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HOUSING ASSISTANCE SUPPLY EXPERIMENT

A RAND NOTE

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HOW LOW-INCOME RENTERS BUY HOMES

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PREFACE

This note was prepared for the Office of Policy Development and Research, U.S. Department of Housing and Urban Development (HUD). In an earlier version, the material was presented by the authors to the 11th Annual Meeting of the Mid-Continent Regional Science Association, Minneapolis, May 30-June 2, 1979. It reports on 250 home purchases made by low-income renters participating in HUD's experimental housing allowance program in St. Joseph County, Indiana, and Brown County, Wisconsin, during the first four years of the program.

The analysis is part of Housing Assistance Supply Experiment research on market effects of the allowance program; Wayne D. Perry directs that research. Paul Ernst, Wim Wiewel, and Lynette Howell helped extract information from public records and from administrative records of the program. Helen Wagner helped establish the computer file for home purchases, and Ira S. Lowry, C. Lance Barnett, Wayne D. Perry, and J. Kevin Neels provided valuable reviews of earlier drafts. Gwen Shepherdson typed the report. Judy Rasmussen edited the paper and supervised its production.

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SUMMARY

Although most low-income households seem incapable of meeting conventional mortgage lender requirements, some do succeed in purchasing homes. This note describes how 250 low-income renters in the Housing Assistance Supply Experiment (HASE) became homeowners despite limited income or assets or a poor credit history. Their purchases were made in two midwestern housing markets, St. Joseph County, Indiana, and Brown County, Wisconsin.

The households received no assistance from HASE other than allowance payments; they became homeowners through their resourceful use of financing alternatives. Most of the buyers obtained loans that imposed less stringent credit conditions than conventional mortgages, such as government-insured mortgages, consumer loans, and land contracts. Government-insured mortgages clearly benefited the buyer because of the small down payment required and because of the Federal Housing Administration's favorable treatment of allowance income. Consumer loans used to purchase mobile homes or low-valued houses were less attractive to the buyer because of their relatively high interest rates and short loan terms. The costs and benefits of land contracts are more difficult to decipher, since individual transactions differ considerably.

Some homebuyers, especially those in Brown County, did succeed in financing with a conventional mortgage. To do so, they used a number of strategies, including finding less demanding lenders, supplementing their incomes, purchasing properties jointly with other households, bargain hunting, buying income-producing properties, and obtaining help by means of second mortgages, conventional loans, and loans from friends and relatives.

This note provides insight into how low-income renters become homeowners, but it does not examine the longterm outcomes. We do know that a number of the buyers moved within a few years of their purchase and also that none were known to have defaulted on their loans. Those facts imply that most of the buyers, despite their low incomes, accurately predicted their ability to bear the costs of homeownership.

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INTRODUCTION

Low-income households face serious financial barriers to homeownership. Buying a home usually requires longterm credit and, subsequently, forced savings in the form of equity accumulation. The prospective homebuyer must have an income, savings, and credit history sufficient to meet mortgage lender requirements. Lenders also assess the future of the property in question to judge the likelihood of capital recovery in the event of foreclosure; thus, properties low-income households can afford are often the very ones for which lenders refuse to extend credit. Very few low-income applicants can meet all the criteria for mortgage credit. As a result, the great majority are believed to be effectively squeezed out of the housing market.

However, several alternative methods of home financing allow some low-income households to overcome conventional credit barriers. The Housing Assistance Supply Experiment (HASE), which has housing allowance programs in two urban areas,* offers a rare opportunity to investigate those methods. We have identified 250 low-income households in the allowance program who enrolled as renters, then purchased homes while still in the program. Aside from their modest allowances, the households were offered no special assistance; instead, clients used their own resourcefulness and imagination to find alternatives to conventional mortgage financing. This note is an account and a preliminary analysis of their purchases.**

THE SETTING

All of the buyers were participants in HASE, sponsored by the U.S. Department of Housing and Urban Development to determine the desirability and feasibility of a direct cash-assistance program

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*For a description of HASE and its research findings to date, see *Fourth Annual Report of the Housing Assistance Supply Experiment*, The Rand Corporation, R-2302-HUD, May 1978.

**A fuller analysis of this aspect of HASE will be included in the forthcoming Rand final report on market intermediaries.

for low-income renters and homeowners. For that purpose, a fullscale, open enrollment allowance program was begun in 1974 in two midwestern housing markets: Brown County, Wisconsin (whose central city is Green Bay), and St. Joseph County, Indiana (whose central city is South Bend). Our data are drawn from program records covering the first four years of operation at each site. During that time, 7,754 households enrolled in Brown County and 11,853 enrolled in St. Joseph County.

The program is open to nearly all individuals and families in the two counties who are unable to afford the standard cost of adequate housing* without spending more than a fourth of their adjusted gross incomes. Households enrolled in the program receive monthly cash payments equal to the "housing gap" thus calculated, provided that the dwellings they occupy meet minimum standards of decency, safety, and sanitation. Both renters and homeowners are eligible for benefits, and change of tenure or place of residence (within the program's jurisdiction) carries no penalty.

The program relies on participants' initiative and on normal market processes. At each site, a housing allowance office (HAO) enrolls eligible applicants, evaluates their dwellings, and disburses payments; enrollees themselves must find, maintain, and pay for acceptable housing. Allowance payments, which add less than 25 percent to the average income of enrolled buyers, are the only type of aid given by the allowance office. Otherwise, enrollees' positions in the housing market are unchanged.

The experimental sites were deliberately selected for their contrasting housing market characteristics, as shown in Table 1. In 1974, Brown County had about 170,000 inhabitants (48,000 households). Because of rapid growth in employment and population, the county has had a persistently tight market, reflected in unusually low vacancy rates.** Since nearly 60 percent of the dwellings were built after

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*Adequate housing is existing housing, free of hazards to health or safety, with suitable space and facilities for family life. The "standard cost of adequate housing" for each size of household is determined by periodic market studies conducted by Rand.

**In 1973 the rental vacancy rate was 5.1 percent, well below the national average of 8.9 percent.

Table 1

SELECTED CHARACTERISTICS OF OWNER-OCCUPIED HOUSING: BROWN AND ST. JOSEPH COUNTIES

Characteristic	Brown County (1973)	St. Joseph County (1974)
Percent of all occupied units	72	78
Vacancy rate (%)	.8	2.4
Market value ($):[a]		
Upper quartile	30,000	28,000
Median	23,500	18,500
Lower quartile	17,500	13,000

SOURCE: Tabulated by HASE staff from records for the baseline survey of homeowners in each county.

[a]For single-family, owner-occupied units.

1944, the housing stock is in relatively good condition; even in the urban core there are no blighted neighborhoods.

In 1975, St. Joseph County had 240,000 inhabitants (about 76,000 households). Employment in manufacturing has declined sharply since World War II, and has resulted in population losses, first in South Bend and now in the county as a whole. Home values are low, especially in the central city neighborhoods with large surpluses of deteriorating housing. Vacancy rates are rising in the suburbs as well as in the central city.*

Means of residential financing also differ between the sites. Institutional lenders finance over 90 percent of the residential property transactions in Brown County and about 75 percent in St. Joseph County. In Brown County, the lending institutions are primarily commercial banks and savings and loan associations; in St. Joseph County, mortgage banks also play an active role through loans backed by the Federal Housing Administration (FHA) or the Veterans Administration (VA). Noninstitutional transactions made

*In 1974, the rental vacancy rate was 10.6 percent, well above the national average of 8.9 percent.

at the sites are usually arranged through land contracts in which the seller extends personal credit to the buyer.*

During the first four years of the allowance program, 96 households in Green Bay and 154 in South Bend who had entered the program as renters bought homes while still enrolled. Those households were a distinct minority among all enrollees, as shown by the following enrollment statistics tabulated by the authors from HAO records through June 1978:

	Brown County		St. Joseph County	
	Number	Percent	Number	Percent
Homeowners	2,625	33.9	5,715	48.2
Renters	5,129	66.1	6,138	51.8

However, the number of renters who bought homes while enrolled is sufficient to demonstrate that homebuying was possible despite adverse conditions.

To substantiate this claim, data on each purchase were assembled from HAO records, public property records, and in South Bend, from the real estate brokers' Multiple Listing Service. Background material came from interviews with local lenders and real estate agents. Analysis of this information indicates that resourcefulness and unusual financial arrangements were required to overcome institutional barriers to homebuying.

UNLIKELY BUYERS

Mortgage lenders generally evaluate prospective borrowers with respect to income, assets (or ability to make a down payment), and credit history. For low-income households in our two sites, lenders'

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*For more information on residential finance in each site, see the following reports (all forthcoming from The Rand Corporation): William G. Grigsby, Michael G. Shanley, and Sammis B. White, *Market Intermediaries and Indirect Suppliers: Reconnaissance and Research Design for Site I* (N-1060-HUD), and *Reconnaissance and Research Design for Site II* (N-1089-HUD); Sammis B. White, *Market Intermediaries and Indirect Suppliers: First Year Report for Site I* (N-1101-HUD), and *First Year Report for Site II* (N-1087-HUD).

guidelines are generally as follows: (a) Annual income should equal about half the value of the property (a value-to-income ratio of 2:1); (b) Down payment should equal 10 to 20 percent of the property value; (c) Credit history must be sound.

Table 2 shows the limited credit qualifications of buyers in the allowance program. Even with housing allowances, many of the buyers could not meet conventional lender standards. Incomes were especially low in St. Joseph County, with a median of only $5,425, including the allowance. In addition, 95 percent of the buyers there had assets of $500 or less; over half had no earned income and relied instead on government transfer payments; and two-thirds were single women with children, whose income came largely from Aid to Families with Dependent Children. The low median income in St. Joseph County

Table 2

SELECTED STATISTICS FOR HOME PURCHASERS

Item	Brown County	St. Joseph County
Median income ($/yr.):		
Before allowance	6,326	4,183
Including allowance	7,170	5,425
Percent with:		
Assets less than $500[a]	81	95
No earned income	27	53
Percent single mothers	30	67

SOURCE: Tabulated by the authors from HAO records through June 1978.

NOTE: All households in this table enrolled as renters but bought homes before June 1978. Entries refer to clients' circumstances at time of purchase.

[a]Cash on hand, checking and savings accounts, stocks, bonds, and other securities.

accurately reflects the income distribution of buyers there. Table 3 indicates that although none of the St. Joseph County buyers had incomes exceeding $10,000 annually, 25 percent had annual incomes below $4,000, an amount too small to induce home loans from conventional lenders.

Brown County buyers generally seemed more qualified than St. Joseph County buyers because they had higher incomes, more assets, and less dependence on transfer income (see Tables 2 and 3). But this advantage was offset by two factors. First, those Brown County households with relatively high incomes (Table 3 shows 9 percent had incomes above $10,000) were also households with many members. This may not have affected lenders' evaluations, but it probably reduced the households' actual ability to make monthly mortgage payments. Second, the generally higher incomes in Brown County were paralleled by higher home values.* Even with allowances, Brown County buyers usually did not qualify for regular mortgages. In fact, using the ratio of the lowest quartile of home value to median income, Brown County buyers were at an equal disadvantage with their St. Joseph County counterparts.**

FINANCING OPTIONS

Buyers in the allowance program lacked income and savings that could be used for down payments. Though we have no direct data, we suppose that many had poor credit histories as well. Therefore, as we have stated, it was difficult for most of the buyers to obtain conventional mortgages. However, such mortgages were only one among a number of financing methods, each with its own lender requirements, each with its own costs and benefits.

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*See Table 1.

**Tables 1 and 2 show that ratios of the lowest quartile of home value to median income are almost identical: Brown County = 2.44 ($17,500 ÷ $7,170); St. Joseph County = 2.50 ($13,000 ÷ $5,425).

Table 3

INCOME OF HOME PURCHASERS

Annual Gross Income plus Allowance[a] ($)	Brown County (%)	St. Joseph County (%)
Less than $4,000	3.2	24.7
$4,000-$5,999	28.1	34.4
$6,000-$7,999	31.2	30.5
$8,000-$9,999	28.1	10.4
$10,000 and above	9.4	0.0
Total	100.0	100.0
Median income ($)	7,170	5,425
Number of purchasers	96	154

SOURCE: Tabulated by the authors from HAO records through June 1978.

NOTE: All households in this table enrolled as renters but bought homes before June 1978.

[a]At time of purchase.

Conventional mortgages were difficult but not impossible to obtain. A few buyers at the upper end of the income spectrum might get conventional mortgages on low-value homes. Others might meet conventional lender standards if friends and relatives could offer assistance in meeting the monthly payments, or if the buyer could find a lender less demanding than commercial banks or savings and loans. For instance, private investment firms, consisting of individuals who use their own money to buy and hold mortgages, sometimes made money available to less qualified borrowers, albeit at terms less favorable to the buyer. Such firms succeeded in St. Joseph County, where traditional lenders had minimum loan policies that effectively excluded mortgages on low-value properties.*

For buyers with good credit histories, another option was to seek government-backed mortgages insured by the FHA or guaranteed by the VA. The government-insured loans were not available in Brown

*The minimum loan amounts ranged from $10,000 to $15,000 among lenders.

County, where lenders objected to the red tape involved in securing them. But in St. Joseph County, less stable market conditions made government-backed mortgages attractive, and they were easily available from mortgage banks. Like private investment firms, mortgage banks did not generally adhere to the minimum loan policies of commercial banks and savings and loans.

Favorable FHA policies made these loans attractive to low-income households in general and allowance recipients in particular. Down payments and closing costs for FHA loans are extremely low (as little as $500). In addition, the FHA does not require that a borrower have earned income; thus, households whose income is composed entirely of transfer payments can qualify to buy homes. Finally, the FHA is especially generous in its treatment of allowance income. In judging an allowance recipient's ability to carry a loan, the FHA subtracts the allowance from the housing payment rather than adding it to the total income. For purposes of obtaining a mortgage loan, this makes the housing allowance worth about four times as much as an equal increment to income.*

In both sites, another alternative was to finance an inexpensive home through a consumer loan, usually made through consumer finance departments of banks, consumer finance companies, and credit unions. They carry higher interest rates and shorter terms than regular mortgages, but are more easily obtained. In St. Joseph County, low home values allowed single-family houses to be financed this way. In both counties, consumer loans could be used to purchase mobile homes.

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*For example, if a household makes $6,000 a year, a lender may calculate that the household can afford a fourth, or $1,500, for housing. If the household then qualifies for $800 a year in housing allowances, a lender might treat the payment as ordinary income and calculate that the household could afford an additional $200 for housing expenses. The FHA, on the other hand, would deduct the payment from the estimated housing expenses, then apply the fourth-of-income rule to nonallowance income. In the example given, the FHA would approve a loan if housing expenses were less than $1,500 + $800 ($2,300 annually).

Another option for the would-be buyer was to seek credit from a seller through a land contract, a form of credit the seller may provide when conventional mortgage funds are unavailable, or when his property's location or uncertain future makes it difficult to sell otherwise. A land contract differs from a mortgage in two important respects. First, with a land contract the seller retains title to the property until the entire purchase price is paid off. Retaining the title gives the seller greater security and surer recourse in the event of contract default by the buyer. Second, the land contract lacks the formality and sophistication of a conventional mortgage. A buyer and seller alone often can consummate a land contract, whereas a mortgage usually adds the involvement of a realtor, appraiser, title company, lender, mortgage insurer, and various regulatory bodies.

A land contract can offer several advantages to a prospective buyer. First, he can often buy without meeting conventional lender requirements. Sellers of land contracts often require little or no down payment and are less demanding than conventional lenders about a buyer's income and credit history. Second, a land contract can help a buyer obtain conventional financing and thus full title to his property. After a few years of payments to the seller, the buyer can establish a stable payment record and by doing so improve his creditworthiness and build up equity to cover conventional down payment and closing fees. Third, if a buyer's future income or housing requirements are uncertain, he risks less with a land contract than with a conventional mortgage. Defaults on land contracts seldom affect buyers' creditworthiness because few of the contracts are publicly recorded. Finally, when conventional lenders lack mortgage funds or when they are unwilling to lend on a particular property, the land contract offers a means of acquiring that property.

The informality of land contracts, however, can leave an unsophisticated buyer at the mercy of an unscrupulous or unsophisticated seller. Since land contract sales rarely involve formal appraisals, buyers must judge for themselves the fairness of asking prices. Also, contract terms may leave the buyer with an unreasonable or unmanageable debt, making default likely. Finally, since land contracts are seldom publicly recorded and since the laws of many states do not adequately deal with them,* buyers have little recourse in contract disputes. In fact, if a buyer defaults on a land contract, he may lose not only his home but any equity he has in it.

USING THE OPTIONS

Table 4 shows the frequency with which the various financing options were used in the two sites. Surprisingly, almost half of Brown County buyers and 13 percent of St. Joseph County buyers obtained mortgages without government insurance. In Brown County, those mortgages came primarily from commercial banks and savings and loans; in St. Joseph County, mainly from private investment firms. The means by which households qualified for the mortgages varied and will be discussed in the next section.

In lieu of conventional mortgages, 44 percent of St. Joseph County buyers used government-insured mortgages from mortgage banks; another 7 percent bought low-value homes with consumer loans. In Brown County, where low-value homes were generally unavailable, consumer loans allowed households to buy mobile homes as an escape from the high price of real estate. Finally, one-fourth to one-third of buyers in each site used land contracts.

The type of financing households choose influences the credit terms they will obtain. Table 5 shows the advantages and disadvantages of different financing methods. For example, conventional mortgages generally require a higher down payment (i.e., a lower loan-to-value ratio) than land contracts but have a longer term

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*States are only beginning to recognize the traditional pro-seller bias of land contracts. Recent corrective legislation and court interpretations in various states are surveyed in Grant S. Nelson and Dale A. Whitman, "The Installment Land Contract--A National Viewpoint," *Brigham Young University Law Review*, No. 3, 1977, pp. 541-576.

Table 4

HOME PURCHASES BY TYPE OF FINANCING

Type of Financing	Brown County (%)	St. Joseph County (%)
Mortgage:		
Conventional[a]	48.9	13.2
Government-insured[b]	3.2	44.4
Consumer loan:[c]		
Low-value house	2.1	6.6
Mobile home	19.2	4.0
Land contract	26.6	31.8
Total	100.0	100.0
Number of purchases[d]	94	151

SOURCE: Tabulated by the authors from HAO records through June 1978 and from public records in each site.

[a]Composed mainly of mortgages from commercial banks and savings and loan associations. Other mortgages came from investment companies or credit unions. A few came from the previous owner of the property or from friends or relatives of the purchaser.

[b]Nearly all loans are FHA-insured; the remainder are VA-guaranteed.

[c]Loans came from consumer loan departments of commercial banks and consumer finance companies. For mobile homes, loans did not cover any real estate; purchasers rent sites on which to live.

[d]For 3 purchases of regular properties, no source of financing exists because they were bought outright; for 2 others, the source of financing is unknown. All 5 purchases are excluded here.

Table 5

CREDIT TERMS BY TYPE OF FINANCING

Type of Financing	Median Property Value ($)		Median Loan/Value Ratio (%)		Median Interest Rate (%)		Median Term of Loan (Years)	
	Brown County	St. Joseph County	Brown County	St. Joseph County	Brown County	St. Joseph County	Brown County	St. Joseph County
Conventional mortgage	19,042	15,762	88	90	8.8	9.0	25	10
Government-insured mortgage	13,900[a]	11,088	49[a]	96	9.0[a]	(*b*)	30[a]	(*b*)
Consumer loan[c]	5,734	8,194	95	90	12.0	14.8	6	7
Land contract	17,500	10,016	96	95	9.0	8.9	3	9

SOURCE: Tabulated by the authors from HAO records through June 1978 and from public records in each site.

[a] Three cases only.

[b] Data not available.

[c] Includes loans for low-valued single-family homes and mobile homes.

and lower monthly payments. The usual terms describe a 90 percent mortgage at 9 percent interest over a 25-year term.* Government-insured mortgages, available primarily in St. Joseph County, have terms similar to those of conventional mortgages, with the important exception that down payments are lower. In St. Joseph County, the median loan-to-value ratio was 96 percent, implying only a 4 percent down payment.

Consumer loans provide financing for mobile homes and low-value houses, but with less favorable terms than mortgage loan financing. As Table 5 shows, amounts for consumer loans are substantially smaller than those for mortgages; the median amount in both counties is well under $10,000. On the other hand, interest rates for consumer loans are much higher than those for mortgages. The median rates were 12 and 14.8 percent in Brown and St. Joseph counties, respectively; the median terms were 6 and 7 years.

When compared with mortgage terms, the less favorable terms of consumer loans reflect the greater costs and risks lenders experience with such loans. Servicing costs for consumer loans and mortgages are roughly equal; but because consumer loans are for smaller amounts, they cost more to service in percentage terms. Therefore, a higher interest rate is charged on consumer loans to offset the relatively higher servicing costs. Historically, consumer loans pose greater risks and offer less security than mortgages because goods sold with consumer loans are nearly always less durable and have a shorter economic life than real estate and improvements. Thus, consumer loan terms are structured to reflect those characteristics.

Land contracts offer the same low down payments as government-insured mortgages but have more variable interest rates and shorter terms to maturity. Although the median interest rate for land contracts was nearly identical to that for conventional or government-insured mortgages, individual rates varied widely, sometimes reaching 12 percent. Loan terms were very short and often ended with a

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*The term of only 10 years in St. Joseph County reflects the policies of private investment firms there.

"balloon" (large lump-sum) payment. The shorter median term in Brown County (3 years) than in St. Joseph County (9 years) may reflect different uses of land contracts in the two sites. The shorter term contracts in Brown County suggest that they are used for interim financing, whereas the longer term St. Joseph County land contracts are probably used to dispose of otherwise unsalable properties.

Some of the variation in financing methods is related to different household characteristics. Table 6 shows the range of median incomes and other characteristics across different types of financing. In Brown County, those who bought homes by means of conventional financing had higher incomes and more assets than other groups. They were less likely to live entirely off transfer payments or to be single mothers than were those who bought with consumer loans or land contracts. In St. Joseph County, the substitution of conventional mortgages with government-insured mortgages as the major financing method made the situation somewhat different. Those who bought with government-insured mortgages did have substantially higher incomes than those who bought with consumer loans or land contracts, but in other ways the groups were similar. All three groups had very few assets, a high dependence on transfer income, and a high proportion of single mothers. This uniformity stems from the FHA's low down payment requirement and its policy on transfer income.

Other characteristics of home purchasers require further examination. This is particularly true of the high value-to-income ratios for conventional purchasers in both sites. The medians of 2.5 in Brown County and 3.6 in St. Joseph County are higher than the lenders say they will allow. The next section attempts to explain this apparent leniency.

SUPPLEMENTAL STRATEGIES

Neither household characteristics nor credit terms explain the value-to-income ratios of 2.5 and 3.6, well above lender guidelines, shown in Table 5 for households with regular mortgages. One partial explanation in St. Joseph County is that a number of mortgages were

Table 6

SELECTED CHARACTERISTICS OF HOME PURCHASERS BY TYPE OF FINANCING

Type of Financing	Number of Cases	Median Market Value of Property ($)	Median Income ($)	Median Value/ Income Ratio	Average Household Size	Assets Less than $500[a] (%)	No Earned Income (%)	Single Women with Children (%)
Brown County								
Conventional mortgage	45	19,042	7,831	2.5	3.6	66.7	20.0	15.6
Government-insured mortgage	3	13,900	7,865	2.0	4.0	100.0	33.3	33.3
Consumer loan[b]	20	5,734	6,024	.9	2.5	80.0	30.0	45.0
Land contract	26	17,500	7,066	2.3	4.4	69.2	34.6	38.5
St. Joseph County								
Conventional mortgage	20	15,762	4,842	3.6	3.2	90.0	65.0	65.0
Government-insured mortgage	67	11,088	6,186	2.1	3.8	94.0	49.3	65.7
Consumer loan[b]	16	8,194	5,079	1.3	1.9	100.0	43.8	75.0
Land contract	48	10,016	4,842	2.0	4.2	97.9	54.2	64.6

SOURCE: Tabulated by the authors from HAO records through June 1978 and from public records in each site.

NOTE: All households in this table enrolled as renters but bought homes before June 1978. Entries refer to clients' circumstances at time of purchase.

[a]Cash on hand, checking and savings account balances, stocks, bonds, and other securities.

[b]Loans for both low-valued single-family homes and mobile homes.

obtained from private investment firms, which do not use the usual lending criteria; but an investigation of the purchases reveals that a variety of unusual strategies were used to obtain financing. Our data on these supplemental strategies are sketchy, reflecting the limits of public records and HAO files; but they are representative of buyers' resourcefulness and imagination.

Some buyers completely circumvented loan qualification barriers. In four cases, two in each site, it appears that households received the entire purchase price of their homes as gifts from friends or relatives. In two of the cases, children bought homes for their parents.

Another method used to overcome purchase barriers was sharing with another household. In Brown County, four households bought duplexes jointly with a second household; another shared a single-family home with a co-buyer. In St. Joseph County, thirteen purchasers officially shared the ownership of their home with an outside party. In another case, it appears a relative shared the ownership in a land contract deal, but perhaps only informally. Unlike the Brown County cases, those in St. Joseph County who shared titles with the enrolled purchasers did not appear to live on the property. Presumably, they were close friends or relatives of the buyers.

Some buyers helped pay for their homes by purchasing income-producing properties. Eleven households in Brown County bought homes with rental or commercial units on the property. Most bought homes with units to rent, a few bought farms, and at least one ran a business at his place of residence. In one unusual case, a homebuilder evidently saved rent by living in homes he built while he tried to sell them. That combination of home and business enabled the home-builder to make those properties help pay for themselves.

At both sites, buyers found unusual bargains in the housing market. A few clients bought homes for less than their market value. For example, two households bought homes from churches at what appear to be considerable discounts. Good shoppers succeeded in finding homes that met allowance program standards, yet sold for less than 95 percent of all homes in the county. In Brown County, 8 households bought decent, safe, and sanitary homes for less than $11,000; in St. Joseph County, 22 households bought such homes for less than $7,000. Nine buyers (8 in Brown County) obtained reduced interest rate loans by financing directly through the VA; fourteen other buyers assumed existing mortgages with low interest rates.

Five of the bargains in St. Joseph County were made possible by a private, nonprofit organization called RENEW, which buys, rehabilitates, and then resells homes to low-income families. These homes are bargains because many of the repairs are completed by volunteer laborers and the savings are passed on to the purchasers.

A few low-income households in Brown County had sizable savings that they used for down payments. Three used their savings to pay between $5,000 and $7,500 of the purchase price; one made a down payment of $22,000. In each case the down payment exceeded 20 percent of the purchase price.

Purchasers lacking sufficient assets to cover the down payment and closing costs of a conventional first mortgage could overcome that hurdle by seeking a second loan or grant. Seven buyers in Brown County and 19 in St. Joseph County financed down payments of between $1,200 and $11,000. We do not always know where the buyer obtained the money, but the information we have suggests that friends, relatives, or previous owners account for at least half the loans, and institutions account for the remainder. Among the institutional lenders in Brown County is the State Department of Veteran Affairs, which granted three second mortgages. Another state agency made a $5,000 grant to one purchaser for a down payment, though how he qualified for the money is unclear.

About a third of the buyers raised down payments of $500 or more whose sources are unknown to us; they were probably gifts from friends, relatives, or governmental agencies. However, buyers may have obtained second loans or used assets they did not report to the HAO.

AFTER THE PURCHASE

The longterm financial "success" or satisfaction of low-income homebuyers is an important aspect of their purchases, but it cannot yet be measured accurately. We are limited to estimating the outcomes of the purchases in this study for two reasons. At the close of file in June 1978, many of the households had been homeowners for only a few months. In addition, insufficient public records with which to check land contracts and consumer loans make it difficult to trace households using those financing methods.

Of the 212 homebuyers for whom information was available, we found that 28 (11 percent of all buyers) had again changed place of residence by June 1978. Of those who moved, 16 (12 in Brown County) had held conventional mortgages, 4 had government-backed mortgages, and 8 were buying homes through land contracts. Eight of the movers are renting once again, and three have purchased other homes; the subsequent tenure of other movers is unknown. One encouraging note is that none of the buyers holding mortgages has suffered foreclosure.

CONCLUSIONS

It is clear from our observations that a few resourceful households can buy homes even with low incomes and few assets by using one or more of the following strategies to arrange financing:

- Getting help to qualify for conventional mortgages.
- Obtaining government-insured mortgages.
- Choosing low-value homes or mobile homes.
- Arranging land contracts with the seller.
- Sharing the cost with friends or relatives.

Government policies and programs play an important role in those purchases. The FHA's policies toward unearned income in general and allowance income in particular enabled a number of program enrollees in St. Joseph County to obtain mortgage credit. Other government transfer programs, such as Aid to Families with Dependent Children, are important sources of income for low-income buyers.

A governmental policy of encouraging low-income homebuying does not appear misplaced, though such a policy seems unlikely to induce a great deal of homebuying by low-income renters. There are many reasons that homeownership is not of universal interest. Those whose plans, family circumstances, or financial prospects are uncertain may prudently avoid longterm commitments in favor of month-to-month renting. Many allowance recipients fall in that category and choose to remain renters despite a wide array of government assistance programs for homebuyers (including extraordinary FHA treatment of allowance income). Among those who do choose to buy, there is no evidence of a high rate of foreclosure. Those facts imply that most of the buyers, despite their low incomes, accurately predicted their ability to bear the costs of homeownership.

FURTHER RESEARCH

A fuller understanding of how low-income renters buy homes depends on integrating our present findings into a larger framework. We have yet to examine the low-income owners who purchased other homes or the allowance recipients who owned homes when they entered the program but subsequently became renters. Examining the characteristics of those participants will help us gauge the homebuying potential of low-income renters and determine the extent that a housing allowance will affect their likelihood of purchase.

The conversion of homebuying potential into actual homebuying depends in large part on the policies of lending institutions. Those policies, which influence a prospective buyer's decision to purchase and his financing options, directly affect low-income homebuying. Therefore, the policies and practices of such institutions must also be more fully examined.

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