lending activities. It places primary responsibility for operating the program on the Title I approved lenders and attempts to encourage private sector investment, not to replace it. The program operates through an existing network of established public and private institutions.

- Loan processing, the credit evaluation of the borrower, and all underwriting are handled by participating Title I lenders. HUD does not monitor or review lender judgments or approve loans. Only when lenders submit claims for loss does HUD review the handling of cases. If the lenders follow HUD prescribed procedures, claims are honored. These procedures are designed to limit the federal role and to simplify the public/private interactions.

- Given the size of the program, the policies and procedures are relatively simple and straightforward. Even after forty-three years, the regulations are only thirteen pages long. Regular reporting is limited to notifying HUD when 1) new loans are made; 2) loans are refinanced; and 3) loans are transferred between lenders.

- The program services a diverse clientele of public and private lenders including state and national banks, savings and loan associations, mortgage companies, credit unions, finance companies, state finance agencies, and local public bodies authorized to make home improvement loans. Standards for approval of Title I lenders are broad and allow for participation by both large and small institutions located throughout the country.

- The program provides for co-insurance, under the assumption that a shared risk program will be more carefully administered than one where lenders have no incentives to prevent losses. Since 1954, Title I insurance has been limited to 90 percent of the loss on any individual loan. Because the lender shares losses with the government, the lender is felt to be more careful in making loans and more diligent in servicing them.

2. Major Features

The major features of the program are described below:

- Two kinds of loans can be insured under the program--direct and dealer loans. A direct loan is one applied for by and disbursed directly to the borrower without the intervention of an intermediary. A dealer loan is one in which an intermediary such as a home improvement contractor has a financial interest in the contract for the repair or improvement of the borrower's property and is involved in the application for or disbursement of the loan.

- Four types of loans are insured under the program. Two involve the improvement to existing structures* (Class I loans) and two involve new construction** (Class 2 loans). They are:

  Class 1 (a) loans are for the repair, alteration or improvement of a single-family dwelling or non-residential structure.

  Class I (b) loans are for the repair, alteration, conversion or improvement of a structure as an apartment house as a two-or-more-family dwelling. Such structure cannot be owned by a corporation.

  Class 2 (a) loans are for the construction of a structure to be used for other than residential or agricultural purposes, e.g., a garage or service building.

  Class 2 (b) loans are for the construction of a structure to be used for agricultural purposes, e.g., a barn.

- Title I loans must be made for at least six months and cannot exceed 12 years and 32 days from the date of the note.***

- Class 1 (a) and Class 2 loans cannot be made in principal amounts of more than $10,000. Class 1 (b) loans cannot be

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*To qualify as an existing structure for Class 1 loans, the regulations require that a residential structure be a completed structure and occupied for at least 90 days prior to the application for a Title I loan and that a non-residential structure be a completed building with a definite functional use before the loan is applied for. This requirement does not apply to loans involving less than $600, or to structures involved in a major disaster as determined by the President (pursuant to Section 2 (a) of Public Law 875 approved September 30, 1950).

**Class 2 loans are excluded from consideration in this study.

***The Housing and Community Development Act of 1974 increased the loan term, the maximum loan sizes, and the interest rate (See Table 19). The Act eliminated a statutorially established maximum interest charge and gave the Secretary flexible authority to establish maximum interest rates to meet loan market conditions.

made in principal amounts of more than $5,000 per dwelling unit or an aggregate amount of $25,000.

- Title I loans can be refinanced to make additional eligible improvements so long as the loan maximums are not exceeded.

- Loans over $7,500 must be secured by a recorded lien.

- Currently the interest rate on a loan cannot exceed a 12 percent annual rate and no points or discounts can be charged.* Certain other charges are permissible if not included in the loan's face amount or paid from the proceeds and include such items as recording fees, title examination charges and hazard insurance premiums. Credit life insurance cannot be included in the loan's face amount.

3. Eligible and Ineligible Improvements

In terms of the uses of the Title I loan proceeds for Class 1 structures, they must be "used only to finance alterations, repairs and improvements upon real property or in connection with existing structures which substantially protect or improve the basic livability or utility of the property, and which are commenced in reliance upon the credit facilities afforded by Title I of the Act".

As stated in the Title I Handbook the following principles should be applied to determine if the improvements are eligible under Title I:

- "'The repair, improvement, or addition must be physically attached to and part of the structure or in connection therewith.

- The improvements should substantially protect or improve the basic livability or utility of the property.

- Improvements and additions which are removable or by their character necessarily temporary, are generally not eligible. Items which are of a nature generally considered as trade fixtures or equipment for commercial or industrial use are not eligible.

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*Unless prohibited by state law, lenders calculate the amount owned on loans that are prepaid on the basis of the "rule of 78ths." This commonly used financial formula results in the lender earning an interest rate slightly in excess of the annual percentage rate on prepaid loans because more of the interest is assumed to be earned in the early part of the loan than in later years.

- An ineligible item does not become eligible merely because it is attached to the realty."

A mobile home unit may be improved with a property improvement loan, provided it has been placed on a permanent foundation and meets certain other criteria.

HUD has determined that certain types of improvements cannot be financed through Title I because either they 1) are luxury items and do not improve the basic livability of the dwelling, 2) are subject to selling abuse, or 3) are not a permanent part of the realty such as draperies and freestanding household appliances. A Title I loan cannot be used to finance any of the following items:

Barbecue pits
Bathhouses
Burglar alarms
Burglar protection bars
Dumbwaiters
Fire alarms or fire detecting devices
Fire extinguishers
Flower boxes
Greenhouses (except commercial greenhouses)
Hangars (airplane)
Kennels
Kitchen appliances which are designed and manufactured to be freestanding and are not built in and permanently affixed as an integral part of the kitchen in a residential structure
Outdoor fireplaces or hearths
Penthouses
Photo murals
Radiator covers or enclosures
Stands
Steam cleaning of exterior surfaces
Swimming pools
Television antennae
Tennis courts
Tree surgery
Valance or cornice boards
Waterproofing of a structure by pumping or injecting any substance in the earth adjacent to or beneath the basement or foundation or floors

The Housing and Urban Development Act of 1974 specified that fire safety equipment, energy conserving improvements, and the installation of solar energy systems were eligible improvements under Title I.

4. Title I Lenders

Insurance under the Title I program is made available to approved institutions which have applied to and which have contracts of insurance with HUD. Such institutions are normally financial institutions such as banks, trust companies, finance companies, savings and loan associations, credit unions, etc., but the Secretary can approve any public or private financial institution that has adequate continuity, authority and expertise to exercise proper credit judgments.

5. Title I Insurance

The cost of the insurance available through Title I to lenders is one-half of one percent of the net proceeds of the loan. The premium is paid in advance on an annual basis.

For loans made according to Title I policies and procedures, lenders are protected by Title I to the extent of 90 percent of the net unpaid amount of the loan, 90 percent of the interest owed, and specified court costs, attorneys' fees and recording expenses.

6. Policies Towards Dealers-Contractors

Because of previous problems and abuses by some home improvement contractors, HUD requires that Title I lenders pay particular attention to dealers-contractors with whom they do business. Each lender is responsible for monitoring the work and financial conditions of its dealers. Title I dealers must be formally approved by the lenders and the lender is expected to 1) keep records on experiences with the particular dealers, 2) periodically visit the dealer's office, 3) inspect a sample of projects, and 4) periodically review the financial condition of the dealer. Failure to keep adequate dealer records is a violation of the insurance contract.

The HUD Title I Handbook warns lenders about potential problems that can occur with dealer loans, including..."grossly overstating the merits of the product, faulty workmanship, assuring performance of doubtful attainment, promising cash bonuses on repeat sales in the neighborhood, encouraging trial purchases, cash rebates, inflating the sales price, and not disclosing to the borrower that, in addition to the cost of the improvements, his note will be for an amount that includes the allowable financing charges." *

In handling dealer loans, lenders must obtain a copy of the borrower-approved sales contract or agreement. The borrower must authorize disbursements of the loan proceeds, and must be notified at least six days before the lender pays the contractor. A completion certificate must be executed by the contractor and by the borrower. Such documentation is not required when the loan is a direct loan.

7. Review of Loan Applications

Borrowers must be reasonable credit risks and capable of repaying the loan at the time it is made. A credit report or other independent investigation of the borrower's financial condition is required. The regulations require that the credit information which is used as the basis for the credit determination must, in the lender's opinion "...clearly show the borrower to be solvent, with reasonable ability to pay the obligation and in other respects a reasonable credit risk."

Borrowers are not limited in the number of Title I loans they can obtain except to the extent that the outstanding balance cannot exceed the maximum permitted for the class of improvement allowed.

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*The Federal Trade Commission (FTC) promulgated on November 14, 1975, the Trade Regulation Rule on Preservation of Consumer's Claims and Defenses, or so-called "holder in due course" ruling. It became effective on May 14, 1976. Under the ruling, the FTC determined that it would be unfair or a deceptive practice for the seller when arranging the financing of the purchase of consumers goods or services to use procedures which render the consumer's duty to pay, independent of the seller's duty to fulfill his obligations. The ruling has the effect of determining that sellers and creditors should be considered joint venturers when there is concerted action on the part of sellers and creditors to finance the sale of consumer goods and services. It makes creditors responsible for the fulfillment of the sellers' obligations. Previous to the ruling the holder in due course doctrine exempted a third party financier from responsibilities for the actions of the seller; however, it is our understanding that legislation similar to the "holder-in-due-course" ruling had been enacted previously in 34 states.

In terms of home improvement lending the ruling makes lenders responsible for the commitments of contractors, when contractors play a role in helping borrowers secure financing. The rule requires that there must have been "cooperative or concerted conduct" in providing financing for the rule to be applicable.

8. Claims

HUD will reimburse lenders for 90 percent of the loss on an eligible note up to a total maximum of the institution's insurance reserve which is calculated based on previous Title I activity. The loss is calculated on the basis of the principal and interest owed and other allowable expenses. Lenders are expected to make every effort to collect on a delinquent loan, but if they are unsuccessful, lenders can submit claims for payment to HUD. The lender provides HUD with a detailed file on the case, including the credit application of the borrower, the promissory note, in the case of the dealer loans the various contract documents, and evidence of independent credit analysis. If the loan was made according to HUD policies and procedures, the claim is paid and the note is assigned to HUD. HUD will then make every effort to collect the money owed.

9. Reporting to HUD

Lenders provide reports to HUD on their Title I lending when (1) a new loan is made, (2) an old loan is refinanced, or (3) when loans are transferred from one lender to another.

10. Program Administration

The program is administered from Washington, not through the Area or Regional offices although there is a field staff which services the program.

B. ACTUAL HISTORICAL ROLE OF TITLE I

1. Introduction

Title I has been one of the federal government's most active housing programs. Since the program's enactment in 1934, over thirty-one million home improvement loans, with net proceeds of over $25 billion, have been insured. Title I is a simple program; financial institutions can utilize it on a voluntary basis and apply normal credit standards. Title I requires only a small HUD staff, which reviews claims and performs a basic accounting function with regard to institutional reserves and claim rates. Despite a decline in use, the program continues to be well-regarded (it has been referred to by some lenders as one of the more successful federal programs), even by lending officials who no longer purchase Title I insurance.

The program's original objectives were to maintain and improve the housing stock, to stimulate the construction industry, and to provide sufficient security to lending institutions to encourage them to make home improvement loans. In its 43 years of operation, the program's objectives, administration, and lending regulations have not been substantially altered, but market forces overshadow any influences which Title I might have in fulfilling these objectives. The context in which Title I operates--the home improvement market and consumer lending--have changed dramatically. Principal changes have been:

- a liberalization of consumer lending practices resulting in financial institutions lending larger sums for longer periods with little or no security;
- an increase in disposable income and assets which has enabled homeowners to assume a greater amount of consumer debt;
- a demonstrated low default rate on home improvement loans.

The most popular types of improvements financed through Title I are additions and alterations. In 1974 these accounted for 31.8 percent of all net proceeds; the average loan size was $3,754. (Table 12.)* Exterior finishing accounted for 20.7 percent of net proceeds; the average loan was $3,110. (Kitchen remodeling, at an average loan of

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*The uses to which Title I proceeds are put is based on a 10 percent sample of Title I direct loans only. Report Number F701GCA, December 1975.

Table 12

USES OF TITLE I HOME IMPROVEMENT LOANS

Type of Use	Total Number of Loans*	Percent of Total Loans	Total Proceeds (000)	Percent of Total Proceeds
NEW NON-RESIDENTIAL				
Detached Garages, carports, patios	872	3.3	2,850	3.7
Manufacturing and processing plants, retail and service stores	19	0.07	111	0.14
Barns, dairies, silos, service buildings, on farms	159	0.6	730	1.0
Other	4	0.02	12	0.02
STRUCTURAL ADDITIONS AND ALTERATIONS				
Attached garages, carports, patios	2,029	7.6	6,409	8.4
Added rooms, baths, closets	3,134	11.7	13,976	18.3
New doors, fireplaces, jalousies, chimneys	789	3.0	1,872	2.4
Bomb and fallout shelters	13	0.05	28	0.04
Other, including new fronts, display windows	511	2.0	2,027	2.7
EXTERIOR IMPROVEMENTS				
Painting and waterproofing	395	1.5	919	1.2
Asbestos, asphalt, wood shingle, brick, cement, metal, stone, stucco	3,724	13.9	11,498	15.0
Asbestos, wood shingles	1,603	6.0	3,274	4.3
Gutters, downspouts	262	1.0	543	0.7
Other roofing	412	1.5	919	1.2
Other exterior finishing work	621	2.3	1,796	2.3
INTERIOR IMPROVEMENTS				
Painting and papering	283	1.0	726	1.0
Plastering wallboard, paneling, acoustical, ceramic, metal, tile	800	2.0	2,355	3.0
Kitchen remodeling, cabinets, etc.	1,886	7.0	6,541	8.5
Composition, linoleum, tile and wood, flooring	254	0.9	535	0.7
Other interior work	1,892	7.0	5,746	7.5
PLUMBING				
Bathroom fixtures and connections	428	1.6	1,127	1.5
Domestic water heaters, softeners	699	2.6	432	0.6
Wells, pumps and disposal	367	1.4	750	1.0
Other plumbing	273	1.0	646	0.8
HEATING AND COOLING				
Furnaces, boilers, pipes, ducts, wall heaters, radiation	1,414	5.2	2,758	3.6
Mechanical air conditioning systems	1,065	4.0	2,127	2.8
Evaporative coolers, exhaust fans	23	0.09	32	0.04
Other heating and cooling	330	1.3	771	1.0
INSULATION				
Blanket, batt, loose fill types	159	0.6	237	0.3
Storm doors, windows	532	2.0	841	1.1
Weather stripping, awnings, blinds	161	0.6	250	0.3
MISCELLANEOUS				
Electric wiring	237	0.9	638	0.8
Fences and walls	623	2.3	916	1.2
Landscaping & lawn sprinkling systems	183	0.7	537	0.7
Paving, driveways, porch, window, screens	679	2.5	1,646	2.2
Other	3	-	8	0.01

Source: Type of Property Distribution within Type of Improvement year ending December 1975, HUD Report Number F70IGCA.

*The F701GCA data system is based upon 10 percent sample of Title I loans.

TABLE 13

PERCENTAGE OF HOME IMPROVEMENT LOAN VOLUME INSURED BY TITLE I

	Total Home Improvement Loans Extended (in $Millions)	Title I Loans Extended (in $Millions)	Title I Loans as Percent of Total Loans
1940	328	216	65.9%
1945	206*	171	83.0%
1955	1,393	646	46.4%
1965	2,270	634	27.9%
1975	4,398	661	15.0%
1976	5,034	814	16.2%

*Consumer loans were low during World War II because of the stringent credit controls applied to consumer lending.

Source: Federal Reserve Board and HUD.

$3400 was the most significant interior work involved.) The balance of Title I loans was distributed among such imprcvements as garages, carports and patios; plumbing improvements; heating and air conditioning; and miscellaneous improvements.

The Title I loans are used almost exclusively (93.5 percent) for improvements to single-family homes. Improvements to multi-family residences accounted for 4.8 percent, with commercial, industrial and farm properties accounting for the balance.

It appears that Title I loans finance the more expensive home improvements. For example, only 1 percent of Title I loans are used for interior painting and 1 percent for exterior painting, yet the Building Supply News Survey[(1)] cited these two improvements as accounting for four percent and five percent, respectively, of all home improvements. The survey listed carpeting as accounting for 14 percent of all home improvement expenditures at $4.2 billion; Title I loan dollars for carpeting are not separately reported, but flooring accounted for only 0.7 percent and "other interior work" for only 7.5 percent of net proceeds.

2. The Decline in Title I Usage

When the Title I program was first introduced, most home improvement loans were insured under this program. Activity was strong in the thirties as financial institutions, primarily commercial banks, took advantage of the secure return available from Title I lending. During the early forties, the program's activity was low due to the stringent war-time controls placed on all forms of consumer lending. In 1945, as World War II ended, 83 percent of all home improvement loans were insured under Title I. (Table 13.) In 1953, the program's peak year of activity, 2,244,227 * loans were written. However, as lenders gained more experience with home improvement loans and recognized their low rate of default, fewer home improvement loans were insured (Figure 3).

Most financial institutions no longer insure their home improvement loans they make (Figure 4). Only one-fifth of the money loaned for home improvements in 1975 was insured. Those lending institutions which did insure loans were more disposed to use Title I than a private insurance plan. In 1975, $661 million, or 15.0 percent, of the $4,398 million written in home improvement loans were insured under Title I; approximately $250 million in addition,or 5.7 percent,were insured under private insurance plans. (See Section B-7 for discussion of private insurers.) In 1976, $814 million, or 16.2 percent of the $5,034 million

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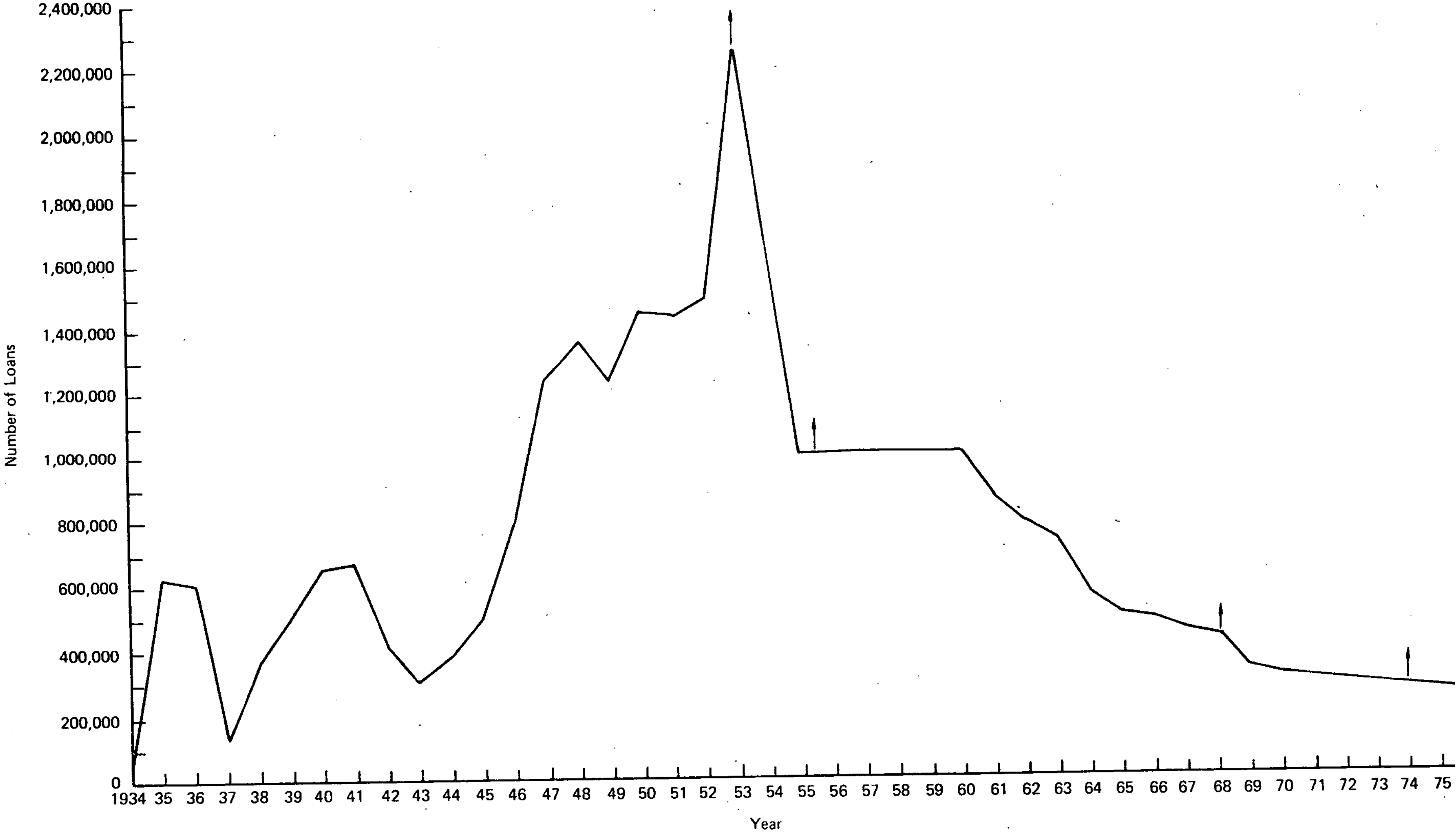
(1) Building Supply News. Homeowners Remodeling/Modernization Study. Bureau of Building Marketing Research, Chicago, Illinois, September 1976.

*This total was inflated due to the necessity in 1952 to hold back approval of loans pending reauthorization of the Title I program. It is estimated that 1,832,180 loans were actually applied for in 1953.

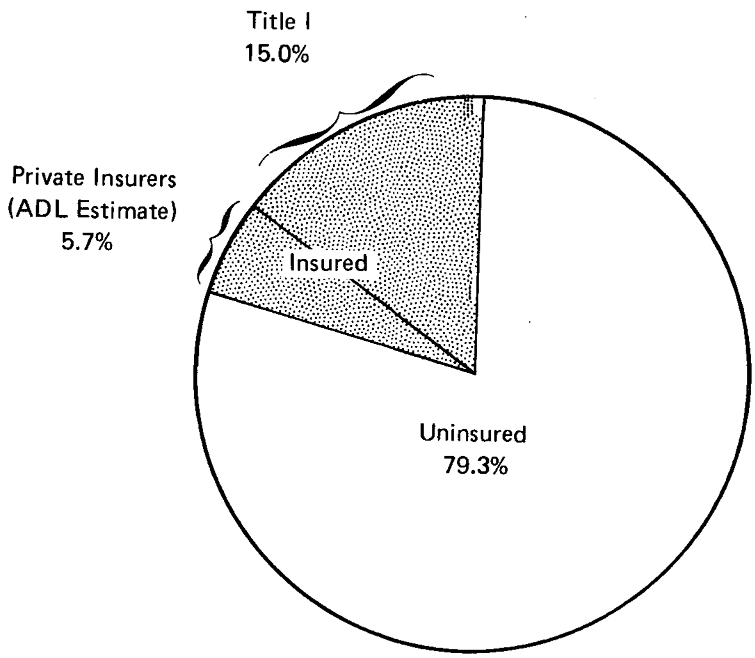


↑ Changes in Program Regulations.

Source: HUD Statistical Yearbook, 1974 Table 138, page 132 and Housing and Urban Development Trends, June, 1976, U.S. Dept. of Housing and Urban Development.

Note: Mobile Home Loans made under Title I are excluded from graph.

FIGURE 3 TITLE I PROPERTY IMPROVEMENT LOANS 1934 – JUNE 1976



Sources: Federal Reserve Board, HUD Title I statistics and telephone calls with private insurers.

FIGURE 4 BREAKDOWN OF THE INSURED AND UNINSURED HOME-IMPROVEMENT LOAN MARKET FOR 1975

home improvement loans were insured under Title I; comparable data are not available for the private insurers. The decline of Title I usage has been nationwide; the number of loans written in most states declined in 1975 from 1974. The sharpest decline has occurred in the Western Region; in 1975, the number of loans insured under Title I in the Western Region was only one-seventh the number insured in 1955. In California alone, the number of Title I loans insured in 1975 decreased by 86 percent, from 50,000 in 1955 to 6,953 in 1975. (Table 14.) While the decline in other states were not precipitous, they were, nonetheless very large. In Illinois, for example, the 24,295 loans insured by financial institutions in that state represented a 60 percent decline from the 1955 level of 61,409.

As program volume has declined, the location of the most active users of Title I has shifted. Large Western lenders have dropped out of the program or significantly reduced their participation; use seems greatest in such states as Michigan, Minnesota, Ohio and Illinois. The following table shows participation by region of the country for the 20 largest Title I users for 1955 and 1975.

Region*	1955	1975
Northeast	7	5
South	2	2
North Central	6	13
West	5	0
TOTAL	20	20

3. Institutional Participation in Title I

As the number of loans insured under Title I declined over the years, the number of institutions participating in the program declined also. There are approximately 45,000 commercial banks, savings and loan associations, and credit unions in the United States; only 10 percent used Title I in 1975. Of the 10,000 institutions reported by HUD as approved for lending under the Title I program, approximately 6000 have loans outstanding. In 1975, only 4563 institutions made Title I loans (Table 15), in contrast to the 9000 institutions doing so in 1950. Further, the average number of loans per institution was only 52 in 1975, in contrast to 165 in 1950, indicating that either participating lenders are smaller or they are using the program less.

*States falling into the four census regions are shown in Table 14.

TABLE 14

TITLE I LOAN ACTIVITY BY REGION AND STATE
(1975)

REGION/STATE	Number of Loans	Percent of Total Loans	Net Proceeds in $000's	Percent of Net Proceeds
North Central	118,037	48.4	302,389	43.4
Illinois	24,295	10.0	59,300	8.5
Michigan	22,483	9.2	58,093	8.3
Minnesota	21,522	8.8	54,265	7.8
Missouri	14,437	5.9	34,864	5.0
Ohio	11,438	4.7	31,261	4.5
Kansas	5,721	2.4	15,305	2.2
Indiana	5,501	2.3	13,396	1.9
Iowa	4,589	1.9	12,731	1.8
No. Dakota	2,291	0.9	8,627	1.2
Nebraska	2,281	0.9	5,883	0.9
Wisconsin	1,600	0.7	4,596	0.7
So. Dakota	1,879	0.7	4,068	0.6
South	59,435	24.3	166,606	23.9
Texas	17,165	7.0	48,655	7.0
Florida	9,168	3.8	28,769	4.1
Kentucky	6,734	2.8	13,975	2.0
Arkansas	5,138	2.1	12,241	1.7
Maryland	3,171	1.3	10,105	1.5
Tennessee	3,275	1.3	8,955	1.3
W. Virginia	2,590	1.1	7,392	1.1
Oklahoma	2,355	1.0	6,261	0.9
Louisiana	1,823	0.7	5,450	0.8
Washington, D.C.	1,579	0.6	5,094	0.7
Virginia	1,748	0.7	4,979	0.7
No. Carolina	1,499	0.6	4,605	0.7
Alabama	1,397	0.6	3,885	0.5
So. Carolina	949	0.4	3,413	0.5
Georgia	844	0.3	2,827	0.4
Northeast	46,567	19.1	153,077	22.0
New York	18,762	7.7	60,732	8.7
Pennsylvania	13,057	5.4	41,766	6.0
Massachusetts	6,652	2.7	22,435	3.2
New Jersey	5,038	2.1	19,237	2.8
New Hampshire	1,175	0.5	3,268	0.5
Maine	684	0.3	1,822	0.3
Connecticut	473	0.2	1,725	0.2
Vermont	580	0.2	1,705	0.2
Delaware	92	0.04	234	0.03
Rhode Island	54	0.02	153	0.02
West	17,740	7.3	61,129	8.8
California	6,953	2.9	25,776	3.7
Washington	2,561	1.1	8,218	1.2
Oregon	1,943	0.8	5,953	0.9
Colorado	1,373	0.6	4,671	0.7
Montana	1,023	0.4	3,916	0.6
Utah	1,003	0.4	3,248	0.4
Arizona	946	0.4	3,016	0.4
Idaho	821	0.3	2,588	0.4
New Mexico	775	0.3	2,488	0.4
Wyoming	225	0.1	701	0.1
Nevada	117	0.05	554	0.08
Other	3,114	0.9	13,197	1.9
Hawaii	1,369	0.6	5,810	0.8
Puerto Rico	1,433	0.2	5,947	0.9
Alaska	312	0.1	1,440	0.2
TOTAL	244,893	100.0	696,398 (1)	100.0

Source: F33 Congressional Data System, 1975, U.S. Department of Housing and Urban Development. The F33 system output differs slightly from the F70 system which is used by HUD in developing the Title I Loan and Claim Report. Most of the Title I data analysis in this chapter is based on the F70-derived Title I Loan and Claim Report.

(1) These totals exclude mobile home loans.

TABLE 15

INSTITUTIONAL PARTICIPATION IN TITLE I

1975

Institution Type	Number of Institutions	Percent of Total
State Bank	1,593	34.9%
National Bank	989	21.7
Savings & Loan Associations	851	18.7
Federal Credit Union	605	13.3
State Chartered Credit Union	372	8.2
Savings Bank	133	2.9
Mortgage Company	11	.2
Finance Company	5	.1
Other	4	.0
GRAND TOTAL	4,563	100.0%

Source: Title I Loan and Claim Report, 1975, U.S. Department of Housing and Urban Development.

Within regions there are wide variations in institutional participation as is illustrated in Table 16. For example, credit unions dominate Title I lending activity in the Western Region, accounting for roughly two-thirds of all Title I loans. In the North Central region, which accounts for one-half of all Title I activity nationwide, state and national banks and savings and loan associations account for almost 90 percent of Title I activity, while credit unions account for only 10 percent of the program. In the North Central region, a greater number of small and medium size commercial banks participate in the program than in other regions. A few very large institutions write a substantial volume of home improvement loans. For example, a review of the lending activity of the top 20 participants in Title I in 1975 indicates that these institutions made $125 million of Title I home improvement loans, or almost 20 percent of all Title I loan volume. The top 5 institutions, all large nationally-chartered banks with assets over $500 million, made 9 percent of all Title I loans.

Nationwide, large banks (deposits between $100-500 million) extend 24 percent of all home improvement loan dollars. About 23 percent of the loans these banks make are insured under Title I insurance. The largest banks (deposits over $500 million) are less active in Title I than home improvement lending whereas middle-sized banks (deposits of $10-99.9 million) are somewhat more active in Title I than in home improvement lending.

As commercial banks have moved away from use of Title I insurance, credit unions and savings and loan associations have increased their participation. (The insurance provided by Title I is essential to credit union participation in the home improvement loan market.) The participation of credit unions in Title I lending increased from an insignificant level of participation in 1950 to a point where credit unions accounted for 20 percent of the Title I loan dollars in 1975. Savings and loan associations, which accounted for less than 5 percent of the loan volume in 1950, represented almost 22 percent in 1975. (See Table 17 and Figure 5.)

4. Reasons Behind the Decline in Title I Usage

The favorable experience of lenders with home improvement loans, has reduced the demand for loan insurance. Interviews with consumer lending officers indicated that home improvement loans are regarded by many lenders as the "safest" of consumer loans, primarily because of the relative financial stability of the borrower and his demonstrated ability to acquire a considerable asset: his home. In a survey of its bank members, the American Bankers Association asked member institutions to express dollar losses on outstanding consumer loans. According to this survey, which is summarized in Table 18, losses were lowest on Title I home improvement and mobile home loans and were highest on personal loans.

TABLE 16

TITLE I INSTITUTIONAL ACTIVITY BY DOLLAR AMOUNT AND REGION 1975

Region	Type of Institution	Dollar Volume (in millions)	Percent Regional
Northeast	Federal Credit Unions	$ 15,403	9.2
	National Banks	51,973	31.2
	State Banks	21,062	12.6
	Savings Banks	29,969	18.0
	Savings & Loan Associations	41,546	24.9
	State Chartered Credit Unions	6,745	4.1
	Finance Companies	3	-
	Mortgage	7	-
		$166,708	100.0
South	Federal Credit Unions	$ 30,699	17.6
	National Banks	45,299	25.9
	State Banks	56,345	32.2
	Savings Banks	1,472	.8
	Savings & Loan Associations	27,183	15.6
	State Chartered Credit Unions	12,036	6.9
	Finance Companies	72	.1
	Other - Insurance	4	-
	Mortgage	1,638	.9
		$174,748	100.0
North Central	Federal Credit Unions	$ 7,498	2.4
	National Banks	89,752	28.3
	State Banks	106,189	33.4
	Savings Banks	1,175	.4
	Savings & Loan Associations	84,467	26.6
	State Chartered Credit Unions	25,721	8.1
	Finance Companies	2,578	.8
	Other - Insurance	72	-
	Mortgage	50	-
		$317,502	100.0
West	Federal Credit Unions	$ 32,602	44.8
	National Banks	8,222	11.3
	State Banks	9,865	13.5
	Savings Banks	1,405	1.9
	Savings & Loan Associations	5,339	7.3
	State Chartered Credit Unions	15,346	21.1
	Mortgage	80	.1
		$ 72,859	100.0

Source: Title I Loan and Claim Report, 1975, Department of Housing and Urban Development. Analysis based on raw data uncorrected to remove some double counting.

TABLE 17

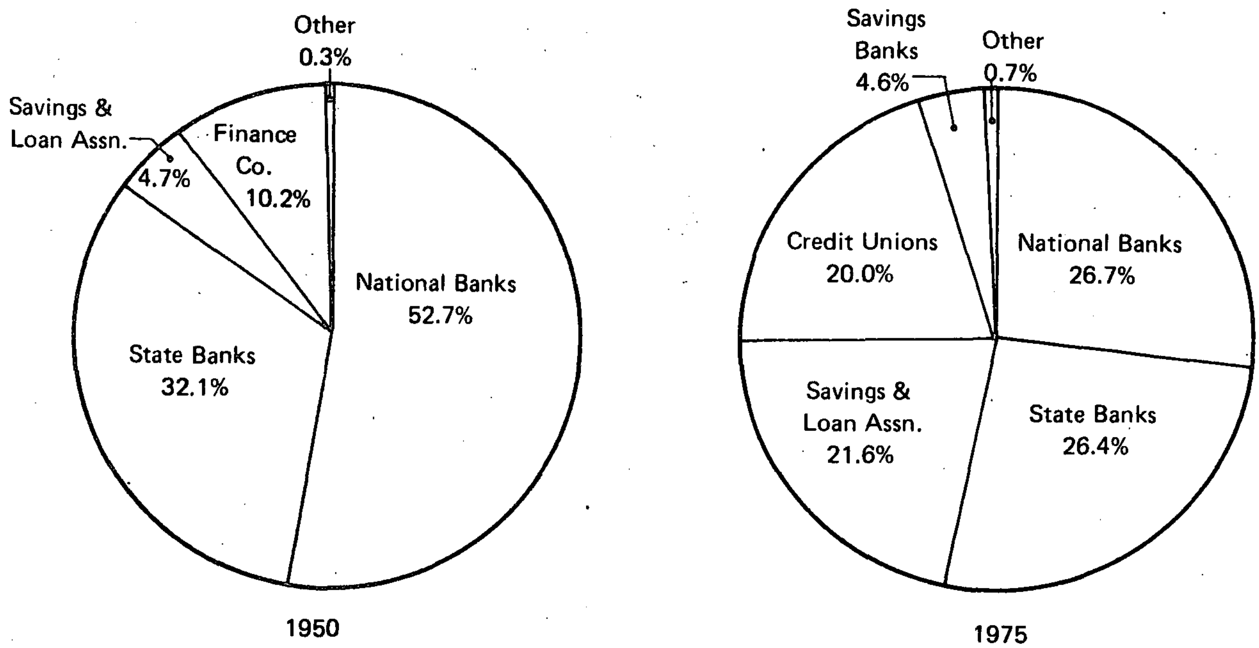
TYPES OF INSTITUTIONS ORIGINATING TITLE I LOANS

	1950		1975	
	Loans Insured ($000)	Percent of Total	Loans Insured ($000)	Percent of Total
National Banks	$368,827	52.7	$195,246	26.7
State Chartered Banks	224,741	32.1	193,116	26.4
Finance Companies	71,764	10.2	- (1)	-
Savings and Loan Associations	32,975	4.7	158,535	21.6
Federal Credit Unions	(2)	-	86,169	11.8
State Chartered Credit Unions	(2)	-	59,848	8.2
Other	1,918	0.3	38,903	5.3
TOTAL	$700,225	100.0	$731,817	100.0

Source: Federal Housing Administration, Seventeenth Annual Report, 1950, and Title I Loan and Claim Report, 1975, U.S. Department of Housing and Urban Development. Analysis based on raw data uncorrected to remove some double counting.

(1) Included in Other.

(2) Includes savings banks, mortgage companies, finance companies and other institutions with minimal participation.



Note: "Other" for 1950 includes mortgage companies, savings banks, and credit unions; for 1975 "Other" includes mortgage companies, savings banks, and finance companies.

Sources: HUD Statistical Yearbook, 1974, and Title I of Loan and Claim Report by State through 1975, F 70 BTCA, U.S. Department of Housing and Urban Development.

Figure 5 **COMPARISON OF INSTITUTIONAL PARTICIPATION IN TITLE I, 1950 AND 1975, BY DOLLAR AMOUNT**

TABLE 18

AVERAGE INSTALLMENT DOLLAR LOSSES FOR BANKS
(Based on 1975 Loans Outstanding)

	Direct Loans Net Loss	Indirect Loans Net Loss
Automobile	.39%	.41%
Personal	1.46%*	
Home Improvement - Non-Title I	.25%	.30%
Home Improvement - Title I	.19%*	
Mobile Home - Non-Title I	.43%	.18%
Mobile Home - Title I	.18%*	
Appliances/Home Furnishings	.76%	.79%
Recreation Vehicles	.25%	.29%

*No breakdown given for Direct and Indirect loans.

Source: Installment Credit Survey, 1975, American Bankers Association, p. 32.

Dollar losses were also very low on non-Title I home improvement loans. On non-Title I direct loans, the average loss was 0.25 percent, while that on non-Title I indirect loans was 0.30 percent. Thus on every $100 loaned, the banks surveyed lost 19¢ on a Title I home improvement loan, 25¢-30¢ on a non-Title I home improvement loan. In contrast, banks experienced a loss of $1.46 on every $100 loaned for personal use. Comparable information is not available on the loss experience of other types of financial institutions.

HUD's net losses on Title I transactions during the period June 30, 1934, to March 31, 1976, averaged 1.1 percent of total loan amount insured. In recent years, the serious delinquency ratio has changed from 1.5 to 1.9 percent of loans outstanding. In fiscal year 1977, claims are running at a higher rate, due probably to recent economic conditions rather than to any change in underwriting standards or the quality of Title I borrowers.

Premiums from 1934 through June 30, 1975 totalled $472 million; total net losses for the same period totalled $270.5 million. Even after deducting administrative costs, well over $100 million has been added to the General Insurance Fund or returned to the Treasury in terms of profits to the government from the Title I program. Premium income is significantly greater than the potential losses the government might incur.

Table 18 also illustrates the slightly higher net loss experience on indirect loans when compared with direct loans. Higher rates of delinquency and defaults have been historically associated with indirect loans.

Another factor contributing to the decline in the use of Title I loans has been the reduced role of dealer or indirect loans. In the early post-war years, dealer loans accounted for a large share of Title I loans; dealer loans accounted for 75 percent of all Title I loans in 1953. Contractors and retailers of home improvement materials were arranging financing for their customers, then selling these so-called "dealer loans" to approved Title I lenders, following much the same practice that automobile dealers do today. In the early 1950s, a number of dealer abuses were uncovered as the post-war construction boom attracted large numbers of new operators, some of whom were inept or dishonest or both. Stricter program regulations, enacted to deal with such abuses, were a major factor in the decline in dealer loans. By 1975, dealer loans had declined to the point where they account for only 36 percent of all Title I loans.

Dealer loans may well decline even further in the period ahead. Credit unions, which now account for 20 percent of the volume of Title I loans, make no dealer loans at all, since they make loans only to their individual members. In addition, the FTC "Holder in Due Course" ruling of May 14, 1976, may cause other financial institutions to make fewer dealer loans.

We were interested, in the course of our discussions with financial institutions, to determine the reasons for the decline in utilization and the shift in institutional utilization. We spoke with three user-classes of Title I participants--the bulk of the users in the past--seeking their views of the program:

1. Institutions that have been major participants historically and still participate in the Title I program.

2. Institutions that were once major program participants, but have subsequently dropped out of the program.

3. Institutions that have only recently become major participants in Title I.

For the most part, historically active institutions rely solely on Title I insurance, place all eligible loans under Title I and have continued to prefer insurance on all loans, regardless of their history of low default. These institutions are strong supporters of the program.

Almost all of the institutions that were once quite active in the Title I program, but are no longer in it, dropped out for the same reason - unfavorable terms and interest rates. Many had dropped out just before the allowable interest rate became 12 percent in 1974, and a few were contemplating re-entering the program. But many discovered once they had dropped out that the risk was small and premiums exceeded losses, since the default rates were so low and since their own screening policies had been successful in weeding out bad credit risks.

Among recently active institutions--the third category--on the list of 20 most active Title I participants, several medium-sized institutions demonstrated a high volume of Title I lending. These institutions had made consumer loans for years, but experienced sharp increases in volume only recently and for no reasons apparent to them.

Another factor contributing to the decline in the use of Title I is that the program's allowable interest rates and terms failed to keep pace with changes in the market. In the 1930s and 1940s, lenders could charge somewhat higher interest for Title I loans than for other home improvement loans, because Title I loans, along with FHA mortgages, were exempt from usury laws in many states. In these states the interest rate allowed for Title I loans was higher than the interest rate permitted under the usury laws. In the credit boom following the war, however, usury laws were modified in many states,which allowed interest to be determined by market forces and other factors such as federal monetary policies. The result was that interest rates for installment loans increased, to levels comparable with and in some cases higher than the interest allowed under Title I, and use of Title I declined.

Changes in program regulations (see Table 19), allowing higher interest rates and maximum terms and lowering the insurance premium, have lagged behind market forces and when they were modified did not halt the decline in Title I usage, but may have served to temporize it. When the allowable maximum term was increased in 1956 from five years to seven years and the premium lowered from .65 percent to .55 percent, the program utilization stabilized until the early sixties when the program began to decline once again. Raising of the maximum interest rate in 1968 (from 9.7 to 10.6 percent) and again in 1974 (from 10.6 to 12 percent) has not significantly affected the general trend of declining program participation. The percentage of home improvement loan dollars written with Title I insurance was 15 percent in 1975 and 16 percent in 1976.

Personal and telephone interviews with over 80 financial institutions and a review of secondary source material indicated that the interest rate on Title I home improvement loans was not competitive with market interest rates particularly in the early 1970s. The 12 percent interest rate[1] approved in the Fall of 1974 in the Housing and Community Development Act of 1974 has made the Title I program more competitive, although no major change in program usage has occurred to date. The limited number of institutions interviewed to date, however, does not permit us to draw any conclusions as to the effect of the increased interest rate on financial institutions who have dropped out of the program resuming participation, although a few institutions contacted during this study indicated that they may resume participation.

Surprisingly, secondary source material[2] indicates very little variation between the size and loan terms of Title I and non-Title I home improvement loans. Both types of loans are made for an average duration of 48 months at a 12 percent interest rate, which is slightly higher than the average rate for a new car or mobile home loan, but less than the rate for a used car or personal loan. The ABA Survey reports that the average loan insured under Title I is smaller than non-Title I home improvement loans.[3] There is some conflicting evidence in our field interviews which indicated that some financial institutions use Title I for larger loans and do not insure the smaller ones.

5. Step Effect of Usury Laws on Title I

State usury laws represent an additional factor affecting the use of Title I. If a state has a rate ceiling applicable to home improvement loans which is lower than that set for Title I loans, the state limit controls. And the effect may be to discourage these kinds of loans in favor of others which enjoy a higher rate.

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(1) The 5 percent discount rate previously allowed resulted in a variable rate depending on the duration of the loan. A 36-month loan resulted in a 9.3 percent rate, a 60-month loan resulted in a rate of 9.05 percent.

(2) U.S. Bureau of the Census. Annual Housing Survey: 1974, Part A, General Housing Characteristics, Series H-150-74A. U.S. Government Printing Office, Washington, D.C., August 1976.

(3) Ibid.

TABLE 19

CHANGES IN PRINCIPAL FEATURES OF TITLE I HOME IMPROVEMENT LOANS, 1934-74

	1934	1939	1956	1968	1974
Maximum dollar amount	$2,500	$2,500	$3,500	$5,000	$10,000
Maximum term of loan	3 yrs. 32 days	5 yrs. 32 days	5 yrs. 32 days	7 yrs. 32 days	12 yrs. 32 days
Maximum financing charges per annum	9.7%[1]	9.7%[1]	9.7%[1]	10.6%[3]	12%
FHA premium for insuring loans under Title I	0.0%	.75%	.65%[2]	.50%	.50%

Source: HUD and FHA Annual Reports

[1]This rate is equivalent to a rate based on $5 discount per $100 of the original face amount of a monthly loan are paid in equal monthly installments calculated from the date of the note.

[2]The premium was reduced to .65% in 1954 and in 1957 reduced to .55% and .50% in 1958.

[3]The rate was increased to $5.50 discount per $100 in 1968.

State usury laws present an almost bewildering variety of legislative patterns, exceptions and contradictions. (See the Report of the National Commission on Consumer Finance entitled Consumer Credit in the United States, December 1972.)[1] All states but two--Massachusetts and New Hampshire--have a general usury statute which typically establishes an interest rate maximum somewhere between 8 and 12 percent. In addition, all states but one have specific statutes which establish higher rate ceilings for different forms of consumer credit. The one exception--Arkansas--has a rigid constitutional 10 percent maximum which applies to all credit without exception.

A typical state may have four or five different statutes which govern consumer credit: a motor vehicle installment sales act; an installment sales act; a small loan act; etc. Many have separate statutes for home mortgage loans and for second mortgage and/or home improvement loans. Historically, in some thirty states, FHA- and VA-insured mortgages and Title I loans enjoyed exemptions from the specific ceilings imposed for comparable uninsured loans. This helped to make Title I loans more attractive because of the potential for greater returns for lenders. In the last few years, fluctuating money markets have led to a liberalization of many of these interest rate ceilings. The effect is that Title I no longer enjoys the preference it enjoyed in many states.

Thus, it seems clear that interest rate ceilings raise considerations which impact directly on Title I usage. However, the full extent of the impacts is unknown because of the extreme variety of laws which exist around the country. It may be possible to better quantify their impact in future research efforts.

6. Lender Decisions about Use of Title I

Our field reconnaissance indicated that credit evaluation standards for Title I and non-Title I loans are generally similar and that use of Title I did not usually relate to perceived risk. Initially, we had hypothesized that lenders might tend to use Title I insurance for borrowers considered more risky than the average borrower. Some lenders volunteered that this was in fact the case. However, for lenders still using Title I, the decision not to insure with Title I was usually reportedly based upon one of the following considerations rather than the borrower's credit rating:

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[1] National Commission on Consumer Finance. Consumer Credit in the United States. U.S. Government Printing Office, Washington, D.C., December 1972.

- The borrower wished to include an ineligible item such as drapes or free-standing refrigerators in his remodeling plan, and hence the loan was written without Title I insurance.

- The loan was small, and the lender did not think insurance was warranted or necessary.

- The lender did not wish to limit the interest rate to 12 percent.

- The circumstances involving the loan did not meet the Title I requirements in terms of the loan limits on maximum size, term and the amount of time in which an individual had resided in the property to be improved (Title I requires that structures be completed and occupied at least 90 days before applications for the Title I loan).

Our study found that many lenders are conservative in the size and term of uninsured home improvement loans and Title I loans they make. Many lenders limit home improvement loan terms to 5-7 years and maximum loan size to $5000-7500. Such policies make it difficult to finance large improvement projects and by restricting the term, monthly repayments are higher than some potential borrowers can afford. More generous terms would help to increase the usefulness of home improvement loans and would qualify additional homeowners for home improvement financing. Many lenders have been reluctant to increase loan terms and amounts because of a fear that they represent a higher risk or because of an unwillingness to tie up their investment funds for longer periods of time.

One possible way in which loans of larger size and longer terms might be made would be through a secondary market for home improvement loans - with Title I or uninsured improvement loans. Such a secondary market would provide an opportunity for lenders to dispose of loans they do not want to hold. The Federal National Mortgage Association (FNMA) is already authorized to deal in Title I loans. Under this scheme FNMA would buy loans which met agreed upon standards from lenders and retain them for investment. Lenders would act as loan originators as they do now for most FHA and VA lending. This type of program would not be difficult to establish and implement. The main question is whether the administrative costs would be inordinately high in relation to the loan size and whether the program would be used sufficiently to justify its establishment.

Another potential variation of the secondary market concept would be to set up a tandem-type program for home improvement loans. Using the authority of the Government National Mortgage Association (GNMA), a program could be designed to have private lenders make below-market-interest-rate Title I loans to borrowers--presumably lower-income borrowers. Under such a program, GNMA would agree to buy such loans and then in turn sell them at market rates to FNMA or institutional investors. GNMA would provide the subsidy by absorbing the loss between the cost of purchase of the loans and their resale value. This program could provide financing to homeowners who might not qualify for a regular Title I loan of the size they need, but at the same time, it would take advantage of the Title I lending institutional structure. Lenders would earn an origination fee and could be paid a fee for servicing the loans. Both of these concepts appear to be worth detailed study and a determination of whether they would be used sufficiently to justify their cost.

C. THE ROLE OF PRIVATE INSURERS[(1)]

1. Private Home Improvement Insurance Plans

Private home improvement loan insurance provides an alternative to Title I for lenders, and has been available since 1954 when Insured Credit Services (ICS) was established. Home improvement loan insurance is available from private mortgage insurers (PMIs) and other insurance companies, but these firms do not play the same significant role that they do in the home mortgage field. The December 13, 1976, issue of Barron's in the article, "Someone to Lien On," reports that PMIs will write $14 billion of new mortgage insurance in 1976. By contrast, based on ADL interviews, it appears that private insurers wrote insurance on about $250 million of home improvement loans in 1976, nearly 80 percent of which were handled by ICS of Chicago. Of the major PMIs, only United Guarantee (UG) Corporation is currently insuring home improvement loans. With the exception of ICS, which was established for the sole purpose of providing home improvement insurance, the private insurers offer home improvement loan insurance as a service or accommodation to customers and as a complement to other more important lines of insurance coverage.

ICS has developed a significant volume of business, but private insurers have not been able to capture a significant portion of the home improvement loan market. In 1975, they insured about 5.7 percent of the dollar volume of home improvement loans and insured about one-third of the total loan proceeds insured by Title I. UG and ICS are the dominant insurers. It is estimated that ICS controls about 80 percent of the private insurance business and UG nearly 15 percent. A number of firms apparently experienced difficulty in establishing profitable programs, and one insurer, American Mortgage Insurance Corporation (AMIC), dropped its home improvement loan coverage when it terminated mobile home coverage due to financial difficulties and also as a result of some underwriting problems with a few home improvement

[(1)] Data for this section of the report were obtained in telephone interviews with principal officials of Insured Credit Services, United Guarantee Corporation, and American Mortgage Insurance Corporation.

loan lenders. Insurers interviewed are, however, optimistic that their business will grow and that lenders will take advantage of their plans, which they contend are more flexible and more prompt in payment of claims than the Title I program.

Private insurers have different policies and practices than Title I which many lenders find attractive, including:

- There is no limit, other than competition and usury laws, on the interest rate that can be charged.
- The cost and the coverage can be varied and tailored to lender needs. In the case of ICS, coverage is similar to Title I - 90 percent of any loss - but the premium rate varies among lending institutions and can range from $.50 to $1.50 per $100 of coverage, depending upon the institution's rating, which is calculated on past loan experience and an evaluation of the institution's lending practices. United Guarantee has a fixed premium for all institutions, but offers different coverage options. For 90 percent coverage, the insurance rate is one-half of one percent, for 95 percent coverage, the rate is three-fourths of one percent, and for 100 percent coverage, the rate is one percent.
- All of the private insurers contacted stressed speedy claims processing, which they believe is significantly shorter and less bureaucratic than exists in the Title I program.
- Private insurers will insure loans for improvements such as swimming pools and tennis courts,which are ineligible under Title I.
- Private insurers have a general $10,000 limitation, but consider larger loans on a case-by-case basis. ICS limits the term to twelve years, but United Guarantee will insure fifteen-year loans.
- ICS, unlike other insurance companies in the field, plays an active role in assisting lenders. They help clients set up home improvement loan programs and provide ongoing technical assistance and monitoring of lending activities.

It is probable that, in the future, the private insurers can expand their business at the expense of Title I as it is currently operated, particularly if they are willing to devote the resources to make lenders aware of the availability of private insurance programs.

ICS, UG, and AMIC have been the largest home improvement loan insurers. A few small firms may also offer this type of insurance coverage including Glacier National of Billings, Montana, and Bellefonte Insurance Company of Columbus, Ohio. Mission Insurance Company of Los Angeles and First National Insurance Company of Cisco, Texas, provided insurance but no longer do so.

2. Insurance Credit Services (ICS)

The firm was established 22 years ago, and is the largest and oldest insurer of home improvement loans, which is its only businesss. The firm was privately held, but has recently been acquired by Old Republic Insurance Company of Greensburg, Pennsylvania, which is in turn owned by Old Republic Corporation of Chicago. In the past, Old Republic reinsured ICS' loan insurance. The firm has only one office in Chicago and a professional staff of about fifty.

ICS operates in 41 states, with Florida being the state with the highest volume of business. ICS has about 1200 clients, over 1100 of whom are commercial banks. Some 28 of the 100 largest banks are clients of ICS. In 1975, ICS insured about $200 million of loans which ICS' President estimated was at least two-thirds of all the private insurance business. Their average loan is approximately $2800 and average term 53 months. With an average loan size of $2800, ICS insured about 71,430 loans in 1975.

3. United Guarantee Corporation (UG)

United Guarantee Corporation, with assets of about $85 million, was started in 1963. Its principal business is providing insurance coverage on conventional first mortgage loans on single-family residences. Home improvement loan insurance is available in 35 states and the District of Columbia; such coverage was made available in 1971. The firm wants to grow slowly and does not aggressively market the coverage. The company is selective in the lenders it insures. Currently, UG has about 500 clients, most of whom are small savings and loan associations and credit unions. In 1975, about 11,000 loans with net proceeds of about $34 million were insured by UG. After some initial difficulties the business is now considered profitable.

4. American Mortgage Insurance Corporation (AMIC)

AMIC is a major private mortgage insurer, which discontinued its home improvement loan insurance program (which was established in 1971) in 1973. It was started strictly as an accommodation to their clientele and was available in 15 states. During the year-and-one-half of operation, $69,000 in premiums were earned, and AMIC worked with 20-25 lenders. Both 90 percent and 100 percent covereage were offered. Claims experience was not disappointing although the firm had problems with several of its clients, but the plan was dropped when mobile homes insurance was discontinued.

D. TITLE I AS A MODEL FOR OTHER GOVERNMENT HOUSING PROGRAMS

Title I's popularity has been largely due to the hands-off basis of the program and allowable interest rates which have been competitive with other investment opportunities, except for recent years. Although we encountered some complaints about slow claims processing, on the whole, loan officers have complimented the program for its lack of paperwork and red tape. In large part, Title I has avoided the bureaucratic morass which has plagued so many other government programs by establishing a direct communication link between the lender and the FHA/HUD office in Washington, D.C. Thus Title I has not been subject to intergovernmental review (established by the Office of Management and Budget Review A-95), or elaborate application procedures required at different governmental levels.

Because Title I has been self-supporting, i.e., premiums paid into the program covered claims, administration costs and reserves, the program has not been subject to much administrative or legislative scrutiny and hence has been spared the innumerable regulation alterations which has caused private industry to shy away from participation in government programs. From the perspective of Title I's ability to enlist private industry's support in achieving a public goal to maintain and improve the nation's housing stock at no cost to the taxpayer, Title I has been a model governmental program.

The federal government's decision not to more closely monitor Title I's program activity has also resulted in a lack of integration of Title I's program objectives with those of the government's other housing programs. Principles and positive relationships with lending institutions developed through the Title I program are transferable to other housing programs where there is a more demonstrable need for federal government support and intervention.

Of major importance to any effort to adapt the favorable features of the Title I program to other types of housing programs are:

1. The use of existing institutions (i.e., the large number of financial institutions) to carry out the program within existing practices and procedures.

2. HUD review is limited to claims rather than to all loans--a form of management by exception.

3. The objectives of the program are clear-cut and clearly stated.

The success of Title I suggests that this program could be used effectively in connection with the financing of solar energy systems and home conservation improvements. Such improvements are currently considered as eligible Title I improvements, but greater efforts could be made to inform lenders and homeowners that Title I can be used for such purposes. A publicity program stressing the use of Title I for energy purposes would be consistent with the nation's focus on energy saving. Title I lends itself particularly well to assisting in the financing of solar energy systems because a Title I loan is not based on an appraisal of the value of improvements. Hot water solar systems cost $1000-2000 and solar heating $8000 up, so many retrofit installations would fit within Title I loan limits. Because of lack of experience with solar systems, many lenders are reluctant to value solar energy systems at a high value to cost ratio. As a result, for many purchasers, installation of a solar energy system may require a high cash payment if they finance the system in the case of a new home as part of a first mortgage or in a retrofit situation as part of the refinancing of a first mortgage or through a second mortgage. A Title I loan can cover the full cost up to $10,000 and because of the insurance may allay some of the concerns that lenders may have about the value of such a system. Increasing the size and lengthening the term of Title I loans, as has been proposed in the Housing Act of 1977, will improve the usefulness of the program for financing solar energy by covering the cost of more expensive heating systems.

IV. ABILITY OF LOWER-INCOME HOMEOWNERS TO MAINTAIN THEIR PROPERTY

A. THE COST OF MAINTENANCE AND CYCLICAL IMPROVEMENTS

The cost of providing essential maintenance and cyclical improvements (i.e., replacements which are required periodically) depends on such factors as the condition of the structure, its age, location and type. According to the available data (such as the Bureau of the Census report, Residential Alterations and Repairs[1], the average expenditure for an owner-occupied, one-unit dwelling in 1976 was $450;[2] the average maintenance expenditure, $119; and the average construction improvement expenditure, $331. However, the data are not conclusive. They include not only expenditures for essential repairs, but also expenditures for non-essential improvements. The latter may increase the structure's value or make it better suited to a homeowner's particular family needs, but may not increase the structure's life or its basic livability.

As one would expect, high-income households spend more to maintain their homes than do lower-income households. Those with incomes less than $5,000 spent an average of $203; and those earning more than $25,000 spent an average of $822 (Table 20).

The average expenditure in 1976 on property maintenance and construction by owner-occupants of single-family properties was $450. These costs vary depending upon such factors as the condition of the structure, the type of construction, and the extent to which the owner is willing or able to perform maintenance rather than retaining contractors. A study of triple decker structures in Boston found that annual repairs and cyclical improvements in 1974 ranged from $276 to $430 per unit.[3] Ninety-five percent of the City's triple deckers are wood frame; they require regular repair of gutters, downspouts and porches, painting or re-siding of exteriors as well as cyclical replacement of heating systems and roofs. These latter expenses occur less frequently but are inevitable if the building is to be protected from deterioration. Annual repair and cyclical improvement expenditures for an owner-occupied triple-decker structure are presented in Table 21.

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(1) U.S. Bureau of the Census. Construction Reports: 1976 Annual Report. Residential Alterations and Repairs. Expenditures on Residential Additions, Alterations, Maintenance, and Repairs and Replacements. U.S. Department of Commerce, Washington, D.C., May 1977.

(2) Overall expenditures vary widely by region, from a high of $530 in the Northeast to a low of $407 in the North Central Region. These statistics do not, however, reflect what is needed to maintain property at a satisfactory level, only what is actually spent.

(3) Boston Redevelopment Authority and Boston Urban Observatory, Working Class Housing: A Study of Triple-Deckers in Boston. Boston, MA, May 1975.

TABLE 20

EXPENDITURES AND AVERAGE EXPENDITURES PER PROPERTY FOR MAINTENANCE REPAIRS AND CONSTRUCTION IMPROVEMENTS BY INCOME OF HOUSEHOLD

1976

Income	Expenditures ($ millions)	Average Expenditure per Household ($)
Less than $5,000	1,167	203
$5,000 - $9,999	2,246	298
$10,000 - $14,999	4,533	475
$15,000 - $24,999	5,804	553
$25,000 or more	3,587	822
Not reported	1,518	361

Source: U.S. Bureau of the Census, Residential Alterations and Repair, 1976, Table 11.

TABLE 21

ANNUAL REPAIRS AND CYCLICAL IMPROVEMENTS:
BOSTON AREA TRIPLE-DECKERS, 1974

	Range ($)		
	Low		High
Average Per Unit Repair Costs	48	-	93
Average Per Unit Cyclical Improvements	228	-	337

SOURCE: Boston Redevelopment Authority and Boston Urban Observatory, Working Class Housing: A Study of Triple Deckers in Boston. Boston, MA, May 1975.

These expenditure levels assume that owners undertake most of the repair themselves. For example, repair expenditures on an absentee-owned triple decker were double or quadruple ($185 per unit per year) those for an owner-occupied dwelling ($48-$93 per unit per year) because almost all of the work was done by contractors.[1]

There are two primary causes for the inability to maintain property:

(1) Income so low that the homeowner can neither afford to maintain his property out of income or savings nor secure financing;

(2) A lack of technical capability, physical energy and/or the know-how to keep up property.

Not infrequently, homeowners suffer both; for example, an elderly widow may be living on small fixed income, and may lack the technical capability because her husband always decided when and what type of repairs to undertake, and how to organize the work.

B. IMPROVEMENT EXPENDITURES BY LOWER-INCOME HOMEOWNERS

The housing units owned by lower-income families are receiving less in the way of home improvements than higher-income groups. In 1976 homeowners of single-unit properties earning less than $10,000 accounted for only 18.1 percent of home improvement expenditures, although they represented more than one-third of all homeowners; those earning less than $5,000 accounted for only 6.2 percent of all improvement expenditures even though they constituted over 15 percent of the population. (See Table 22.) Those making less than $5,000 spent only 45 percent of the money that the average homeowner spent and those making $5,000-9,999, only 66 percent. Homeowners in lower-income brackets pay a significant portion of their income for fixed housing costs such as real estate taxes, property insurance, fuel, water and garbage and trash collection. In 1976, for example, homeowners with incomes under $5,000 and a mortgage were paying in excess of 35 percent of their income for fixed housing costs. In contrast, the median fixed housing costs for all homeowners holding mortgages was only 18 percent.

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(1) Boston Redevelopment Authority and Boston Urban Observatory, Working Class Housing: A Study of Triple-Deckers in Boston. Boston, MA, May 1975.

TABLE 22

EXPENDITURES FOR MAINTENANCE AND REPAIRS AND CONSTRUCTION IMPROVEMENTS BY INCOME OF HOUSEHOLD AND VALUE OF PROPERTY, 1976

		Property Value				
Income	Total	Less than $10,000	$10,000-19,999	$20,000-34,999	$35,000 or More	Not Reported
Less than $5000	$ 1,167	227	527	310	94	8
$5000-$9999	2,246	211	722	947	359	8
All incomes	18,854	681	2,987	6,311	8,554	322

Note: Totals may not add due to rounding.

Source: U.S. Bureau of the Census, Residential Alterations and Repair, 1976, Table 8.

Lower-income homeowners who own their homes free and clear were doing only slightly better than those at very low income levels. Homeowners with incomes under $3,000 were still paying 31 percent for fixed housing costs despite the absence of a mortgage. Homeowners with incomes from $3,000 to $5,000 were doing better with only 21 percent of their income being spent on fixed housing costs although the median fixed housing costs for all homeowners owning their homes free and clear was only 11 percent.

Table 23 illustrates that the lower the income level, the fewer the number of home improvement jobs undertaken and the less the amount of money spent, regardless of location.

In sum, because of their limited financial means, it appears unlikely that households with incomes under $5,000 are properly maintaining their property; households in the $5,000-10,000 group may be just barely covering necessary costs, even given substantial do-it-yourself activity.

C. CREDIT-WORTHINESS OF LOWER-INCOME HOUSEHOLDS

Given their proportionately high fixed costs for housing and other obligations, a large percentage of lower-income homeowners will not be considered credit-worthy by lenders. Lenders have indicated that they will generally not grant a home improvement loan to a homeowner if the payments, when added to his current fixed obligations, will total more than 32 percent to 40 percent of his gross income. Based on the 40 percent guideline, a $3,000 home improvement loan at 12 percent interest and 60-month repayment schedule, would not be granted to a homeowner with income of less than $6,500 if his fixed obligations (for mortgage and taxes, for example) amounted to $150 per month, since the annual payments of $801 for the home improvement loan could cause his annual fixed obligations to amount to $2,600 or 40 percent of the $6,500 annual income. If his fixed obligations were $250 per month (to allow for car payments in addition to mortgage and taxes, for example) the homeowner would require an annual gross income of $9,500 to be considered credit-worthy.

These credit requirements tend generally to exclude homeowners with incomes of less than $10,000 from the home improvement loan market. Some members of this income group might qualify for some loan assistance because 62 percent of their homes are owned free and clear. There is, nevertheless, a large number of owner-occupants who are excluded from normal credit channels.

TABLE 23

AVERAGE RATES OF HOME MAINTENANCE AND IMPROVEMENT WORK BY OWNER-OCCUPANTS OF ONE-FAMILY HOMES IN CENTRAL CITIES AND SUBURBS

1974-1976

Household Income	Average Number of Home Improvement Jobs per Quarter Per 100 Housing Units			Average Expenditures Per Quarter for Home Maintenance and Improvement Work Per Housing Unit		
	Central Cities	Suburbs	SMSAs	Central Cities ($)	Suburbs ($)	SMSAs
Less than $5000	22.0	24.6	23.3	57.3	48.4	53.0
$5000-9999	30.1	31.0	30.6	63.8	55.8	59.3
$10,000-14,999	38.4	42.7	41.2	118.1	94.1	102.7
$15,000-24,999	44.7	48.8	47.5	107.5	106.9	107.1
$25,000 or more	48.4	59.3	56.3	210.8	179.5	187.9

Source: Special tabulation of public use data from the Survey of Residential Alterations and Repairs. Four quarterly surveys were used in the Statistical analysis:

1st Quarter 1974
3rd Quarter 1974
3rd Quarter 1975
1st Quarter 1976

Franklin D. James, Back to the City: An Appraisal of Housing Reinvestment and Population Change in Urban America, Urban Institute Working Paper 0241-01, Washington, D.C., May 1977.

There are many homeowners who might qualify for a loan because of their equity in their home and lack of other debts but, because of their low income, they would find it very difficult to pay off even relatively small home improvement loans. A $2,000 home improvement loan at 12 percent interest for a term of five years requires a monthly payment of $44.59, or $534 a year. This would represent more than 10 percent of the gross income of nearly 16 percent of owner-occupants in 1975. Many of these homeowners are elderly, who may be unable to afford any loan payments (not taking into account many who may be reluctant to go into debt or encumber, if required, their major asset - their home).

Some homeowners, even if they have adequate incomes, may also find it difficult to secure financing if they are a marginal credit risk and own a home with a small equity in less desirable neighborhoods. Some lenders have expressed a reluctance to lend money to a marginal risk if at the same time the owner's equity in his home is questionable or the future of the neighborhood in which the property is located is in doubt.

D. CHARACTERISTICS OF LOWER-INCOME HOMEOWNERS

The difficulty experienced by the homeowner in obtaining financing assumes particular significance when one realizes that this group represents a sizable portion of all homeowners; nearly 35 percent of all homeowner households had incomes in 1975 of less than $10,000 and 15 percent had incomes of less than $5,000 (Table 24). Generally, these lower-income households live in older structures--those most likely to require repairs, replacements and renovations; 44 percent of those with incomes of less than $5,000 in 1975 live in houses built prior to 1940 (Table 25).

Viewed another way, 29.3 percent of the nation's owner-occupant housing was built prior to 1940--a total of 13.7 million units. Almost one-fourth of this older housing stock was occupied in 1975 by families having incomes of less than $5,000; almost one-half was occupied by families earning less than $10,000 (Table 26).

TABLE 24

INCOMES OF OWNER-OCCUPANTS, 1970

Family Income	Total Owner-Occupied Units	Percent of Total
$ 0 - $ 5,000	7,264,000	15.5
5 - 10,000	9,000,000	19.2
10 - 15,000	9,820,000	20.9
15 - 25,000	13,339,000	28.5
25,000 +	7,445,000	15.9
	46,868,000	100.0

Source: Annual Housing Survey, 1975, Part C: Financial Characteristics of the Housing Inventory.

TABLE 25

AGE OF HOUSING OCCUPIED BY HOMEOWNERS WITH INCOMES LESS THAN $5000

Year House Built	Number of Households	Percent of Total
April 1970 or later	573,000	7.9
1965 - 1970	667,000	9.2
1960 - 1964	577,000	7.9
1950 - 1959	1,294,000	17.8
1940 - 1949	956,000	13.2
Earlier than 1939	3,196,000	44.0
	7,263,000	100.0

Source: Annual Housing Survey, 1975, Part C: Financial Characteristics of the Housing Inventory.

TABLE 26

DISTRIBUTION OF HOUSING BUILT EARLIER THAN 1940 BY FAMILY INCOME

Family Income	Number of Units Occupied	Percent of Total
Less than $5,000	3,196,000	23.3
$5,000 - $10,000	3,131,000	22.8
$10,000 to $15,000	2,888,000	21.0
$15,000 to $25,000	3,107,000	22.6
$25,000 +	1,408,000	10.3
	13,730,000	100.0

Source: Annual Housing Survey, 1975, Part C: Financial Characteristics of the Housing Inventory

The elderly, often single person households with low income, tend to have low, fixed incomes. Of the 3.7 million households in 1970 with incomes of $2,000 or less, 61 percent relied on social security or railroad retirement; a similar percentage of those with incomes of $2,000 to $4,000 relied on these income sources. The elderly represented 56 percent of all households with incomes of less than $3,000 in 1975, but only 31.6 percent of homeowners earning $7,000-10,000 (Table 27).

Homeowners with incomes of $7,000 to $10,000 are predominantly middle-aged, working households. Only 23 percent are female-headed households. In 1970 wages were the principal income source for this group of households; 82.4 percent relied on this source in contrast to 12 percent for social security and railroad retirement and 1 percent for welfare income.*

As a rule, and as might be expected, the lower the income the less mobile the households (Table 28). Of those earning less than $3,000, over 29 percent moved into their house prior to 1950 and almost 50 percent moved in prior to 1960. Among households in the $3,000 to $5,000 income range, 29 percent moved into their present house prior to 1950 and 48 percent moved in prior to 1960. In the $7,000 to $10,000 income group, 16.2 percent moved into their house prior to 1950 and 33.2 percent prior to 1960.

In summary, the lower-income homeowner, who may find the greatest difficulty in paying for home improvements, is likely to be less mobile than society as a whole, to live in older housing and to have a fixed income. Many of this group are elderly, with a widow quite often as head of the household.

E. HOMEOWNERS WHO LACK THE TECHNICAL CAPABILITY AND ENERGY TO UNDERTAKE OR SUPERVISE HOME IMPROVEMENTS

There appear to be some homeowners of all ages and income groups who are unable or unwilling to adequately maintain their dwellings. Studies indicate that failure to undertake necessary repairs may be due to several factors, but most commonly the causes of this are due to one of the three following factors:

- lack of motivation;
- inexperience in homeownership; and
- advanced age of the homeowner.

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*Similar information on income source for head of household is not available in the 1975 Annual Housing Survey.

TABLE 27

PERCENTAGE OF HOUSEHOLD HEADS OVER 65 BY INCOME

Income	Head of Household 65 or Over
Less than $3,000	56.0
$3,000 - 5,000	58.1
$5,000 - 7,000	45.2
$7,000 - 10,000	31.6

Source: Annual Housing Survey, 1975, Part C: Financial Characteristics of the Housing Inventory

TABLE 28

PERCENTAGE OF HOUSEHOLDS WHICH MOVED BEFORE 1950

Family Income	Moved in Before 1950
Less than $3,000	29.3
$3,000 - 5,000	29.1
$5,000 - 7,000	23.1
$7,000 - 10,000	16.2

Source: Annual Housing Survey, 1975, Part C: Financial Characteristics of the Housing Inventory.

Lack of motivation can be found among homeowners of all ages, income groups and localities. These are persons who may be homeowners strictly for economic reasons such as taking advantage of the available interest and property tax deductions. For this reason, poorly maintained properties are found in affluent neighborhoods, where individuals may be less subject to neighborhood norms than in middle- and lower-middle-income neighborhoods.

Although some homeowners lack the motivation to maintain their property, most, even those with limited incomes, display considerable resourcefulness in preserving and upgrading their property. Homeowners who served as panelists exhibited enthusiasm and concern for their homes and invested substantial time and money in them. What is sometimes viewed as lack of motivation may be more apt to be a problem of insufficient income or technical capability to undertake needed repairs.

Inexperienced homeowners are usually those who have previously been renters in housing which was poorly maintained. They are not accustomed to a tradition of housing repairs and maintenance. Under recent federal programs these owners acquired homes even though their incomes were limited. Upon purchase, these homes were found to be in poor condition, and inexperienced owners lacked the technical expertise to undertake the repairs themselves or sufficient income to hire contractors to do so. Since many of these homes required replacement of major systems such as heating, plumbing and electricity, it is unreasonable to expect that even experienced homeowners could undertake these repairs. However, this group of new homeowners also display uncertainty as to what needs to be done or how to go about selecting contractors. As new homeowners, they are not yet a part of the informal neighborhood communication network; nor do they have knowledgeable friends or relatives who could assist them in these matters.(1) This type of homeowner is in need of both financial and technical counseling and perhaps limited financial assistance.

F. THE PROBLEMS OF THE ELDERLY HOMEOWNER

As indicated earlier, among lower-income homeowners, a large percentage is old, and many are widowed. The percentage of elderly homeowner occupancy is slightly higher in central cities (23.8 percent) than in metropolitan areas as a whole (17.7 percent); many older cities have a very high rate of elderly ownership. For example, 35 percent of the owner-occupied dwellings in Boston are owned by persons 62 or over. Cities such as these face a double challenge:

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(1) Boston Redevelopment Authority and Boston Urban Observatory, Working Class Housing: A Study of Triple Deckers in Boston. Boston, MA, May 1975.

1) to assist the elderly homeowner with fixed or limited income to maintain his or her property; and

2) to encourage demand by younger households for housing currently occupied by the elderly to provide a smooth transition upon the death of these homeowners.

The elderly homeowner is most likely to patch rather than replace. The elderly lack much of the motivation that younger owners have. Because they are living on reduced incomes, they do not always have the cash to pay for minor repairs, and borrowing money is difficult. Their financial stress may be compounded by declining strength which prevents them from undertaking those repairs which were done routinely when younger.

Over 40 percent of the elderly have lived in their homes for 20 years or more and have a strong attachment to a particular structure and neighborhood. Because of their long-term occupancy, they are living in older dwellings. This is particularly true in the North Central and Northeast regions, where the majority of all housing was constructed prior to 1939.

Elderly homeowners perceive the ongoing maintenance needs in these older homes as capable of destroying their precarious financial margin. Older homeowners who were interviewed in the Triple-Decker Study said they increasingly felt harried when they dealt with contractors and tradesmen. Particularly anxious were widows whose husbands had previously selected and supervised the contractors. Widows, fearful of "being taken" by unreliable contractors, expressed a desire for advice in dealing with contractors. Several homeowners said they would welcome assistance in management and maintenance. "They were willing to make modest investments if they could get help in identifying trustworthy contractors, finding cheap materials and perhaps some financial aid."

Panelists who served on the older homeowner panel expressed concerns similar to those expressed by homeowners interviewed in the Boston study. All of the panelists were living in homes which were 35 years old, and average occupancy was 28 years. Home improvements undertaken by this group were primarily maintenance and selected replacement of systems and essential structures such as painting, siding, rewiring, storm windows, and gutters and new furnaces and roofs. Routine maintenance was done whenever possible by homeowners themselves. Major items such as new furnaces or roofing were contracted out. These items were paid for out of savings. Every attempt was made to keep investment at a modest level. The older homeowners attempted to conserve their limited income and savings by undertaking only modest investment and trying to do much of the work themselves.

Elderly homeowners with limited incomes and high housing costs did not allow for "wants" expenditures in home improvements. Even energy-saving items were considered "wants," despite their economic paybacks.

Homeowners were unable to pay cash and could not afford the interest rates on loans.

> "We'd like to insulate the second story, which is unfinished, but we don't have the means to do it, so we're just leaving it go (sic). But we might buy some insulation and have it done before winter sets in, because we lose a lot of heat through the roof."

As with elederly homeowners of triple deckers, the panelists expressed considerable anxiety in dealing with contractors. They questioned the quality of their work and the fear of "being taken advantage of," since they paid in cash and thus had no "hold" over contractors, manufacturers, and the like.

Although panelists had used credit and loans for home improvements in earlier years, they now tried to avoid them. Several indicated that, when a loan had to be taken, it was paid off as quickly as possible to avoid the finance charges. These elderly homeowners wanted no monthly obligations to contend with, since living off their meager incomes was difficult enough.

> "It's good to live within your income. Then you don't need to worry about bill collectors. You can sleep at night."

The panel of elderly homeowners felt that the major impediment to home improvements was limited income. The program which was most beneficial to them was a real estate tax abatement which lowered fixed housing costs and increased their income.

V. ASSISTANCE TO LOW-INCOME HOMEOWNERS

To improve the availability of home improvement financing, programs have been established at Federal, state and local levels of government. These programs attempt to provide: (1) greater security to private lenders through insurance in order to encourage greater levels of lending, (2) direct government lending to provide financing to those not served by private lenders, (3) subsidies in different forms to improve the credit-worthiness of homeowners and thereby qualify them for private financing or to underwrite part of the cost of financing and (4) grants to pay for the cost of improvements by homeowners who cannot afford to make improvements. Some of the programs are oriented to the credit-worthy homeowner but most of the programs are intended to deal with that part of the market normally considered too risky by the private sector and which, because of the lack of income, cannot qualify for or afford market-rate financing.

A. OTHER FEDERAL HOME IMPROVEMENT ASSISTANCE

The Title I program has been the major Federal program directed to expanding the availability of home improvement financing, but a number of other programs administered by HUD, the Farmer's Home Administration of the Department of Agriculture (FmHA) and the Veteran's Administration (VA) assist homeowners in financing home improvements. With the exception of Title I and the HUD Title II mortgage insurance programs, these programs do not use the network of predominantly private institutions because the loans and other forms of assistance provided are made from public funds. Under these programs, the Federal agencies make "direct loans" and, in some cases, grants through the local offices of the Federal agency or, in the case of HUD's Section 312 program, through local governments. They attempt to fill the gap between the need for financing and the financing which private lenders are willing to make available. Many are designed to provide financial assistance to homeowners deemed to be unable to afford market rate financing. Many of the programs have operated only at a token level.

1. Department of Housing and Urban Development

The Title I program has been the focus of HUD's activity in fostering home improvement financing, but it fails to provide assistance to lower-income homeowners. This group was ignored until it became clear that rehabilitation projects under the urban renewal program required a tool to help lower-income homeowners upgrade their properties to project standards. This led to the Section 312 loan program, which remains HUD's only subsidized loan program for home improvement activities.

The Section 312 loan program, enacted in the Housing and Urban Development Act of 1964, provides rehabilitation and improvement loans at 3 percent interest to property owners in designated project areas. It was designed to increase the availability of financing for project area property owners. The program allows for partial refinancing as part of the improvement process. Loans are limited to $17,400 per dwelling unit, and a loan term of 20 years. Loans must be judged an acceptable risk. It has never been funded at a large scale and, through 1975, had been responsible for only 44,616 loans. The program is administered by local government agencies.

The Section 115 grant program, enacted in 1965, was used in tandem with the Section 312 program and recognized that a longer-term loan and reduced interest rate may not be sufficient assistance to very low-income homeowners. Under the program, grants up to $3500 were made available to homeowners whose income was less than $3000. Through June, 1975, under this program 58,493 grants had been made.

Two Title II programs, Section 221(h) and 203(k), are mortgage insurance programs which can be used for home improvement activity. They are available through HUD insuring offices like any other insurance program. Because the interest rate that can be charged is limited to the FHA mortgage rate and because most of these loans are second mortgage-type loans, the programs have been little used. Section 220(h) can be used to insure loans on one- to eleven-family housing in renewal areas. Both investors and homeowners are eligible for assistance. Loan limits are $12,000, or $17,400 in high-cost areas. The loan term is for up to 20 years. Such loans are appraised as mortgages, not home improvement loans. Section 203(k) can be used to insure loans for major home improvement and alterations on 1-4 family structures. The maximum loan amount is $12,000, or $17,400 in high-cost areas. Loan term is limited to 20 years. The property insured must be at least 10 years old. Through 1975, less than 2800 loans had been made under these programs.

The Neighborhood Housing Service demonstration program, conducted by the Urban Reinvestment Task Force and funded by HUD, requires as part of each of its neighborhood housing services projects a high-risk loan fund to make loans to residents who cannot secure private financing. These loan funds are funded by both local and federal contributions. The neighborhood services programs are operating only in target neighborhoods in some 65 sites, but the concept of the high-risk loan fund is illustrative of the current need for assistance in financing improvements among some lower-income homeowners.

2. Farmer's Home Administration, Department of Agriculture

Farmer's Home Administration loans are available in open country and rural communities of up to 10,000 population. They are also available in cities of 10,000-20,000 outside of standard metropolitan statistical areas if they have a serious lack of mortgage credit. Two programs are relevant to home improvement financing.

The Section 504 Rural Repair Loans and Grant Program is intended to help low- and moderate-income homeowners remove health hazards and make their homes safe and sanitary. No loan or grant may exceed $5000, and grants can be made only to the elderly. Grants are provided if the homeowner can only repay a portion of the amount needed to make the repairs. Loans are made directly by the Farmer's Home Administration. The interest rate is one percent. Loans of less then $1500 must be amortized within 10 years; loans of $1500-2500 in 15 years; and loans of more than $2500 within 20 years. Repayment term is calculated on the ability of the homeowner to repay the loan. Loans of $2500 or more are secured by a real estate lien.

The total number of rehabilitation or home improvement loans in 1976 under Section 504 were 3799.

The Section 502 program is the basic homeownership program of the Farmer's Home Administration. The program can be used to repair or renovate a home. Loans are made directly by Farmer's Home for terms up to 33 years at an interest rate varying from one percent to eight percent, depending on the income limits of the borrower. Loan size is limited by cost requirements, income limits, and by what an eligible homeowner can be expected to pay out in housing costs. Loans are normally based on 90 percent market value. A variation of the Section 502 program, the 1:2:3 program, allows homeowners who make less than $7000 to borrow up to $7000 to bring a home up to standard property conditions. The interest rate varies between one percent and three percent, depending upon the income of the borrower.

3. Veteran's Administration

In areas where financing is not otherwise available, the VA makes direct loans to veterans in amounts up to $33,000 at 8 1/2 percent interest for terms up to 25 years. A few of these loans have been used for home repairs and improvement purposes.

B. STATE AND LOCAL GOVERNMENT ASSISTANCE

The involvement of state and local governments in providing housing assistance has increased rapidly in recent years. States and local governments have become interested in home improvement-type activities and have set up a wide variety of programs generally directed to helping homeowners who need some form of public assistance. These programs are usually funded out of Community Development Block Grant (CDBG) funds, and most of these are designed to benefit low- and moderate-income homeowners. The Community Development Block Grant Program, Second Annual Report, December 15, 1976, states that 19.6 percent of the second-year funds were intended for conserving and expanding housing. Nearly 54 percent of the agencies involved in conservation had rehab loan programs, and 26 percent had grant programs for residential property owners. One of the criteria for the selection of discretionary grant localities is the use of CDBG funds for improvement and rehab activities.

Of particular interest to this study were several techniques that have been developed to encourage home improvement lending by the private sector and to take advantage of Title I insurance or the resources of the private sector. These either protect the lender from loss in making loans or help to better qualify borrowers by making grants or subsidies available to them.

The state and local loan programs are of two general types: those which provide public funds to lend for home improvement activities and those which seek to encourage or redirect private home improvement financing. Public lending programs operate in a fashion similar to Section 312, but policies are more flexible or involve specific loan terms and conditions such as interest rates based on income level or deferred loan repayments until the property is transferred. The concept of "leveraging" public funds to expand private financing has been viewed by many communities as the most effective and efficient way to accomplish property improvement objectives. This strategy employs public funds to expand private lending activity. Private investment in loans for lower-income homeowners is encouraged through the provision of public funds for subsidies to help homeowners amortize their privately originated loans, grants to reduce the amount of money homeowners need to borrow, or the establishment of loan reserves with lenders to insure them against loss or as compensation for making below market interest rate loans.

Many local programs are also set up to assist homeowners in determining improvements that should be made, preparing work write ups, identifying contractors to do the work, and in inspecting the work of contractors. Such assistance may be important to homeowners who are not conversant with how to go about making improvements or the problems of dealing with a contractor. In addition a public program by its nature has to be particularly sensitive to protecting the interests of the homeowner and these services insure a standard of quality for the important activities assisted. Public agencies are in a much better position to deal with the problems that many lower-income homeowners encounter than are private lenders. As a result, administrative costs for public programs are much higher than for private lenders. Financial institutions which make home improvement loans, whether on an uninsured or insured basis, do not provide extensive advice to the borrower about the types of repair that should be undertaken, or do not carefully monitor the construction process, nor are they staffed to provide such assistance. Such public agencies have the capacity to combine the provision of financing with extensive technical assistance and guidance.

As noted earlier, it is difficult to set boundaries on what constitutes a home improvement because improvement activities range from "paint up and fix up" activities to substantial improvement in building conditions or room additions. Many of these activities can be classified as either rehabilitation or home improvements, depending on the perspective of the person describing them. A similar situation exists with determining what is a home improvement loan. Many communities have established CDBG-funded rehabilitation loan programs which can be used for home improvement type activities, but the terms and amounts can be larger than typical home improvement loans or Title I loans. Such programs were considered to be beyond the scope of our report since they are not designed for home improvement type activities.

Our focus has been limited to programs that meet the following general criteria:

- Programs are designed to provide financing for the repair, alteration or improvement of an existing structure, and not for its complete rehabilitation.

- Loans available through the programs are limited to a maximum of $10,000; most loans are intended to be much smaller.

- Loans available through the program can be either unsecured or secured by a lien; unsecured loans would be the closest to a home improvement loan.

- Programs which provided other types of assistance, such as grants, interest subsidies, or rebates, for home improvement activity.

To identify a cross-section of state and local approaches focused on home improvement financing, contacts were made with a sample of states and localities which were identified through: (1) HUD staff suggestions, (2) a review of secondary source materials, and (3) a list of Community Development Block Grant recipients who proposed to spend a significant percentage of their grant funds on rehabilitation-type activities. Our objective was not to develop a complete catalogue of programs, but to identify examples of locally funded and designed improvement programs which would indicate the range of potential alternatives.

Through our reconnaissance, a number of interesting and innovative programs were identified. They are described in detail in Appendix C of this report. Although many communities' programs reflect a mixture of several of the general program concepts, they can be grouped into one of the following six types:

(1) Loan Programs Insured Under Title I - home improvement lending programs under which public funds are insured by Title I. While a number of state and local agencies are considering these types of programs, the Minnesota Housing Finance Agency has the only operational program developed to date.

(2) Loan Guarantees for Private Financing - programs under which the local agency protects the lender against loss by depositing funds which guarantee payment to the lender in case of default. Such guarantees may, by agreement with the lender, also serve to reduce the interest rate at which loans are made. The Indianapolis Redevelopment Authority uses this approach.

(3) Subsidies to Supplement Private Financing - interest subsidy programs which pay part of the interest cost of borrowers who have loans insured under Title I and grant programs to enable low-income people to improve their homes, reduce the loan amount required or to better qualify for a home improvement loan. The Minnesota Housing Finance Agency and Hoboken, New Jersey have interest subsidy programs. The Minnesota Housing Finance Agency; the Cambridge, Massachusetts Department of Community Development; and WCCI in Worcester, Massachusetts, have grant programs. The grants may be made based on the income levels of the homeowners, the cost of the work, or interest that the borrower will pay.

(4) Non-Financial Assistance - technical assistance and referral services to borrowers to assist them in securing financing, planning improvements and contracting for work. Among the agencies which have developed such programs are Worcester Cooperation Council, Inc. (WCCI), Worcester, Massachusetts, the New Haven Redevelopment Authority, and the Greater Indianapolis Housing Development Corporation, Indianapolis, Indiana.

(5) Direct Loans and Grants - CDBG financed-programs based on the policies and procedures of the Section 312 and Section 115 programs. Some provide for deferred payment loans in order to postpone payment for the elderly until the property is sold. Madison, Wisconsin and Portland, Oregon, have deferred payment loan programs. The Fall River Community Development Service Center has a direct loan program and the New Haven Redevelopment Authority provides direct loans and grants. Another variation of this approach includes the Neighborhood Housing Services high-risk loan program, which uses public or private foundation funds.

(6) Issuance of Tax-Exempt Financing - use of state bonding authority to raise funds for home improvement financing. Banks are repaid out of loan repayments. The Minnesota Housing Finance Agency uses this concept.

From our contacts with knowledgeable officials, it appears that:

- States and local governments have become more interested in home improvement type activities for a number of reasons, including: the judgment that providing housing assistance is an important state function; a growing interest in maintenance of existing housing; the high cost of new housing by comparison to improving existing housing; a recognition of the inability of many low-income homeowners to undertake home improvement activities, the flexible funds available through the CDBG programs and previously through the Model Cities Program, and the need to find alternative financing mechanisms to the 312 loan program.

- Many localities are combining the Title I program with CDBG-funded assistance programs to make the program better serve the needs of those with lower incomes. These programs involve either interest subsidies or grants or the use of bond proceeds to make loans which are insured under Title I. Many states, among them Connecticut, California, Michigan, New Jersey and Tennessee, are considering developing lending programs insured under Title I and modeled on the Minnesota Housing Finance Agency program. The interest subsidy and grant programs used with Title I by some localities enable more borrowers to be approved for loans without, in theory, increasing the Government's exposure to increased claims. These forms of assistance improve the credit circumstances of the borrower and enable him to qualify for Title I assistance

- Although most of the loan programs being developed by CDBG recipients to encourage home improvement and rehabilitation activities are generally modeled on the Section 312 loan and Section 115 grant programs, state and local governments have set up a wide range of programs designed to meet local circumstances and needs. This diversity is providing the opportunity to test and experiment with different strategies. Some have reached a relatively large scale, but many are only now getting underway or have processed only a limited number of loans so that it is premature to evaluate their feasibility, costs, lending experience and impact.

- Some of the programs such as the Boston, Massachusetts rebate program and the Minnesota Housing Finance Agency home improvement loan program have generated large volumes of program activity and have programs which are far larger in scale than any previous Federal activity.

- The identified programs all seemed to limit assistance to homeowners and not to attempt to deal with the financing problems of absentee landlords.

C. PROGRAM CONCEPTS TO IMPROVE HOME IMPROVEMENT FINANCING

Our investigation indicates that most homeowners do not have financing problems because lenders are willing to lend to homeowners, and usually without loan insurance. Even when lenders buy loan insurance, loans are made available only to those homeowners who meet private sector credit standards. Lower-income people who are not served by private lenders but who need to borrow funds can be assisted through: (1) the Section 312 program, if they live in project areas in communities that have such a program; (2) state or local programs, if they are established in their community, if they qualify and if funds are available; or (3) the Section 502 or 504 programs of Farmer's Home, if they live in rural areas. Clearly, this type of fragmented delivery system is not particularly efficient or comprehensive. Many people may not have access to these programs. Many do not operate at a funding level which is sufficient to provide the magnitude of assistance that is needed. The apparent need for home improvement related assistance suggests that it may be necessary for the Federal Government to take the initiative to make assistance available on a broad scale. Expanding the existing network of assistance and availability of assistance would involve:

- making such programs available on a more widespread basis; and,

- increasing the funding for such programs so that below-market interest rate loans, interest subsidies or grants are more readily available.

To accomplish both of these objectives, there are a number of possible program options that HUD policymakers might explore in terms of improving and modifying existing program authorities rather than creating new programs. Building on current programs rather than designing new programs and administrative arrangements has the advantage of being able to implement the program more quickly.

A review of alternative mechanisms and techniques indicates that each program option has some clear advantages and disadvantages, and there is no one program that can deal with all the different problems and permutations that occur. More importantly, it needs to be kept in mind that financing problems do not lend themselves to solution outside the context of consideration of broader market forces and the dynamic change that is occurring in many communities and urban neighborhoods. These factors play a very strong role in determining the willingness of homeowners and lenders to invest in and help to improve the existing housing stock. A review and analysis of these factors was beyond the scope of this study, but the design of a strategy to deal with financing must take them into account. The proposed program concepts are thus not tempered by a comprehensive review of the problem and are suggested as ideas for consideration within the framework of an overall strategy.

The usefulness of the Title I program could be expanded through, among other things: (1) encouraging innovative uses of Title I in conjunction with state and local programs, and (2) making some specific modifications to Title I policies and procedures.

None of the changes to Title I provides the kind of assistance needed by lower-income homeowners. They need subisidies as well as financing. Any improvement strategy must be based on the need to help this group of homeowners.

One option to provide assistance to the lower-income homeowner would involve expanding the Section 312 program and the Section 115 grant program so that they would be available to property owners on a city-wide basis and to separate the programs from their project context. These programs as they are now designed have the ability to assist homeowners of low income. Their advantages are that they are already authorized, their policies are established and they are operating at the local level. On the other hand, they are a costly approach, since since Section 312 and 115 funds are appropriated annually and are a direct budget charge. The programs are also only operational in a limited number of localities. If the program were expanded, many additional communities would have to set up Section 312 administrative units, which would be time-consuming and expensive. An alternative approach that might be considered would be to make the program available through private financial institutions to whom an origination-and-servicing fee would be paid rather than through public agencies. Such loans would not compete with lenders' regular business. The Minnesota Housing Finance Agency's program operates in this fashion. The major problem would be that the program requires extensive documentation and the "hands on" approach of Section 312 would have to be modified, since lenders would probably be unwilling to provide such extensive services to borrowers.

Another federal program option would be to provide interest subsidies in conjunction with Title I as do some states and local governments. Tying a subsidy to Title I would make such subsidy assistance available throughout most of the country; some 4500 lenders made Title I loans in 1975. The basic program would not be changed, but with the availability of the subsidy a new group of homeowners would be made eligible. If reasonable servicing fees were provided there is no reason to expect lenders not to participate in such a program. A different approach would be to make the Title I-related subsidy available in the form of a grant, as is done in Hoboken. In essence this reduces the amount of the loan a lower-income homeowner must borrow--thus reducing his financing cost. This obviates the need for a long-term HUD servicing commitment. A major disadvantage is that there are regional and local variations in lenders' use of Title I.

The Section 203(k) mortgage loan program has several advantages over Title I. It has higher loan limits and a longer term than Title I, so larger improvements could be financed than can be under Title I. It provides for a public agency review of the work, which would help the homeowner. From the lender's point of view, it has the advantage of not being a co-insurance program. The program has two major problems: (1) the interest rate is not competitive; and (2) the application process is complicated and detailed plans are required. These defects might be overcome if: (1) the application process were streamlined; and (2) GNMA establishes a secondary market for the loans and pay lenders attractive origination fees.

A variation which might be looked into in more detail would be to tie an interest subsidy to the Section 203(k) program in a manner similar to Section 235. As in Section 235, the subsidy could be varied depending upon the income of the borrower. The program would be complicated by the fact that, in the case of foreclosure, the Government holds a position subordinate to the first mortgage, but it would present fewer complications than occur with a co-insurance program.

D. THE CONTEXT OF HOME IMPROVEMENT FINANCING

The rapid growth of state and local programs is an encouraging sign, and should help to improve the availability of financing. These programs should significantly increase the availability of financing for lower-income homeowners living in urban areas. The Federal role in expanding the availability of financing for lower-income homeowners could be increased through adoption of some of the program options mentioned above or which are discussed in the section on recommendations in this report. However, even if financing is made more available to homeowners, many may not be interested or willing to take advantage of the financing. Many homeowners may not wish to go into debt or make any additional investment in their properties because they believe that the area in which they live is not stable or economically viable. Financing is an important tool for property maintenance and improvement, but it may not be used if the homeowner lacks confidence in the future of his neighborhood and the willingness of his neighbors to keep up their property. The need for and effect of financing, therefore, needs to be viewed in the broader neighborhood context, as it is in the case of the Neighborhood Housing Services Demonstration or the Homesteading Demonstration.

VI. RECOMMENDED ADDITIONAL RESEARCH

The subjects for additional research are based on the premise that the problem of funding home improvements is largely an income, credit-worthiness rather than a financing problem. This is not to imply that there is not a problem for the lower-income homeowner, but only to say that the problem is one associated with his income rather than with the functioning of the financial system. Further, there is too little information yet available to determine the extent to which some homeowners may be denied loans because of their race or sex or because of the location of the property they wish to improve.

A. CRITERIA FOR ESTABLISHING PRIORITIES OF ADDITIONAL RESEARCH

It may not be possible or practical to carry out at one time all of the additional research recommended below. As a means of weighing the relative importance of each research task, we established a number of criteria against which each study should be evaluated. These criteria can be used for evaluating all research related to home improvement -- that recommended in this report as well as that recommended by others. The criteria relate only to home improvement research and not necessarily to housing policy research or other types.

The principal criteria used were:

1. The research will expedite the transfer of information from one program to another so that localities can use the information to develop or improve property improvement-related projects.

2. The information provided is essential to the development of Federal, state and local home improvement policy.

3. The research will provide needed information in a short period of time at a degree of detail sufficiently more useful than order-of-magnitude estimates.

4. The cost of acquiring the information is low in relation to its usefulness.

5. The research represents a discrete effort.

6. The research will not duplicate current work.

7. The focus of the research is on lower-income homeowners.

B. SPECIFIC RESEARCH PROJECTS

In line with the basic premise, we recommend that the following additional research be undertaken:

1. Formally evaluate and test the various types of state and local home improvement programs now underway.

2. Obtain additional information about homeowners and the factors affecting their home improvements.

3. Obtain additional information about the elderly homeowner.

4. Undertake special analyses of data from the Mortgage Disclosure Act with respect to home improvement loans.

5. Develop information about the motivation for and practices of home improvement among absentee owners.

Each of these suggested work items is discussed further below.

1. Formally evaluate and test the various types of state and local home improvement programs now underway.

Programs currently underway at the state and local level to assist homeowners to undertake repairs, replacements and renovations can be classified into six general types:

a. Loan programs insured under Title I -- public funds are insured under Title I.

b. Loan guarantees for private financing -- the local agency guarantees the lender against loss.

c. Subsidies to supplement private financing -- interest subsidy programs pay part of the interest cost of borrowers who have loans insured under Title I.

d. Non-financial assistance -- technical and referral services to borrowers.

e. Direct loans and grants -- using CDBG funds in programs based on the policies and procedures of the Section 312 and Section 115 Program.

f. Issuance of tax-exempt financing to raise funds for home improvement financing.

Each of the program types has advantages as well as disadvantages. Viewed from a national viewpoint and the desirability of transferring successful experience in one area to another, there is no basis for selecting one approach over another or for selecting some combination. While some of the agencies have undertaken evaluations of their own programs, there has been no comparison among the programs nor any evaluation against the broader objectives of housing conservation.

a. Nature of the Research

We recommend that efforts be undertaken to evaluate each of the six types of programs in operation at the state and local level. The evaluation should cover such items as:

- What type of homeowner is being helped by the program? What are the income limitations?
- What are the cost of the program activities per homeowner assisted?
- In what types of neighborhoods are the programs being applied? Are some excluded?
- What type of staff is employed by the administering agency?
- What are their experience and skills?
- What is the relationship of the program to financial institutions? Is one institution or one type predominant?
- Why was the program established? What types of localities have such programs?
- What is the nature of support for the program? How was this support developed?
- What particular ingredients are considered essential to the program's success? Are they transferable to other localities?
- To what extent is the program limited by fund availability?
- How important is counseling and technical assistance to the success of the program?
- What has been the default experience?
- What gaps exist that might be corrected?

- What impacts are the programs having on neighborhoods or localities?

- What type of evaluation has been made of the program to-date?

- What changes should be considered in the program?

In addition to addressing these questions, the study should consider the general applicability of the programs to other areas and the opportunities of combining one or more approaches.

b. Why This Research is Important

The research described here is important for a number of reasons, among them:

1. The state and local home improvement programs currently underway account for a significant amount of money under the Community Development Block Grant Program. (Almost 20 percent of the second-year CDBG funds were to be spent for conserving and expanding housing.)

2. The level of home improvement effort underway at the state and local level is larger than that at the federal level.

3. For an effort of this magnitude, it is important to evaluate the effectiveness of such programs.

4. Ideas which may be developed from the research would warrant dissemination to make programs throughout the country more effective.

5. A review of the programs would determine whether there are aspects of the programs which would benefit from federal assistance.

6. Identification of the way in which programs were established and the nature of the beneficiaries would be helpful to others wishing to establish similar programs.

Funding for this study would depend upon the number of states and localities studied in detail. Assuming a total of 15-20 sites, or two to four per type of program, the cost of an evaluation study of this type would be on the order of $300,000 to $700,000.

2. Obtain additional information about consumers and the factors surrounding their home improvements

It would have been desirable in this study to conduct a national survey of consumers and financial institutions to obtain information about the methods of financing home improvements and the factors affecting the decision to finance. Because of time constraints, unstructured, open-ended discussion panels with homeowners, contractors and representatives of financial institutions were employed. This approach enabled us to obtain considerable information about the factors underlying a decision to undertake home improvements, as well as about the factors affecting lenders' decisions. The panel approach provided a useful basis for developing conclusions about home improvements and their financing, but it did not, of course, provide a basis for developing quantitative information or for projecting information to a national level. Quantitative information about consumers -- particularly low-income consumers -- would be very useful, however, in tailoring assistance to state and local agencies; in understanding better the nature and magnitude of the problems of the lower-income homeowners; and in determining the extent to which discrimination (by personal characteristics or location) may be a problem. Such an approach would also provide information about funding sources other than home improvement loans. While information obtained from financial institutions through the national survey would provide interesting insights, we do not believe it worthwhile to undertake a special national survey at this time; published data appears adequate.

a. Nature of the Research

Consequently, we recommend that a national sample of homeowners be surveyed at an early date to develop the following types of information which can be projected to a national level.

- The sources of funds (cash, savings, credit cards, retailer charges, overdrafts, etc.) to cover home improvements, by income level, by region.

- The extent to which homeowners have been rejected for financing when they applied.

- The extent to which homeowners do not bother to apply, even though they require funds.

- The type of home improvements undertaken, by:

  age of homeowner,
  family size
  income level
  age of structure
  region
  location (city vs. suburbs).

- The importance of energy conservation in recent home improvement decisions.

b. Why This Research is Important

While the qualitative data about consumers and the home improvements they undertake is adequate, no basis exists to develop reliable quantitative data on a national basis. It is difficult to identify and even more difficult to obtain information about homeowners who may have sought financing of one type or another but were rejected. A national sample carefully drawn to provide a basis for nationwide projections would meet this need.

Such a study would probably cost $75,000 to $150,000, depending on the size of sample and extent of coverage.

3. Obtain additional information about the elderly homeowner.

As indicated earlier, the elderly homeowner represents a special concern. The elderly are growing in number and their homes will represent an increasing concern for communities throughout the nation. A key issue concerns the ability of the elderly to maintain their property. Programs to assist the elderly homeowner will require special attention. Grants may be of some help; special abatements may prove useful. But more needs to be known about the characteristics of the elderly homeowners, and the property in which they reside before a plan (or plans) can be suitably tailored.

a. Nature of the Research

We recommend that a special study of elderly homeowners and their home improvement needs be undertaken, possibly in cooperation with HEW's Administration on Aging. The study should determine:

- What are the special problems of the elderly in respect to home improvements?
- Are they able to some extent to maintain their homes at a reasonable level of repair?
- What are their attitudes toward grants, abatements, or liens on the property?
- What are their views on the type of assistance they require?
- What is the impact of local zoning regulations?
- Where do the elderly live?

- What type of housing do they own and what is its condition?

- What types of programs would address the special problems of the elderly?

- What is the view of elderly on continued homeownership?

b. Why This Research is Important

Not only do the elderly represent a significant portion of the nation's homeowners, but their number is growing. For many communities, particularly those with a large share of older homes, if the elderly are unable to maintain their homes, there will be a serious decay in the housing stock, a decline in the tax base and a general decline in the quality of the community. Yet, the options available to the elderly are currently limited. Other housing they can afford is limited and steps to remedy this situation lag the need.

A study of the type described above might cost in the range of $200,000 to $400,000.

4. Undertake special analyses of data from the Home Mortgage Disclosure Act

Data supplied by financial institutions in compliance with the Home Mortgage Disclosure Act was not examined. The nature of the data and the probable difficulty of interpretation suggest that detailed and systematic analysis of national data is warranted. To effectively interpret the data, one needs to know, for a given lending market, demographic patterns, income distribution, and characteristics of structures. What may appear to be discrimination due to race may prove to be attributable to income or to the size of loan requested.

a. Nature of the Research

Since data are available from individual institutions only, assembly on a national basis is difficult and costly. We suggest a series of case studies of localities selected to represent a variety of lending markets. This would not only provide the opportunity for analysis of the data, but also--and importantly--an opportunity to develop information locally on the characteristics of neighborhoods (their stability, their property values), the local attitudes about developments occurring in the locality, the views of local officials and financial institutions. This supplemental information will be essential to a valid interpretation of the data.

Detailed analysis of the home improvement loan data and comparison with mortgage data may lead to increased information about lending practices in a given area. The review of various local analytical approaches to these data may provide useful insights into analytical techniques applicable to a study of this type.

b. <u>Why This Research is Important</u>

The output of this type of research will:

(1) Lead to an increased understanding of lending patterns in representative lending markets.

(2) Provide a basis for relating lending patterns to neighborhood housing and demographic factors.

(3) Provide a basis for determining whether there is a systematic pattern of discrimination in home improvement lending.

A study of the nature described might cost in the range of $150,000 to $300,000.

5. <u>Develop information about the motivation for and practices of home improvement among absentee owners.</u>

Our study has focused on the role of financing in home improvements undertaken by homeowners of owner-occupied units only. Owner-occupied units account for approximately 46 million of the 72 million housing units in the United States. Factors which motivate homeowners to improve the units they occupy are apt to be quite different from those influencing absentee owners, who may be affected in their decisions by such factors as income tax implications, property tax levels and rent control practices. The state and local programs of home improvement assistance are aimed at the owner-occupant. Yet many people believe that deterioration of housing units is attributable in large part to the absentee owner. As part of the process of understanding the absentee owner's attitudes toward improvements and his motivations, there is a need for information on his needs and his problems and a sense of what type of federal assistance might be responsive to them.

In view of the large number of units which are not owner-occupied, any program concerned with housing conservation must deal with these other units. We have not addressed the scope of such a study in this report, but we recommend that, if such a study is not already contemplated, steps should be taken to undertake one.

The research projects described above were evaluated against criteria cited in Section VI-A. Based on the evalution, the projects were listed in the following order of descending priority:

Evaluate state and local programs.

Obtain additional information about the elderly.

Conduct special analyses about mortgage disclosure.

Obtain additional information about consumers.

APPENDIX A

PANEL DISCUSSIONS

PANEL DISCUSSIONS

A series of open-ended, unstructured panel discussions were held with homeowners, officials of financial institutions and contractors covering various localities in the United States. A total of 18 panels were conducted in 8 metropolitan areas, as summarized in Table A-1.

TABLE A-1

PANEL DISCUSSION GROUPS

Location	Specifications
Atlanta	a. Homeowners who had difficulty obtaining home improvement financing b. Home improvement contractors
Boston	a. Middle-income, single-family home improvers, one-half of whom had financed homes, old suburbs b. Loan officers
Philadelphia	a. Middle-income, single-family home improvers, one-half of whom had financed homes, within city b. High-income, single-family home improvers, one-half of whom had financed homes, old suburbs
Chicago	a. Low-income, single-family home improvers, within city, one-half of whom had financed homes b. High-income, single-family home improvers, one-half of whom had financed homes, new suburbs
Cincinnati	a. Middle-income, multi-family home improvers, one-half of whom had financed homes, old suburbs b. Loan officers c. Single-family homeowners over 60, lower income d. Homeowners who are long-time residents in a declining neighborhood
Los Angeles	a. Low-income, single-family homeowners who had been refused home improvement financing b. Contractors who finance home improvements
Denver	a. Loan officers b. Middle-income, single-family home improvers, newer suburbs, one-half of whom had financed homes
Houston	a. Low-income, single-family home improvers, newer suburbs, one-half of whom had financed homes b. Loan officers of institutions using Title I financing

APPENDIX B

<u>DETAILED DESCRIPTION OF</u>
<u>FIELD RECONNAISSANCE</u>

A preliminary field reconnaissance was carried out in five cities. The reconnaissance had several purposes:

- To provide information about the Title I Property Improvement Loan Program.
- To add to our overall understanding of home improvement financing activities.
- A means of testing initial hypotheses and impressions.

Preliminary analysis of Title I data suggested a number of criteria which merited consideration in selecting appropriate sites for the field reconnaissance. For example, since housing loan markets generally operate throughout a metropolitan area, metropolitan areas (SMSAs) were considered to be the geographic area of coverage. It was decided that the sample should reflect the fact that 80 percent of Title I loans currently are made to borrowers within SMSAs. Since 57.8 percent of the residents of metropolitan areas live in metropolitan areas with populations of more than one million, a similar proportion of the sample should include localities of that size. Based on these two data elements, it was decided that the sample would be constructed using the following parameters:

Outside SMSAs	20.0%
Inside SMSAs	80.0%
SMSAs over 1,000,000	57.8%
SMSAs under 1,000,000	42.2%

Applying these factors to a sample of 10 localities (5 primary and 5 possible additional localities), the following classification resulted:

Non-SMSAs	2
SMSAs	8
SMSAs over 1,000,000	4
SMSAs under 1,000,000	4

The next step in developing the sample was to investigate particular localities in terms of home improvement lending activity, since we were interested in home improvement loan activity in general and Title I use specifically. The extent to which such activity occurred within various areas was also a factor. Analysis of Title I data as to overall use of Title I and use in proportion to the total number of housing units in the area permitted us to rank localities by level of Title I lending activity and to incorporate this factor in the selection of sites. In order to identify the eight SMSA localities, SMSAs were divided into four groups -- SMSAs over 1,000,000 population; SMSAs under 1,000,000 population and among each, those which have historically been active in Title I and still were according to the latest data, and those which have been historically active but had become less active.(1) Other factors such as location and percent of minority population were considered in selecting the candidate localities.

Since 20 percent of all Title I loans are made outside SMSAs, we analyzed the historic and recent experience of non-SMSA areas (using county census and Title I data), choosing one locality which had continued its historic use of Title I and one which had experienced a decline in use.(2)

The sites suggested for consideration were:

Baltimore, Maryland
Detroit, Michigan
Akron, Ohio
Little Rock, Arkansas
Yakima, Washington

The sites suggested as possible additional sites were:

Kansas City, Missouri
Louisville, Kentucky
Minneapolis, Minnesota
Reading, Pennsylvania
Newburgh, New York

After discussions with HUD and consideration of other HUD activities in various cities, we were advised by HUD that the second list of five be selected. The field reconnaissance activities were carried out in August and September 1976.

1. DESCRIPTION OF TYPES OF DATA COLLECTED, METHODS USED, AND SOURCES CONTACTED

In each of the cities, we contacted:

- selected financial institutions (commercial banks, savings banks, savings and loans, finance companies, credit unions);
- selected home improvement dealers and contractors and suppliers of building materials; and

(1) The extent of Title I activity was calculated by comparing Title I usage for the period 1950-73 with that for 1973.

(2) Ibid.

- local government officials concerned with urban development, rehabilitation, planning and zoning,and related matters.

From the financial institutions, we acquired information in unstructured, open-ended discussions and we elicited ideas on key issues and policy areas as they affect lending practices.

The discussions with lenders provided quantitative information about the institutions, its general level of activity, and some measures of performance. Among the kinds of information solicited from lenders were:

- total assets and loans outstanding as of December 31, 1975;
- total consumer and home improvement loans outstanding as of December 31, 1975;
- number and loan volume of home improvement loans made annually;
- percent of dealer/direct home improvement loans;
- current interest rate and terms on all consumer loans (home improvement, automobiles, unsecured);
- percent of home improvement loans insured under Title I;
- rate of defaults and losses for home improvement loans for 1975; and
- number of approved dealers/contractors.

Among key issues and policy areas covered were:

- the home improvement financing process;
- lending policies and procedures;
- the effects of state usury laws on lending policies;
- interest in home improvement loans, extent of advertising;
- reasons for interest/lack of interest in home improvement loans;
- history of and reasons for Title I use/non-use;
- lending market area and areas of activity for Title I;
- experience with contractors:

- types of improvements financed with home improvement loans;
- reasons for defaults;
- constraints on expanding home improvement lending;
- recommendations for improving Title I; and
- impact of holder-in-due-course ruling on home improvement lending.

From home improvement contractors and dealers we sought to determine:

- the size of the operation (sales, average project cost, staff size, number of projects, and percent requiring financing);
- the number and type of financing resources used;
- their interest in home improvement loans;
- reasons for interest/lack of interest;
- their knowledge and utilization of Title I;
- the impact of the holder-in-due-course ruling;
- characteristics of borrowers and work done;
- extent of problem of securing home improvement financing; and
- recommendations for improving Title I.

From suppliers of building materials, we sought to determine the extent to which they were involved in financing or facilitating the financing of home improvement activities by property owners and by home improvement contractors and dealers.

Among the kinds of information solicited from suppliers were:

- extent of financing of contractors;
- extent of financing homeowner purchases and methods used; and
- extent of problem of securing home improvement financing.

From city government officials, we sought to determine whether the city sponsored or administered any type of home improvement/code enforcement loan or grant program. Specific areas of discussion involved the following:

- the role of city government in providing home improvement financing;
- the extent of the need and activity in area of home improvements;
- the extent to which CDBG and other funds are used to foster rehabilitation and home improvements;
- the officials' knowledge and utilization of Title I;
- recommendations for improving Title I;
- examples of other applicable home improvement programs;
- the number of loans/grants made and the uses of such funds;
- the terms, rates, and conditions of loans/grants made; and
- characteristics of users of local loan/grant programs.

2. PROBLEMS ENCOUNTERED IN FIELD RECONNAISSANCE AND ANALYSIS

Three problems arose in our field reconnaissance and analysis efforts. We found an inconsistency in the types of data maintained by various financial institutions; confidentiality policies (implied or explicit) restricted the information that was made available; and some of the information that lenders supplied proved to be inaccurate when compared to data available through financial regulatory agencies.

The inconsistency of data was one of the more fundamental difficulties in collecting and analyzing field reconnaissance information. Some lenders simply do not maintain information on an institution-by-institution basis. (Some do not have data on individual branches or on member institutions of a holding company.) Some keep only aggregate figures on consumer loan activity; still others fail to keep records on the characteristics of borrowers on loans made. For all of these reasons it was extremely difficult to assemble similar information for lenders within one locality or for comparison between localities.

Confidentiality was cited by some of the persons contacted as the reason for not disclosing certain information. This problem was of major significance in our interviews with contractors and dealers. They invariably would not provide specific data concerning their sales volume, average project costs, percentage of business involved in remodeling and rehabilitation, or any other quantitative information concerning their performance as a contractor. The financial institutions on the other hand were generally responsive to data requests. The few cases where there was any hesitancy were usually cleared up by a phone call or letter of introduction.

Some of the information provided to us was inaccurate. This inaccuracy resulted primarily from the fact that estimates or approximations were provided in some cases (either because actual data did not exist or could not be found).

3. LIMITATIONS ON THE USE AND STATISTICAL RELIABILITY OF FINDINGS

The field reconnaissance findings are not and never were intended to provide definitive conclusions about home improvement financing and the use and non-use of Title I. The sample size and open-ended content of the discussions were not designed such that the aggregate responses could be generalized to the entire financial community in the U.S. On the other hand, the reconnaissance did involve a sufficiently large and representative number of institutions that preliminary hypotheses, conclusions, or trends could be reasonably observed and documented and trends revealed in analysis of Title I and secondary source data could be confirmed. The field efforts also provided research team members with the kinds of contacts and information which have been extremely useful in understanding how the home improvement financing market functions and how the different participants in that market relate to one another. It also serves to provide perspectives on the Title I program and the context within which lenders consider using the program.

4. FINDINGS

In the balance of this section of the report we present the findings based on data collected from the five sites visited in our field reconnaissance. For each locality examined, we prepared a summary discussion of quantitative and qualitative issues and findings. Included for each locality are the following:

- number and type of interviews with financial institutions
- number and type of other interviews
- total assets of financial institutions
- total loans outstanding of financial institutions

- total home improvement and consumer loans outstanding of financial institutions
- number/percent of institutions using dealers
- average ratio between dealer/direct loans
- average size of home improvement loans made
- average interest rate on home improvement loans
- number/percent of institutions using Title I

The statistical data in lending activity is normally for the period ending December 31, 1975. In some instances, the data were not available so that figures for the period ending June 30, 1976 were used. These differences do not significantly alter the information. In addition, some lenders did not want to provide information on their lending activity; some categories do not apply to finance companies and credit unions.

The parentheses by each of the summary figures indicate the number of institutions which provided information on that subject. Each of the reports is divided into two narrative sections:

- findings based on quantitative information furnished by lenders
- principal qualitative issues or findings

  -- interest in home improvement lending
  -- lending policies and practices
  -- effects of state and other regulations
  -- characteristics of borrowers
  -- Title I assessment
  -- city involvement
  -- contractors

Following the enumeration of findings for each individual locality, a brief summary analysis is presented. This analysis views the information from all of five localities in the aggregate and notes differences and similarities observed between the various sites.

a. KANSAS CITY, SMSA

(1) Interviews

Interviews	Number
Banks	12 (6 nationally chartered; 6 state chartered)
Savings and Loans	7
Credit Unions	3
Finance Companies	1
Contractors	4
Material Suppliers	5
Others	11
TOTAL	43

(2) Statistical Information

Total Assets of Financial Institutions	$3,039,000,000	(16)
Total Loans Outstanding	$2,094,573,000	(14)
Total Consumer Loans Outstanding	$ 107,600,000	(10)
Total Home Improvement Loans Outstanding	$ 18,605,900	(13)
Number/Percent Using Dealers	6/33%	(18)
Average Dealer/Direct Ratio	21/79	(18)
Average Size Home Improvement Loans Made	$ 2,769	(17)
Average Interest Rate on Home Improvement Loans	12%	(15)
Number/Percent Making Title I Loans	16/88%	(16)

The Kansas City SMSA had a population in 1970 of 1,272,000, of which 151,127 were black. Kansas City, Missouri had a population of 507,330 of which 112,000 were black. Nearly 66 percent of all dwellings in the SMSA are owner-occupied. 14.5 percent of the families earn less than $5,000. The area had 137 banks and 27 savings and loans at the time of the visit, which took place on August 30 and September 1, 1976.

(3) Findings Based on Statistical Material

- Home improvement loans (HILs) represent a small percentage of the lending activity of most financial institutions, from less than 5 percent of total lending activity (ranging from as low as 0.1 percent to 8 percent) to 10-15 percent of total consumer lending (ranging from 1 percent to 60 percent). HIL activity, while judged profitable and sought after by many institutions, is not the major activity of these institutions.

- There is no consistent pattern on the use of dealers among banks and savings and loans or among lenders of different sizes. Some institutions rely exclusively on them; others do not use them at all. Credit unions, by their nature, make direct loans only.

- The average home improvement loan size of $2,500-3,000 is increasing at a rapid pace. No institution cited an average less than $2,000; only one cited an average in excess of $4,300 (this one cited a July average of $4,800, but indicated this was higher than normal), although loans do range from $2,000 to $10,000. Few lenders make loans of less than $1,500; loans in excess of $7,500 can cause problems for some institutions, who consider them as real estate loans (because of the second mortgage required) and consider that the 10 percent interest rate limit imposed by the Missouri usury law on first mortgage loans must apply.

- The average term of a home improvement loan is 4 to 5 years.

- Loans under Title I tend to be larger than those under banks' own plans. Where Title I is not used exclusively, banks tend to handle smaller loans ($1,500-2,500) for jobs such as siding or loans for items, such as swimming pools, which are not insurable under Title I.

- The default rate is low. Experience with Title I is good.

- Savings and loan associations make home improvement loans almost exclusively to their own customers. (Federal savings and loans cannot hold a second mortgage on a property on which they do not hold the first mortgage.) Credit unions make only direct loans to their members. For most other institutions, HILs are used either as business generators or as a complement to other types of services.

(4) <u>Principal Non-Statistical Issues or Findings</u>

(a) <u>Interest in Home Improvement Lending</u>

- Some institutions are aggressively seeking HILs as a good business opportunity. One major institution has undertaken a campaign to identify and evaluate dealers in the hope of getting additional business. Contractors generate a significant amount of business and for some institutions represent an important source of loans. Building material suppliers do not provide financing and deal only on a cash or credit card basis. Major retailers, such as Sears and Montgomery Ward, have financing services, but are not major home improvement lenders.

(b) <u>Lending Policies and Practices</u>

- An individual's credit rating (including consideration of job stability, income versus monthly expenditures) is the most important consideration of lenders in evaluating home improvement loan requests. Only when the loan is large or a second mortgage is required is the property itself considered. (There is some dissent to this finding by contractors and certain city officials.) Some institutions use a title cloud (agreement not to sell the property without repayment of the loan) in lieu of second mortgages on smaller loans.

- Financial institutions are tightening up on lending, following a period of relaxed requirements.

- Finance companies are not interested in home improvement loans; the allowable interest rate is too low.

- The increase in the interest rate to 12 percent made Title I loans more attractive, a situation which did not prevail for some time prior to that increase.

- HILs are generally not made for amounts less than $1,200-1,500. These amounts are generally financed by credit card or cash from savings. In credit unions, $2,500 is the lower limit for members with long membership; $7,500 seems to be the normal upper limit.

- Defaults represent a relatively small problem, although delinquencies create a variety of problems for lenders. Delinquencies seem to be higher among dealer loans.

- Because credit is an important criterion, residents of the inner city probably find it more difficult to obtain loans.

(c) <u>Effects of State and Other Regulations</u>

- The holder-in-due-course ruling has led banks to tighten up their policies and require contractors to demonstrate their ability to back up their work or product financially. This is forcing marginal contractors out of business and giving a preferred position to the larger, established, reputable dealer. It is also resulting in some banks deciding to stop making dealer loans altogether. Because contractors help customers secure financing, marginal borrowers are hurt the most by this lending trend--either being forced to go to finance companies or to forego undertaking any repairs, renovation or remodeling.

- The usury laws in effect in Kansas and Missouri do not interfere with HILs, except when amounts exceed $7,500, when there is some question about such a loan being a real estate loan subject to a lower interest rate. Some lenders feel that the state regulations are not intended to cover home improvement loans and charge 12 percent; others either avoid loans in excess of $7,500 or charge the lower rate.

(d) Uses of Home Improvement Loans

- Principal uses of HILs are:

  -- siding
  -- insulation
  -- storm windows
  -- room additions
  -- roofing
  -- kitchen and bathrooms (repair and remodeling)
  -- recreation rooms
  -- central air conditioning

- Defaults appear to be due primarily to personal bankruptcies or marital problems.

(5) Title I Assessment

- By-and-large Title I is viewed favorably as a good program with a minimum of red tape and is commonly used in the Kansas City area. Many lenders use it for all of their loans which qualify for insurance.

- Generally, Title I loans appear to be considered profitable and desirable--possibly not as profitable as some other loans; but nonetheless providing a good yield with minimum risk, particularly if insurance is purchased.

- Title I is particularly good for small banks with limited volume of HILs, although larger banks use it, probably for the added safety it provides. Private insurance is available, but its rate is higher than FHA and it was reported that the minimum volume insured must be higher than most low-volume users can generate.

- Minor changes in Title I would not significantly increase the volume of home improvement financing. However, lenders said the upper limit of the loan probably should be increased, in view of inflation and the resultant increase in the cost of improvements. Some proposed that the allowable term of the loans should be increased, but this was not a widely proposed change.

b. LOUISVILLE, SMSA

(1) Interviews

Interviews	Number
Banks	7 (4 nationally chartered; 3 state chartered)
Savings and Loans	5*
Credit Unions	2
Finance Companies	1
Contractors	2
Material Suppliers	2
Others	3
TOTAL	22

(2) Statistical Information

Total Assets of Financial Institutions	$3,487,725,015	(12)
Total Loans Outstanding	$1,412,403,051	(10)
Total Consumer Loans Outstanding	$ 307,664,467	(11)
Total Home Improvement Loans Outstanding	$ 39,416,419	(12)
Number/Percent Using Dealers	3/23%	(11)
Average Dealer/Direct Ratio	12/88	(11)
Average Size Home Improvement Loans Made	$ 2,792	(11)
Average Interest Rate on Home Improvement Loans	11.9%	(12)
Number/Percent Making Title I Loans	9/69%	(12)

The Louisville SMSA includes Jefferson County and surrounding counties in Indiana and Kentucky. The metropolitan area has a population of about 900,000. Jefferson County had a population of 737,235 in 1975, of which 342,413 live in the city and 394,822 is the balance of the county. In 1970, the median house value was $15,400. Sixty-three and one-half percent of the families, or 141,973, in the county own their own homes. Home ownership varies widely between the city and the county. In the city, only 51.7 percent of the families own their own homes; in the balance of the county it is 79.3 percent. There has been a tremendous growth over the past 20 years in the areas outside the city. Sixty percent of all city housing was built before 1939 as compared to 8 percent for the rest of the county. It is estimated that 20 percent of Louisville's housing units are substandard. Lending is very concentrated in the Louisville SMSA. The area had 22 banks and 15 savings and loans at the time of the visit, which took place on September 28/29, 1976.

*Five were interviewed but two do not make home improvement loans

(3) Findings Based on Statistical Material

- Of the 15 savings and loan institutions in Louisville, only two make home improvement loans. The commercial banks are the major home improvement lenders.

- Home improvement loans represent a small portion of consumer lending as HILs range from 2 percent to 13.6 percent of consumer loans for the institutions contacted.

- The average home improvement loan in the Louisville area is $2,792 for all financial institutions, and slightly over $3,000 for commercial banks.

- The interest rate on HILs is generally 12 percent, although some banks utilizing their own plan (versus Title I) offer rates in the 11-12 percent range.

- Only 23 percent of the institutions surveyed currently solicit dealer loans; dealer loans represent 12 percent and direct loan 88 percent of the loans made.

- Title I is used extensively in Louisville; 70 percent of the institutions sampled currently have Title I loans in their portfolio. Most home improvement loans are insured under Title I.

- Most lenders prefer not to make loans for terms longer than 7 years. Some also limit the maximum amount to $7,000.

(4) Principal Non-Statistical Issues or Findings

(a) Interest in Home Improvement Lending

- Banks generally expressed considerable interest in HILs, and most of them actively advertise such loans.

- Savings and loans are not active in making HILs.

(b) Lending Policies and Practices

- The minimum home improvement loan offered is between $500 and $600, while few loans are made which exceed $10,000.

- Most loans are FHA-insured and thus fall within the maximum/minimum terms and conditions prescribed by the insurance program. Special situations are handled by banks' own programs.

(c) Effects of State and Other Regulations

- State usury laws limit the return to 8-1/2 percent for loans under $15,000 unless it is an installment loan. There are no restrictions on loans over $15,000. Many banks consequently are primarily interested in making loans of $15,000 and up. Depending on the amount, state law limits installment loan interest rates from 6 percent discount to 6 percent add-on.

- Bankers stated that FTC's holder-in-due-course ruling will hurt the small, new contractors but has not significantly affected their relationship with dealers, aside from their stern scrutiny of all prospective contractors. Since the ruling, several banks require indemnification in the assignment of improvement loan contracts. Lenders like Title I; they believe that dealers are effectively monitored and policed through the Title I program contractor blacklist.

- State law restricts interest rates and payment terms for finance companies and others making small loans. The rates range from 11.5 to 14.6 percent depending on the size of the loan and the term.

(5) Title I Assessment

- Title I is extensively used in Louisville; the majority of HILs are FHA-insured. Almost all dealer loans are insured under Title I. By contrast, some lenders do not insure their direct loans. Another major lender uses Title I except for borrowers with especially good credit.

- The Title I program is well regarded and appears to have been a prime catalyst in getting local banks involved in home improvement lending.

- There were several recommendations for changes in the Title I program, including the following:

  -- more publicity for the program (conduct advertising campaign)
  -- increase the allowable charge to borrowers for credit report from $5 to $10 (the actual cost to some banks).
  -- expand the list of eligible improvements (possibly pools and tennis courts)

(6) City Involvement

- The city of Louisville has recently entered an agreement with the First National Bank of Louisville to provide $500,000 in low-cost home improvement loans to the Portland area.

c. MINNEAPOLIS-ST. PAUL, SMSA

(1) Interviews

Interviews	Number
Banks	6 (5 nationally chartered; 1 savings bank)
Savings and Loans	5
Credit Unions	3
Finance Companies	1
Contractors	4
Material Suppliers	3
Others	7
TOTAL	29

(2) Statistical Information

Total Assets of Financial Institutions	$9,672,298,559	(13)
Total Loans Outstanding	$3,440,556,188	(6)
Total Consumer Loans Outstanding	$ 274,877,405	(8)
Total Home Improvement Loans	$ 31,885,000	(12)
Number/Percent Using Dealers	3/23%	(12)
Average Dealer/Direct Ratio	14/86	(12)
Average Size Home Improvement Loans Made	$ 3,975	(12)
Average Interest Rate on Home Improvement Loans	11.65%	(13)
Number/Percent Making Title I Loans	10/76%	(13)

The Minneapolis-St. Paul SMSA had a population of 1,965 million in 1970 and is the seventeenth largest SMSA in the country. Of the population, 32,000 are black. Median family income in 1969 was $11,544. The area has 625,000 housing units of which 66.3 percent are owner-occupied. The median single family home in 1970 was valued at $21,300. In June, 1973, the area had 175 banks with deposits of $6,931 million and 13 savings and loans with assets of $2,902 million. The visit took place on September 14/15, 1976.

Lending resources are very concentrated in the area. First Bank Systems controls 16 banks in the area with combined assets of $2,990 million; Northwestern National Bank, $1,900 million; Twin Cities Savings and Loan has assets of $1.5 billion; Midwest Savings has assets of $1,204 million; F&M is the only savings bank; its assets total $955 million. There is no branch banking, so state multi-bank holding companies have developed. Federal savings and loan institutions can have branches; this had led most savings and loan institutions to get federal charters.

(3) Findings Based on Statistical Material

- Home improvement loans represent a very small percentage of the lending activity of most financial institutions, ranging from less than 2 percent of lending activity to 30 percent of total consumer lending. Consumer loans range from 25 percent down to a small fraction of all loans made. Home improvement lending is considered profitable and is sought after, but it does not represent a major activity of any of the institutions.

- There is no consistent attitude toward dealer loans by lenders. Attitude toward dealers do not seem to be related to types of institution or size of institution. Some rely on them extensively; other lenders do not use them at all. Credit unions make only direct loans.

- The larger banks are no longer active in Title I, but the larger savings and loans and the F&M Savings Bank use Title I extensively as do the credit unions. The large banks have their own plans or use private insurance plans. All savings and loans use Title I to some degree.

- The Minnesota Housing Finance Agency (MHFA) operates a home improvement loan program using bond proceeds, and insures all loans under Title I. It believes its program has increased Title I lending in the state by 20 percent. MHFA Title I activity constitutes about 8 percent of all Title I activity in the state. HUD estimated 3,927 Title I loans were made between August and October 1975, of which 297 or 7.6 percent were MHFA.

- The average loan size is most commonly about $3,500 with the range of $1,800-5,000. No institution cited an average of less than $1,800. Most have a minimum size loan which ranges from $500-1,000.

- The average term of loans is 60 months. Many institutions place limits on the term of improvement loans.

- The default rates are low and range from 1 to 2 percent.

- Most lenders provide home improvement loans as a service to their customers. The larger holders of home improvement loans tend to buy dealer loans and thereby increase the size of their portfolio. Banks no longer make dealer loans but four of the six savings and loans interviewed handle dealer loans.

- The interest rate varies somewhat but most charge close to the usury ceiling which is equal to the FHA rate. Most lending is at 12 percent, but some savings and loans and one bank lend at 11-12 percent. Credit unions lend at 10-3/4-11 percent.

- Credit unions are active in home improvement lending and insure their loans under Title I.

(4) Principal Non-Statistical Issues or Findings

(a) Interest in Home Improvement Lending

- Lenders seem interested in home improvement loans because they provide a high rate of return. Title I loans were particularly attractive until the usury laws were liberalized in 1976 because Title I was exempted from the usury laws; lenders could charge the maximum Title I rate.

- In Minnesota, some contractors sign up their own deals and arrange financing with customers, then sell the contracts to lenders. These contracts are not subject to the usury law and contractors can sell the contracts at a discount if they choose. Some of the savings and loans buy such contracts and get effective returns of 13-15 percent. Some lenders avoid such deals believing that these arrangements encourage poor credit decisions.

- Many lenders advertise for home improvement loans but no one indicated that such advertising significantly increased volume. Having many branches around the area seems the most effective way to get loans.

(b) Effects of State and Other Regulations

- The holder-in-due-course ruling is having only a minor impact. Lenders are a little more cautious and careful, and some dealers have been dropped, but there is a general consensus that dealers with a track record and decent reputation can get financing. Some expressed concern that the small contractor or the person who wants to set up a business may be hurt by the ruling.

- Until June of 1976, the state usury law limited the interest rate on first mortgages to 10 percent. The law limited the interest rate on home improvement loans to a 6 percent add-on rate which on a 5-year loan was an APR of 10.75 percent. Title I loans were exempted from these restrictions. The new law raised the rate for home improvement loans to 12 percent (the FHA rate remains exempt) and mortgage loans to 2 percent above the rate being earned on treasury bills. Minnesota is the last state to develop credit card programs. The new law allows banks to charge $15 a year for a credit card and 12 percent APR.

(5) Title I Assessment

- There was no major dissatisfaction expressed about Title I, though some would like to see the term, loan maximum, and types of eligible improvements liberalized. The larger banks seem to have a negative view of the program, which seems to be based more on prejudice than on reality.

- First Bank Systems (FBS), the most active loan originator historically in Title I, left the program in 1969, not out of dissatisfaction with the program, but because it could not make sufficient profit at 5 percent discount (the Title I interest rate) given the high returns expected by its investor clients.

(6) City and State Involvement

- The state has a home improvement loan program financed through the issuance of state bonds and insured under Title I. Terms are similar to Title I maximums. The program was set up because the state government believed many people could not afford the interest rates charged by lenders and because many rural areas do not have the necessary capital. Grants and interest subsidies are also available in conjunction with the loan program.

- Generally lenders seem pleased with Title I. Some complain that HUD can get "picky" with claims. Many lenders use Insured Credit Services (ICS), the private insurance company, because they report 30 percent of the portfolio can be used for any type of improvement. Some say ICS procedures are simpler but other lenders believe Title I is superior.

(7) Contractors

- Material suppliers are not involved in the financing process.

- Contractors contacted generally had a favorable view of Title I and reported that financing for home improvements was readily available.

d. NEWBURGH, NEW YORK

(1) Interviews

Interviews	Number
Banks	5 (4 nationally chartered; 1 savings bank)
Savings and Loans	2
Credit Unions	0
Finance Companies	1
Contractors	3
Material Suppliers	0
Others	2
TOTAL	13

(2) Statistical Information

Total Assets of Financial Institutions	\$ 360,108,814	(4)
Total Loans Outstanding	\$ 253,565,759	(5)
Total Consumer Loans Outstanding	\$ 146,260,801	(5)
Total Home Improvement Loans Outstanding	\$ 2,315,000	(5)
Number/Percent Using Dealers	2/33%	(6)
Average Dealer/Direct Ratio	.3/99.7	(6)
Average Size Home Improvement Loans Made	\$ 2,766	(5)
Average Interest Rate on Home Improvement Loans	13.1%	(6)
Number/Percent Making Title I Loans	2/33%	(6)

The field visit to Newburgh took place on September 8/9, 1976. Newburgh is a small city (population 28,000) located some 60 miles north of New York City. There are some ten different banking institutions in the city.

(3) Findings Based on Statistical Material

- Home improvement loans generally represent a small portion of both the total loan and consumer loan portfolios of lenders. HILs ranged from .25 percent to 10 percent of total loans outstanding and from .25 percent to 25 percent of total consumer loans.

- The average home improvement loan made by the institutions contacted is \$2,566. But this is heavily weighted by the savings and loans' \$2,500 and the finance company's \$1,041 average. The commercial banks' average loan is a bit higher, at about \$3,450.

- Banks generally charge 12 percent interest with one exception; one offered a range of 11.4 to 11.9 percent. Another bank, whose standard rate is 12 percent, offered preferred rates (9.3 percent) during the spring months. The finance company's rate is 18.75 percent.

- Dealer loans are almost non-existent in Newburgh; only two banks indicated such involvement. Even in the two instances in which they are used, they are estimated to represent less than 1 percent of all HILs made.

- The HIL is generally considered a safe loan, a point supported by the low default rates (between 1 and 3 percent) experienced.

- Title I loans are generally smaller than HILs made under the banks' own programs. The two banks that make Title I loans average about $2,500 and $500 respectively. This compares with a $3,400 average for non-Title I home improvement loans.

(4) Principal Non-Statistical Issues or Findings

(a) Interest in Home Improvement Lending

- As indicated by their percentage of total loans outstanding, HILs are not major elements of the banks' loan portfolios. Nonetheless, banks advertise for home improvement loans. Half of the banks interviewed do some extensive advertising (in newspapers primarily and some radio) of HILs during the spring months. The other banks' advertising is in the form of notices on customer bank statements and bank pamphlets. It is clear though that most felt that there is more room for improvement in this area, as advertising was cited most often as the major technique for increasing their HIL activity.

(b) Lending Policies and Practices

- The maximum home improvement loan offered is generally $10,000. Most banks lean toward mortgage refinancing for loans in excess of this amount.

- The most frequently mentioned criteria for evaluating loan applications were credit ratings and a comparison of monthly income and expenses. The Newburgh institutions also generally require an accurate estimate of the improvements to be done. Most do not require security for loans under $2,000, but this decision is generally handled on an individual case basis. Loans in excess of this amount are secured by promissory notes or more frequently by first or second mortgages.

(c) Effects of State and Other Regulations

- Most of the financial institutions did not feel that state laws were restrictive with respect to HILs or played an important role in setting lending policy. The finance companies, on the other hand, do have problems with state lending laws; the maximum legal loan allowed is $2,500. This severely restricts their ability to provide financing for extensive improvements.

- The holder-in-due-course ruling has had little effect on area institutions' home improvement lending because the use of dealers is extremely limited. But, it was the opinion of most that the ruling has had the effect of reenforcing their policy of limited dealer paper involvement.

(d) Uses of Home Improvement Loans

- The primary uses of HILs are:

  -- exterior siding and roofing
  -- heating system installation
  -- room additions and modernization
  -- swimming pools
  -- water softening units

(5) Title I Assessment

- The two banks that were currently utilizing the Title I program cited no problems with the program.

- Banks that do not utilize the program seem to feel that since home improvement lending is not high risk, the government insurance provides little incentive.

- The only change recommended for Title I was the expansion of the list of eligible improvements.

(6) City Involvement

- Newburgh's Community Development Department has provided home improvement assistance through the HUD 312 loan and grant program. The program has provided funds for some low-income residents who in most cases could not qualify for loans from conventional banking institutions. The program's overall impact on home improvement financing is somewhat limited in that its use is directed primarily toward housing and fire code violations. Thus a great many of the improvements funded under the program are more appropriately designated as repairs.

(7) Contractors

- Home improvement contractors are generally small (one-man) operations.

- They typically do not provide financing and prefer not to. Most do refer prospective clients in need of financing to local banking institutions.

e. READING, SMSA

(1) Interviews

Interviews	Number
Banks	5 (5 nationally chartered)
Savings and Loans	2
Credit Unions	2
Finance Companies	2
Contractors	1
Material Suppliers	0
Others	2
TOTAL	14

(2) Statistical Information

Total Assets of Financial Institutions	$2,094,057,304	(9)
Total Loans Outstanding	$1,611,377,780	(11)
Total Consumer Loans Outstanding	$ 220,951,233	(8)
Total Home Improvement Loans Outstanding	$ 49,525,000	(9)
Number/Percent Using Dealers	4/26%	(11)
Average Dealer/Direct Ratio	1.2/98.8	(10)
Average Size Home Improvement Loans Made	$ 3,277	(9)
Average Interest Rate on Home Improvement Loans	13.5%	(11)
Number/Percent Making Title I Loans	0/0	(11)

The city of Reading is located 65 miles west of Philadelphia. It has a population (which has been declining) of 80,000, 6 percent of which is non-white. The local economy features manufacturing and farming, and one of the lowest unemployment rates (4 percent) in the country. The SMSA had 17 banks and 5 savings and loans, at the time of the field visit which took place on September 16/17, 1976.

(3) Findings Based on Statistical Material

- Savings and loans do not get involved in home improvement lending except as a service to existing first mortgage customers.

- Home improvement loans represent a small portion of the loan portfolio but make up a greater portion of consumer loans. HILs range from 1 percent to 3 percent of total loans and 7.5 percent to 30 percent of consumer loans (for banks, credit unions and finance companies).

- The average HIL is close to $3,800 for both banks and credit unions while those of finance companies are generally about $2,000.

- Interest rates on HILs offered by the commercial banks ranged from 9.5 to 17.15 percent. Credit unions charge 12 percent while the finance companies' rates are 14 percent to 22.8 percent.

- There is little dealer lending in the area. The three banks indicated that dealer loans represented 1-6 percent of all home improvement loans.

(4) Principal Non-Statistical Issues or Findings

(a) Interest in Home Improvement Lending

- There does seem to be considerable interest in home improvement lending, at least among the large commercial banks in the area. While all the banks and finance companies interviewed do some advertising, the three larger banks had extensive spring and early summer campaigns to promote HILs. The advertising campaigns typically offer preferred rates (9.5 percent to 12.5 percent). The spring specials were labeled successful in each instance, as significant gains in the number and dollar volume of HILs were realized.

- Newer banks complained of difficulty in getting into the home improvement area. The reason they stated for this situation was that since they do not hold the first mortgage, they do not get the improvement loan business.

- Credit unions (of which there are about 14 in the area) do provide a considerable amount of home improvement financing in the area. One of the two unions interviewed ranked fourth among the eleven financial institutions contacted, in terms of total loans outstanding.

(b) Lending Policies and Practices

- The maximum HIL offered is generally $10,000, though most banks indicated that loans above $5,000 are the exception rather than the rule. The range in maximum terms for local financial institutions is from 3 to 10 years.

- Loan application evaluations hinge primarily on the individual's credit rating, his job stability and his ability to pay (income versus expenses).

- Loans are typically secured by a second mortgage or lien against the property. In one or two instances, other forms of collateral are accepted.

(c) Effects of State and Other Regulations

- There were generally no complaints about state or federal regulations. State-chartered savings and loans are restricted from making HILs as such but do so through the refinancing of mortgages. Finance companies are restricted to a maximum loan of $5,000, but expressed no difficulties.

- Only one institution contacted had any serious concern about the holder-in-due-course ruling. It appears the lack of concern is primarily due to the limited involvement of contractors in the financing process.

(d) Uses of Home Improvement Loans

- The primary uses of HILs are:

  -- siding
  -- room additions
  -- kitchen remodeling
  -- heating systems

(5) Title I Assessment

- The only institution that stated it had had any Title I involvement indicated that it had dropped the program because of the excessive paperwork. In this case, Title I had been dropped in 1962 and the respondent did not know the details surrounding the decision.

- Probably the main reason that Title I is not used is the 12 percent maximum interest. (The state of Pennsylvania allows an interest rate up to 15 percent.)

(6) City Involvement

- The Community Development Department in the city of Reading is in the process of developing a revolving loan program to finance home improvements. The loan could be used for code violation repairs or cosmetic improvements. Some of the features of the program are cited below:

  -- a line of credit is provided to the city by a bank (or banks) at a rate of 4.5 percent for HILs (this financing would be tax-free for the bank)
  -- 10 percent of the line of credit is retained for defaults
  -- the bank is paid 0.5 percent of the loan for servicing and processing of loan applications
  -- the city offers the loans to borrowers at 5 percent for a maximum of seven years
  -- all improvements will be estimated by housing inspectors and put out for bids to three contractors.

5. CONCLUSIONS

a. Aggregate Findings

(1) Interviews

Interviews	Number
Banks	35
Savings and Loans	21
Credit Unions	10
Finance Companies	6
Contractors	14
Building Material Suppliers	10
Others	25
TOTAL	121

(2) Statistical Information

Total Assets of Financial Institutions	$18,653,189,600
Total Loans Outstanding	$ 8,812,475,500
Total Consumer Loans Outstanding	$ 1,057,353,800
Total Home Improvement Loans Outstanding	$ 141,747,300
Number/Percent Using Dealers	18/28%
Average Dealer/Direct Ratio	10/90
Average Size Home Improvement Loans Made	$ 3,115
Average Interest Rate on Home Improvement Loans	12.4%
Percent Making Title I Loans	58.7%

The field reconnaissance involved interviews with 72 financial institutions. 50 percent of this sample was composed of commercial banks, 30 percent savings and loans, and the remainder was divided between finance companies and credit unions. Based on the date furnished by respondents, this sample represented institutions currently holding assets of almost $18.6 billion with consumer loans outstanding of over $1 billion. Home improvement loans currently outstanding for these lenders are nearly $142 million. Presented below are findings based on aggregated data from the five site visits.

(3) Findings Based on Statistical Material

- Home improvement loans outstanding represent less than 2 percent of total loans outstanding and 13 percent of consumer loans outstanding.

- While only 28 percent of the institutions utilize dealers, more than half (58.7 percent) use the Title I program.

- The average interest rate charge of 12.4 percent is almost identical to the Title I rate maximum.

- The average home improvement loan provided by these institutions is $3,115.

(4) Principal Non-Statistical Issues or Findings

(a) Interest in Home Improvement Lending

- Of the institutions surveyed, commercial banks are the most active in home improvement lending. Most institutions making home improvement loans advertise for them.

- Savings and loans (except in certain instances) are less likely to be significantly involved in home improvement lending and in many cases do so only as a service to existing customers.

- Credit unions and savings banks are very interested in home improvement lending.

- Home improvement loans are generally considered profitable and almost unanimously acclaimed as safe (1 to 3 percent default rates would seem to support this statement).

(b) Lending Policies and Practices

- The most critical criteria in evaluating a home improvement loan application are the borrower's credit rating, job stability, and the relationship between his monthly income and expenses.

- The minimum home improvement loan is usually no less than $500, while the maximum loan rarely exceeds $10,000. Kansas City is an exception to that; home improvement loans of $1,200 or less are rarely made. Purchases of that size are handled by credit cards or cash savings.

- Some lenders are more restrictive in their lending policies than is required by Title I. They tend to limit loan terms to 5-7 years and amounts to $6-7,500.

(c) Effects of State and Other Regulations

- Few banks had significant problems with the holder-in-due-course ruling and its effects have been generally as follows:

  -- banks now screen prospective dealers more carefully;
  -- some institutions require indemnification;
  -- others simply reaffirmed their existing policy of not making dealer loans.

- State regulatory and usury laws are significant in determining whether a particular institution can make home improvement loans and the amount of funds which it can make available. In the state of New York, savings banks were only recently allowed to make home improvement loans other than Title I loans, while Pennsylvania state-chartered savings and loans cannot make home improvement loans at all. In New York, finance companies are limited from providing loans for extensive improvements because state laws only allow a $5,000 loan maximum

- Most of the financial institutions surveyed did not feel that their state usury laws were too restrictive with respect to home improvement lending. Minnesota's law provided an exemption to the usury rate for Title I until June 1976.

(5) Title I Assessment

- Title I is by and large viewed favorably, though there is some disagreement about the amount of red tape associated with being a Title I lender.

- Title I insurance has clearly been responsible for getting many banks (particularly smaller state banks) involved in home improvement lending.

- Three of the SMSAs (Louisville, Kansas City, Minneapolis) surveyed are active Title I areas; in each case the percentage of institutions using Title I was 69 percent or more. Newburgh was much less involved with only 33 percent of its institutions using the FHA program, while none of the Reading institutions use Title I.

- A key factor which determines the use of Title I in a particular state is the competitiveness of the Title I 12 percent rate with the state's legal interest rate limit. Pennsylvania state law allows a maximum 15 percent interest rate on home improvement loans; lenders do not use Title I. Institutions in other states also cited limited use of the program prior to the raising of the interest rate to 12 percent in 1974.

- Despite the limited criticism of the program, there are several recommendations made for changes. They include the following:

  -- extended terms on loan repayment
  -- increase maximum loan allowed
  -- expanded list of eligible improvements
  -- better publicized Title I program through advertising

(6) Local Programs

- Each of the sample cities have some type of home repair or improvement program, if only the 312 program.

- Three of the cities have implemented new or innovative local home improvement programs. Reading and Louisville have entered agreements with local banks in which they provide funds to these banks for the purpose of making low cost (below market rates) home improvement loans. Minnesota's Housing Finance Agency provides low cost Title I loans financed through state bonds. These programs represent some of the options that local governments might pursue to increase the availability of home improvement financing.

APPENDIX C

STATE AND LOCAL IMPROVEMENT PROGRAMS

A cross-section of state and local programs which assist property owners to finance and pay for home improvement type activities were examined. A summary description of these programs follows.

Name: HOME REHABILITATION PROGRAM When Initiated: 1975

Administering Agency

Community Development Service Center, Fall River, Massachusetts, under contract to the Community Development Agency.

Objective or Problem Addressed

To provide direct loans to owner-occupants who want to improve their property.

Eligibility Standards and Program Procedures

Borrowers must be owner-occupants whose income does not exceed 180% of the median income in Fall River. The Center prepares a specification, a cost estimate, puts the work out for public bid and selects and monitors the contractor.

Type of Benefit and Maximum Benefits

Direct loans at 4-8% interest for terms of 1-20 years are provided. The interest rate is based on household size and the income of the borrower as a percent of the median income. Those whose incomes are 90% of the median qualify for 4% loans. Loans for single-family units cannot exceed $9,000, for a two-family, $6,000 a unit, and for a three-family or more, $5,000 a unit.

Source of Funding, Amount of Funding

Funding is from CDBG funds at an annual rate of about $625,000, of which $70,000 is for administration. Ultimately, the program is expected to have a self-perpetuating revolving fund.

Characteristics of Benefits and Program

The program is available on a city-wide basis. The average loan has been $10,000 and the typical interest rate 5-6%. Loans are secured by property liens. Properties must be brought up to code.

Program Activity Since Beginning of Program

The program has made 106 loans.

Special Administrative Arrangements/Use of Title I

A local bank services the loans.

Name: NEIGHBORHOOD REHABILITATION PROGRAM When Initiated: 1976

Administering Agency

New Haven Redevelopment Authority, New Haven, Connecticut

Objective or Problem Addressed

Provide low-cost rehabilitation financing and grants for low- and moderate-income owner-occupants of designated target areas.

Eligibility Standards and Program Procedures

There are no income limits for loans and the ability to repay must be limited. Grants are made to low-income families whose income does not exceed maximum income limits (1 person $8,950, family of 7, $16,700) or whose housing expenses exceed 25% of income. The program staff draws up a work specification, puts it out to bid and monitors the work of the contractor.

Type of Benefits and Maximum Benefits

Direct loans up to $10,000 for a single-family dwelling and $5,000 for additional units up to $25,000 for a four-family structure at 3% interest. Grants up to $5,000 are available for 100% of the cost of the work.

Source of Funding, Amount of Funding

Funding is from CDBG funds. The whole rehabilitation program which includes site improvements and demolitions totals $5.5 million for 1976 and 1977. Administrative costs are from a separate budget.

Characteristics of Benefits and Program

Funds are allocated on the basis of an allocation system which takes into account needs, housing conditions, etc. Urban renewal and code enforcement areas have the highest priority.

Program Activity Since Beginning of Program

187 loans and grants have been made since the program began. $1.5 million has been spent. Most activity has been in the form of grants or a combination of loans and grants.

Special Administrative Arrangements/Use of Title I

Lending institutions service the loans for the Authority.

Name: LOAN GUARANTEE PROGRAM | When Initiated: 1975

Administering Agency

Indianapolis Redevelopment Authority, Indianapolis, Indiana

Objective or Problem Addressed

To guarantee loans made by private lenders in four target neighborhoods. Four banks and two savings and loans are involved in the program.

Eligibility Standards and Program Procedures

There are no loan limits. Each guarantee is negotiated separately between the lender and the authority. Loans are secured by liens.

Type of Benefits and Maximum Benefits

The authority guarantees 50-90% of the loan principal depending on the credit of the borrower. Loans are made at 12% interest for up to 10 years. Size is based on 190% of value. If the borrower becomes delinquent, the funds on deposit can be used to make up the delinquency or pay off the lender. The guarantee funds are placed in a savings account or a CD is purchased.

Source of Funding, Amount of Funding

Funding is from CDBG and has a total of $1 million of which approximately $700,000 is for loan guarantees.

Characteristics of Benefits and Program

Most loans are for about $5,500-6,000 for an average 8-year term.

Program Activity Since Beginning of Program

The program was established in 1975, but did not get underway until 1977; 10 loans have been made.

Special Administrative Arrangements/Use of Title I

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Name: HOME IMPROVEMENT LOAN AND GRANT PROGRAM When Initiated: 1974

Administering Agency

Minnesota Housing Finance Agency, St. Paul, Minnesota

Objective or Problem Addressed

To provide loans, grants, and interest subsidies to lower-income homeowners to help them make their housing decent, safe, and sanitary, of greater market value or in conformance with state, county or city codes.

Eligibility Standards and Program Procedures

Income cannot exceed $16,000 for loans, $5,000 for grants. Financing cannot be otherwise eligible on the same terms and conditions.

Type of Benefits and Maximum Benefits

Loans of up to $10,000 for terms of up to 12 years are made available out of state bond proceeds and insured under Title I. BMIR loans are available based on income. Grants are available to low-income homeowners whose adjusted income is less than $5,000 in amounts up to $5,000.

Source of Funding, Amount of Funding

Loan funds come from bond issues. The subsidies and grants from state appropriations.

Characteristics of Benefits and Program

Loan interest varies between 1-8% depending on income. Those earning less than $3,000, pay only 1%. Most of the loans went to homeowners earning $10-16,000. Loans have averaged $4,400, the loan term was 8 years and the average interest rate 5.5%. Grants average $2,100.

Program Activity Since Beginning of Program

8900 families have been assisted with loans, 2700 with grants. The state has issued $48 million in bonds to make improvement loans.

Special Administrative Arrangements/Use of Title I

All loans are insured under Title I. Loans are originated by 170 public agencies and private lenders throughout the state and bought up based upon an allocation assigned to each lender. Grants are administered by local public agencies.

Name: WORCESTER HOUSING IMPROVEMENT PROGRAM   When Initiated: 1977

Administering Agency

Worcester Cooperation Council, Inc. (WCCI), Worcester, Massachusetts

Objective or Problem Addressed

To help property owners in two target neighborhoods improve their homes.

Eligibility Standards and Program Procedures

Property owners must live in one of the two target neighborhoods. Properties cannot have more than 7 units, or 10 units in the case of rooming houses. Adjusted household income cannot exceed $17,500.

Type of Benefits and Maximum Benefits

The program provides grants of 25 or 50% of the cost of improvements up to a fixed dollar amount. Property owners with incomes of $6,000 qualify for 50% grants, all others 25%. Grants cannot exceed $2,000 for a single-family unit, $2,500 for a two-family and $3,000 for a three-family.

Source of Funding, Amount of Funding

Funding is out of CDBG funds. In 1977 funding was $220,000, of which $100,000 was for administration.

Characteristics of Benefits and Program

The program helps to develop cost estimates, advises on the selection of a contractor and helps to prepare loan applications. Many of the applicants are elderly, who qualify for the maximum grant.

Program Activity Since Beginning of Program

About 75 applications have been received. A predecessor program operated in another neighborhood. It provided grants up to 100% of cost. Several hundred loans were made under that program.

Special Administrative Arrangements/Use of Title I

Local banks have agreed to make improvement loans at 8% interest to finance the difference between the cost of the improvements and grants.

Name: HOUSING REHABILITATION CONSERVATION PROGRAM When Initiated: 1971

Administering Agency

City of Cambridge, Massachusetts, through two non-profit groups-- Homeowner's Rehab and Riverside Cambridgeport Community Corporation and the Cambridge Redevelopment Authority

Objective or Problem Addressed

To make loans and grants available to owner-occupants to bring properties up to some minimum compliance with the code.

Eligibility Standards and Program Procedures

Property owner's income cannot exceed $16,000. Structures of 1-6 units are eligible. The recipient must be an owner-occupant. Grants vary based on income and family size. A one-person household earning $9,000 in adjusted income would be eligible for a 20% grant of the total cost.

Type of Benefits and Maximum Benefits

Loans are made available through private lenders at rates of 1-2% less than the normal interest rate of 10.5-11%,and grants up to $3,000 are made available out of program funds.

Source of Funding, Amount of Funding

Funding is from CDBG. For fiscal year 1977, program funds were $800,000, administrative cost $200,000.

Characteristics of Benefits and Program

Under the program homeowners are referred to lenders for loans, cost estimating and inspection of the work is provided.

Program Activity Since Beginning of Program

850 units have been assisted at a cost of $2.3 million. The average loan and grant has been $6,200.

Special Administrative Arrangements/Use of Title I

Approximately 30% of the loans are insured under Title I.

Name: HOME IMPROVEMENT PROGRAM When Initiated: 1975

Administering Agency

Department of Community Development, Boston, Massachusetts

Objective or Problem Addressed

Make grants to property owners to encourage repairs and improvements.

Eligibility Standards and Program Procedures

Property owners' income cannot exceed $16,000. Properties of 1-6 units are assisted.

Type of Benefits and Maximum Benefits

Grants are limited to 20% of estimated cost or $1,000 for a single-family structure up to $3,000 for a 5-6 unit structure.

Source of Funding, Amount of Funding

For fiscal year 1977, the program's budget is $4.3 million, and the administrative budget is $1.3 million. All funding is from CDBG funds.

Characteristics of Benefits and Program

The program is city-wide. The program provides assistance in cost estimating, selection of a contractor, and securing of financing. Grants have averaged $651.

Program Activity Since Beginning of Program

Since the start of the program, approximately 11,000 grants have been made. It is estimated that $36 million of work has been undertaken by grant recipients.

Special Administrative Arrangements/Use of Title I

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Name: INTERREST REDUCTION HOME IMPROVEMENT **When Initiated:** 1972

Administering Agency

City of Hoboken, Hoboken, New Jersey

Objective or Problem Addressed

To reduce the cost of financing home improvements by providing a grant based on reducing the cost of the loan to 3%.

Eligibility Standards and Program Procedures

There are no income limits, but loan terms are limited to 6 years; low-income property owners qualify for 9-year loans. Priority is given to 1-4 family owner-occupied properties. The program inspects the property before, during, and after the work is completed.

Type of Benefits and Maximum Benefits

The grant is based on the amount needed to reduce financing to a point where the payment would be similar to that of a loan at a 3% interest rate. The maximum grant is $6,000.

Source of Funding, Amount of Funding

Project funds come from the State Neighborhood Preservation Demonstration Program and administrative costs are covered by CDBG funds.

Characteristics of Benefits and Program

The average grant is $2,000, and the average loan involved $8,000. The typical loan involves a 3-unit structure. The program operates city-wide.

Program Activity Since Beginning of Program

About 500 grants have been made.

Special Administrative Arrangements/Use of Title I

The local participating lender insures the loans under Title I.

Name: NEIGHBORHOOD IMPROVEMENT PROGRAM When Initiated: 1975

Adminstering Agency

Old Holyoke Development Corporation, a non-profit corporation under contract to the city of Holyoke, Massachusetts.

Objective or Problem Addressed

Make grants to property owners to encourage repairs and improvements.

Eligibility Standards and Program Procedures

Property owner's income cannot exceed $20,000. One to three unit property owners are eligible. OHDC inspects the work and pays the grant upon its completion.

Type of Benefits and Maximum Benefits

Grants are based on the cost of the work and vary in terms of their size, depending on income. The grants can be as high as 30% of the cost if the recipient's net income is less than $8,000, down to 15% if the recipient's income is between $12,000-20,000.

Source of Funding, Amount of Funding

Funding for 1976 is $240,000 (with a $70,000 carry-forward) and all funding is from CDBG funds. Administrative costs are provided by the City under a separate contract.

Characteristics of Benefits and Program

Grants are made only in specific target neighborhoods. About 65% of the grants have been to property owners whose net income is less than $8,000. The average grant is about $8,000.

Program Activity Since Beginning of Program

850 grants have been made.

Special Administrative Arrangements/Use of Title I

All 10 of the commercial banks in the City are involved in providing financing. Banks have agreed to provide financing at 9.5%. Only 20% of the grantees have borrowed money.

Name: HOUSING ASSISTANCE PROGRAMS | When Initiated: 1974

Administering Agency

Portland Development Commission, Portland, Oregon

Objective or Problem Addressed

To provide loans of various types to finance improvements needed to correct critical Code violations. Portland has many different loan programs.

Eligibility Standards and Program Procedures

Loans with different payments are available to 1-4 family owner-occupants who meet the income limits ($5,470 for single households to $8,625 for households of 6 or more). Except for the critical maintenance program, properties must be brought up to Code standards.

Type of Benefits and Maximum Benefits

Deferred payment loans of two types - "critical maintenance loans" of up to $1,500 on a city-wide basis, and deferred-payment loans of up to $4,000 in target areas. These loans are no-interest loans and become due upon transfer of the property.

Source of Funding, Amount of Funding

Funding is from CDBG funds.

Characteristics of Benefits and Program

Critical maintenance loans average $1,000, deferred payment loans $3,200. Work write-up and inspection and supervision assistances are provided. The Commission also provides HCD loans, similar to 312 loans, and has a public interest lender's program which makes loans using a line of bank credit based upon escrow guarantee funds. These loans are available to owner-occupants with incomes up to $2,500 at 6.5% interest up to 20 years.

Program Activity Since Beginning of Program

256 deferred payment loans and 315 critical maintenance loans have been made.

Special Administrative Arrangements/Use of Title I

Recipients of deferred payment loans may qualify to get repairs done free through the Home Repair Program, a CETA-funded training program.

Name: HOUSING REHABILITATION SERVICES PROGRAM When Initiated: 1975

Administering Agency

Community Development Agency, Madison, Wisconsin

Objective or Problem Addressed

To make loans of various types to low- and moderate-income owner-occupants to bring properties up to code level.

Eligibility Standards and Program Procedures

The loan program is available to owner-occupants of 1-4 family units who don't qualify for 312 because their income is either too high or too low. Income limits for the deferred loan program are 135% of the Section 8 limits, for the city loan program 125% of the adjusted Section 8 income limits.

Type of Benefits and Maximum Benefits

Direct loans, deferred loans and grants are made available. The city-funded loans are direct loans up to $7,500 at 6% for terms up to 15 years. Deferred loans are up to $3,500 ($5,000 elderly) at no interest; the loans must be paid off when the property is sold, vacated or transferred. Grants will be made instead of deferred payment loans if the amount is less than $500.

Source of Funding, Amount of Funding

City funds are used to make loans for those who cannot qualify for 312 loans because their incomes are too low; deferred payment loans are funded from CDBG funds. The budget in 1976 was $225,000.

Characteristics of Benefits and Program

City-funded loans are available city-wide but certain neighborhoods are eligible for priority status. The program staff will develop the work write-up, and bid and inspect the work. Loans are available to bring the property up to code or to undertake any non-luxury improvements.

Program Activity Since Beginning of Program

26 loans have been made under the city loan program, 8 deferred loans have been made. The program has also processed about 150 312 loans a year. No grants have been made.

Special Administrative Arrangements/Use of Title I

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Name: REHABILITATION LOAN AND GRANT PROGRAM When Initiated: 1975

Administering Agency

Salt Lake Redevelopment Authority, Salt Lake City, Utah

Objective or Problem Addressed

To provide loans and grants to owner-occupants in specified redevelopment areas.

Eligibility Standards and Program Procedures

There are no income limits on the loans but there is a maximum income limit for grants. For a single-person household, it is $5,820 and for a family of four $11,208. All properties must be brought up to code standards.

Type of Benefits and Maximum Benefits

Loans of up to $10,000 for 12 years at 0-6% interest, depending on income and housing expenses, are provided as well as grants up to $3,500 for those whose housing expenses exceed 25%.

Source of Funding, Amount of Funding

$500,000 has been allocated to the program in each of the last two years out of CDBG funds. The administrative cost is about $800 per case.

Characteristics of Benefits and Program

Recipients must live in one of two redevelopment areas. The average grant is $3,000 and the average loan about $4,200.

Program Activity Since Beginning of Program

Approximately 30 loans and 220 grants have been made.

Special Administrative Arrangements/Use of Title I

Most loans are made under 312 unless the borrower doesn't qualify and the CDBG funds are used.

APPENDIX D

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*U.S. GOVERNMENT PRINTING OFFICE : 1979 0-626-068/1511

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