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HOUSING ASSISTANCE SUPPLY EXPERIMENT

A WORKING NOTE

This Note was prepared for the DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, under Contract No. H-1789. It is intended to facilitate communication of preliminary research results. Views or conclusions expressed herein may be tentative and do not represent the official opinion of the sponsoring agency.

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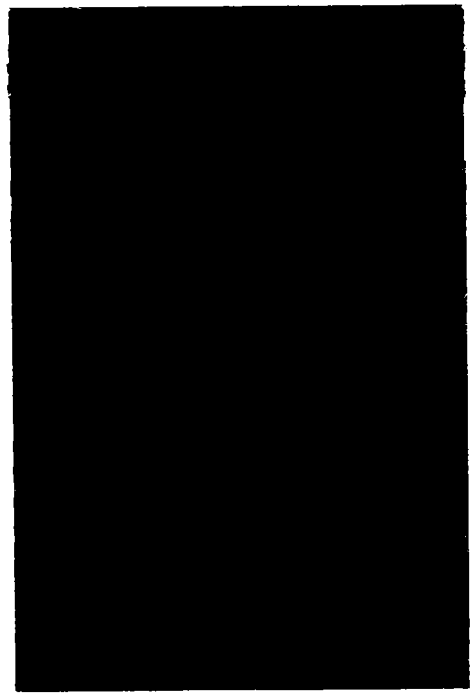

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MARKET INTERMEDIARIES AND INDIRECT SUPPLIERS: RECONNAISSANCE AND RESEARCH DESIGN FOR SITE II

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PREFACE

This working note was prepared for the Office of Research and Technology, U.S. Department of Housing and Urban Development. It reports on a baseline reconnaissance of certain housing-related industries in St. Joseph County, Indiana, Site II of the Housing Assistance Supply Experiment; and describes plans for gathering and analyzing data on these industries over the term of the experiment.

The reconnaissance entailed informal interviews with representatives of firms engaged in residential mortgage lending, real estate brokerage, home repair and remodeling, property insurance, and financing home improvements. Its purpose was to learn how each industry was organized in Site II and how its activities and policies were likely to impinge on the experimental housing allowance program under way there. Based on this reconnaissance, the authors specify key issues for long-term monitoring and analysis, and describe their plans.

The authors all participated in the interviews and in drafting this note. The draft was reviewed by Ira S. Lowry and retyped by Linda Ellsworth. Doris Dong prepared the graphics, and Teresa Barrett helped with statistical materials. Charlotte Cox edited the text and supervised production of final copy, which was typed by Joan Pederson.

This note was prepared pursuant to HUD Contract H-1789, Mod. No. 18, and fulfills Task 2.8.2. as specified in Sec. III of that contract.

SUMMARY

Between August 1974 and February 1975, the authors interviewed representatives of the thirteen largest mortgage lending institutions in St. Joseph County, four major realty companies, three home improvement firms, two consumer credit organizations, two property insurance companies, the FHA inspector for St. Joseph County, and several city agencies in South Bend. These interviews, combined with data from the U.S. Census of Housing for 1960 and 1970, provide the basis for the following observations about features of the county's housing market and of intermediary industries that are likely to affect the outcome of the Housing Assistance Supply Experiment there.

Two characteristics of the county's housing market that served as criteria for site selection and that underlie most of the local housing market conditions that are expected to influence the responses of market intermediaries to the allowance program are the diminishing total population and the large and growing black population of South Bend, the metropolitan central city.

Because of population losses, few houses have been built during the past decade. Many older homes are now vacant or have been abandoned or demolished; others have shifted from owner-occupancy to rental tenure. In 1970, the Bureau of the Census reported a rental vacancy rate of 8 percent. The slack market has held down home prices, so that there are several thousand houses in older neighborhoods that would sell for $10,000 or less, yet would meet the standards of the housing allowance program with at most minor repairs. Unlike the situation in Brown County, Wisconsin, the experiment's other site, home purchases by program participants in St. Joseph County seem feasible provided that mortgage lenders and mortgage insurers decide that these properties and their buyers are acceptable risks.

South Bend's black population grew by 37 percent between 1960 and 1970, accounting for 14 percent of the total at the end of the decade. There are few blacks outside the city, and within it they are heavily concentrated in several neighborhoods of mostly aging single-family houses. These neighborhoods are held in low regard by market intermediaries and by most housing consumers. They are avoided by mortgage lenders, and realtors apparently steer white clients away from them. However, there are few exclusively white neighborhoods in the city, and blacks seeking homes outside predominantly black areas apparently encounter only indirect obstacles.

The stagnation of South Bend's housing market is also reflected in poor maintenance of much of the housing stock. Consequently, it appears that more effort will be required here than in Brown County to qualify housing units for occupancy by program participants, and that the allowance program will thus create a proportionally greater market for the services of home repair and improvement contractors.

Support of the allowance program by mortgage lenders may well depend on policies of the Federal Housing Administration and the Veteran's Administration, who insure or guarantee private mortgage loans. Generally, these agencies are likely to consider program participants to be acceptable credit risks, but may not accept the available low-priced homes as adequate collateral, either because of their condition prior to sale or because of the neighborhoods in which they are located.

It is difficult yet to judge whether realtors' policies will powerfully or independently affect the rejuvenation of black and racially mixed neighborhoods that seems a possible outcome of the allowance program in South Bend. More likely, realtors' policies may be effective in retarding the spread of black program participants into predominantly white neighborhoods.

It appears very unlikely that the allowance program will strain the capacity of the home repair and improvement industry. However, previous local experience with publicly funded rehabilitation programs suggests that small firms entering the market under the stimulus of increased demand are less reliable in their performance and may do poor work.

Reconnaissance of the home insurance industry did not reveal any issues pertinent to the allowance program that seemed worth pursuing. Management and maintenance firms, important actors in big-city rental markets, are virtually nonexistent in St. Joseph County and are not expected to form in response to the program.

In addition to the reconnaissance of the housing market and the housing-related industries summarized above, this note describes the plan for future research on the role of market intermediaries and indirect suppliers of housing services in St. Joseph County. That plan includes a systematic agenda of informal local inquiries and the analysis of data obtained from the Housing Allowance Office and from HASE's annual surveys of landlords and homeowners. Annually, the research team will attempt to integrate qualitative and quantitative data into a coherent portrait of the changing market environment; of the perception of that environment by key actors in the indicated industries; and of changes in the policies of these industries that may affect the outcome of the experiment.

Special attention will be given to events in 15 contiguous neighborhoods that compose the deteriorated and marginal area of South Bend's housing market; and within these, to four neighborhoods predominantly inhabited by blacks, whose housing stock is the city's worst.

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I. INTRODUCTION

Owners of residential real estate rely to varying degrees on external resources to enable them to acquire properties and to produce and market housing services. Over time, they may turn to some or all of the following:

- Suppliers of short- and long-term credit.
- Property insurance companies.
- Real estate brokers and rental agents.
- Management and maintenance firms.
- Building contractors and tradesmen.

The availability, cost, and quality of the services provided by these market intermediaries and indirect suppliers influence the ability of the private market to deliver housing to low-income families. Their policies and practices directly shape the operating decisions of owners and often determine who the owners will be. One of the objectives of the Supply Experiment is to learn whether the stimulus of a housing allowance program will substantially alter the attitudes and policies of the suppliers of these services. It is equally important to learn how these attitudes and policies shape the results of the experiment.

Our *General Design Report*[*] discusses the questions we seek to answer concerning market intermediaries and indirect suppliers and how we plan to approach this part of our research. There, the discussion is at a general level, setting a framework for research in both of our experimental sites. Working within that framework, we have prepared a detailed research design for Site I: Brown County, Wisconsin, whose central city is Green Bay.[**] Here, we adapt the same general plan to the particular circumstances of Site II: St. Joseph County, Indiana, whose central city is South Bend.

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[*] Ira S. Lowry (ed.), *General Design Report: First Draft*, The Rand Corporation, WN-8198-HUD, May 1973, Sec. VII.

[**] William G. Grigsby, Michael Shanley, and Sammis B. White, *Market Intermediaries and Indirect Suppliers: Baseline Report and Prospectus for Site I*, The Rand Corporation, WN-8577-HUD, February 1974.

The adaptation reflects information gained from a reconnaissance of the Site II housing market and of the characteristics, activities, and policies of market intermediaries and indirect suppliers there. This reconnaissance, conducted over a period of five-and-a-half months in late 1974 and early 1975, has led us to conclude that some of the research questions posed both in the *General Design Report* and in the research design for Site I are inappropriate for extensive study in Site II, and that others should receive more emphasis. Furthermore, insights from our reconnaissance in Site II have led us to alter part of our proposed design for Site I, and preliminary data from Site I have caused us to reevaluate some of our plans for both sites.

Section II of this note describes our reconnaissance of the market and the major adjustments in research design that flow from it. Succeeding sections detail our initial findings and research plans with respect to the three classes of intermediaries and indirect suppliers that warrant continued attention: mortgage lenders, real estate brokers, and remodeling contractors and tradesmen.

II. RECONNAISSANCE

Between August 1974 and February 1975, we contacted a number of market intermediaries and indirect suppliers in St. Joseph County, including representatives of the thirteen largest mortgage lending institutions, four major realty companies, three home improvement firms, two consumer credit organizations, two property insurance companies, the FHA inspector for St. Joseph County, and several city agencies in South Bend. By talking informally with these intermediaries and suppliers, we sought to determine the size and nature of their own operations, their perceptions of the housing industry, their views of the county's housing market--particularly the low-income sector in South Bend--and their willingness to provide the information our study will need.

As in Site I, our reconnaissance of Site II leads us to the conclusion that two of our original categories of intermediaries and suppliers of services--management and maintenance firms and insurance companies--are not of interest to the experiment. There are only three firms in Site II that specialize in management. Collectively, they handle fewer than 500 units, and since they also have large holdings of their own and are engaged in real estate brokerage as well, they will be interviewed with respect to these other activities. Maintenance firms are almost nonexistent and property insurance is not a problem, being readily available at reasonable rates in all low-income neighborhoods, as long as the house meets city code standards.* We therefore propose to focus our study on the mortgage lending, real estate brokerage, and home improvement industries.

A second conclusion is that although the policies of market intermediaries in Site II are not as important to the outcome of the allowance program as they might be in larger and more impersonal housing

*Two points are worth noting. First, homes valued at less than $8,000 are charged slightly higher rates. Second, vacant dwelling units are covered for fire loss but not for loss due to vandalism, if they had been vacant 30 consecutive days prior to the loss.

markets, certain practices of intermediaries may shape experimental outcomes in significant ways; conversely, the allowance program may alter intermediary policies and practices. Specifically, we noted that some of the lenders are reluctant to write mortgages in certain neighborhoods whose housing is likely to appeal to allowance recipients; that some real estate brokers steer whites away from predominantly black areas and may steer blacks away from all-white neighborhoods; and that a part of the home improvement industry which is likely to be used by program participants has not done uniformly good work.

Finally, our inquiries revealed that two public intermediaries, the Federal Housing Administration (FHA) and the city of South Bend, will play key roles in the allowance-stimulated housing market. Policies of the FHA alone may virtually determine whether program participants can obtain mortgage financing for the purchase of homes on reasonable terms. The vigor of South Bend's enforcement of its fair housing ordinance will likely determine whether or not realtors continue to reinforce residential segregation by steering their clients to or away from particular neighborhoods.

Our general approach to the study of market intermediaries and indirect suppliers has not been changed materially by the Site II reconnaissance. As indicated in the *General Design Report* and in our report on Site I, we will not undertake rigorous statistical analysis, but rather will attempt to integrate disparate pieces of information into portraits of the changing market environment, which we will then relate to specific aspects of the Supply Experiment. Obtaining most of the necessary information should not be difficult; all persons with whom we talked seemed willing to cooperate further. Some of the data that we now see as useful, however, may prove unavailable or too expensive to gather. Still, we feel confident that enough information will be assembled to answer the important research questions. Most quantitative data will come from the surveys of landlords and homeowners that are being conducted annually on a sample of residential properties throughout St. Joseph County;* from an annual survey of lenders conducted

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*See Ira S. Lowry, *Monitoring the Experiment: An Update of Sec. IV of the General Design Report*, WN-9051-HUD, April 1975, for a current summary of the sample design and survey agenda.

by the authors of this note; from public and private records relating to property transfers and mortgages; and from records of the Housing Allowance Office (HAO) relating to the experiences of program participants in the housing market. Qualitative data, which will likely play a large role in the research, will come from further discussions with members of the intermediary industries, with local experts, and from site monitoring activities. A table matching information areas important in the study with the sources of information we plan to use appears in Appendix A to this note.

III. THE HOUSING MARKET OF ST. JOSEPH COUNTY

Market intermediaries and indirect suppliers in St. Joseph County appear to share most of the attitudes of their colleagues in Brown County. However, their policies are different in several key respects, mainly because their market environment is different. To help the reader understand why these intermediaries act as they do, it is therefore useful to describe some attributes of the local housing market that are especially relevant to our study and that have helped to shape the research design.

Two characteristics of Site II that served as criteria for site selection and that underlie most of the local housing market conditions which we expect will influence the behavior of market intermediaries in ways pertinent to the allowance program are the diminishing total population and the large and growing black population of the central city (see Table 1). Between 1960 and 1970, South Bend's population decreased by 5 percent. Out of 35 census tracts, 25 lost population and only 4 registered gains in excess of 10 percent. However, the black population grew by 37 percent, amounting to 14 percent of the city total at the end of the decade. The number of black residents increased in all but four census tracts, two of which were partially cleared for redevelopment. In 1970, over 70 percent of the city's 18,000 blacks lived in seven census tracts whose populations were more than one-third black (see Fig. 1). In four of these seven tracts, more than half the population was black. There was only one tract outside of South Bend with a significant black population.

One consequence of South Bend's population losses is that few houses have been built in the city during the past decade. Many older houses are now vacant or have been abandoned or demolished; others have shifted from owner-occupancy to rental tenure (see Fig. 2). In the core of the city, there are eight tracts that together lost over a thousand owner-occupied homes between 1960 and 1970. On the fringe of the city, there are seven tracts that gained nearly the same number, mostly by new construction. Overall, the number of owner-occupied homes in the city did not change significantly during the decade.

Table 1

CHANGES IN THE NUMBER OF INHABITANTS AND IN RACIAL COMPOSITION, BY CENSUS TRACT: SOUTH BEND, INDIANA, 1960 TO 1970

Census Tract[a]	Number of Inhabitants			Number of Black Inhabitants		Blacks as Percentage of Total, 1970
	1960	1970	Percentage Change	1960	1970	
1	2,952	3,032	2.8	--	129	4.2
2	4,789	4,955	3.5	147	693	14.0
3	4,025	5,160	28.2	--	70	1.4
4[b]	3,815	3,467	-9.1	26	243	7.0
5	3,052	2,721	-10.8	362	585	21.5
6[b]	4,737	4,236	-10.6	25	176	4.1
7	3,290	2,943	-10.5	5	58	2.0
8	2,394	2,285	-4.6	1	2	--
9	4,773	3,734	-21.8	577	855	22.9
10	4,812	4,642	-3.5	1,513	2,166	46.7
11	5,024	5,923	17.9	1	49	.8
12	3,021	2,889	-4.4	3	87	3.0
13	2,084	2,827	35.6	--	21	.7
14[b]	4,489	4,077	-9.2	--	7	.2
15	4,165	4,030	-3.2	1	8	.2
16	4,078	4,109	.8	9	4	.1
17	2,688	1,942	-27.8	257	774	39.9
18[c]	908	447	-50.8	34	74	16.6
19[b]	3,385	3,154	6.8	345	1,162	36.8
20[b]	3,844	3,092	-19.6	1,384	1,768	57.4
21[b]	4,326	3,490	-19.3	2,538	2,526	72.4
22	4,197	3,458	-17.6	85	229	6.6
23[b,c]	3,524	1,905	-45.9	2,974	1,607	84.4
24	3,879	3,679	-5.2	--	631	17.2
25	1,923	2,438	26.8	--	93	3.8
26	3,980	4,352	9.3	1	154	3.5
27[c]	3,698	1,765	-52.2	978	242	13.7
28	2,427	2,049	-15.6	36	71	3.5
29	4,976	4,132	-17.0	1,144	2,320	56.2
30[b]	3,908	3,571	-8.6	16	337	9.4
31	4,961	4,461	-10.1	2	11	.2
32[b]	5,472	5,937	8.5	4	6	.1
33	3,967	3,622	-8.7	--	11	.3
34	4,636	3,669	-20.8	487	527	14.4
35	4,246	3,919	-7.7	--	1	--
TOTAL, CITY OF SOUTH BEND	132,445	125,580	-5.2	12,955	17,737	14.1

SOURCE: U.S. Census of Housing, *Census Tracts, 1960*, PHC(1)-146; *Census Tracts, 1970*, PHC(1)-200.

NOTE: Population counts for tracts whose boundaries changed were reconstructed from block statistics. Tract detail does not always add exactly to the total for the city of South Bend because of errors in reconciling 1960 and 1970 tract boundaries.

[a]Tract boundaries for 1960 are used, and only areas tracted in 1960 are shown in the table. See Fig. 1 for the location of each tract.

[b]Because 1960 and 1970 tract boundaries could not be exactly reconciled, or because of a few suppressed values, entries for 1970 were estimated; they may be off by as much as 5 percent.

[c]These tracts include areas that were cleared for redevelopment as part of urban renewal projects.

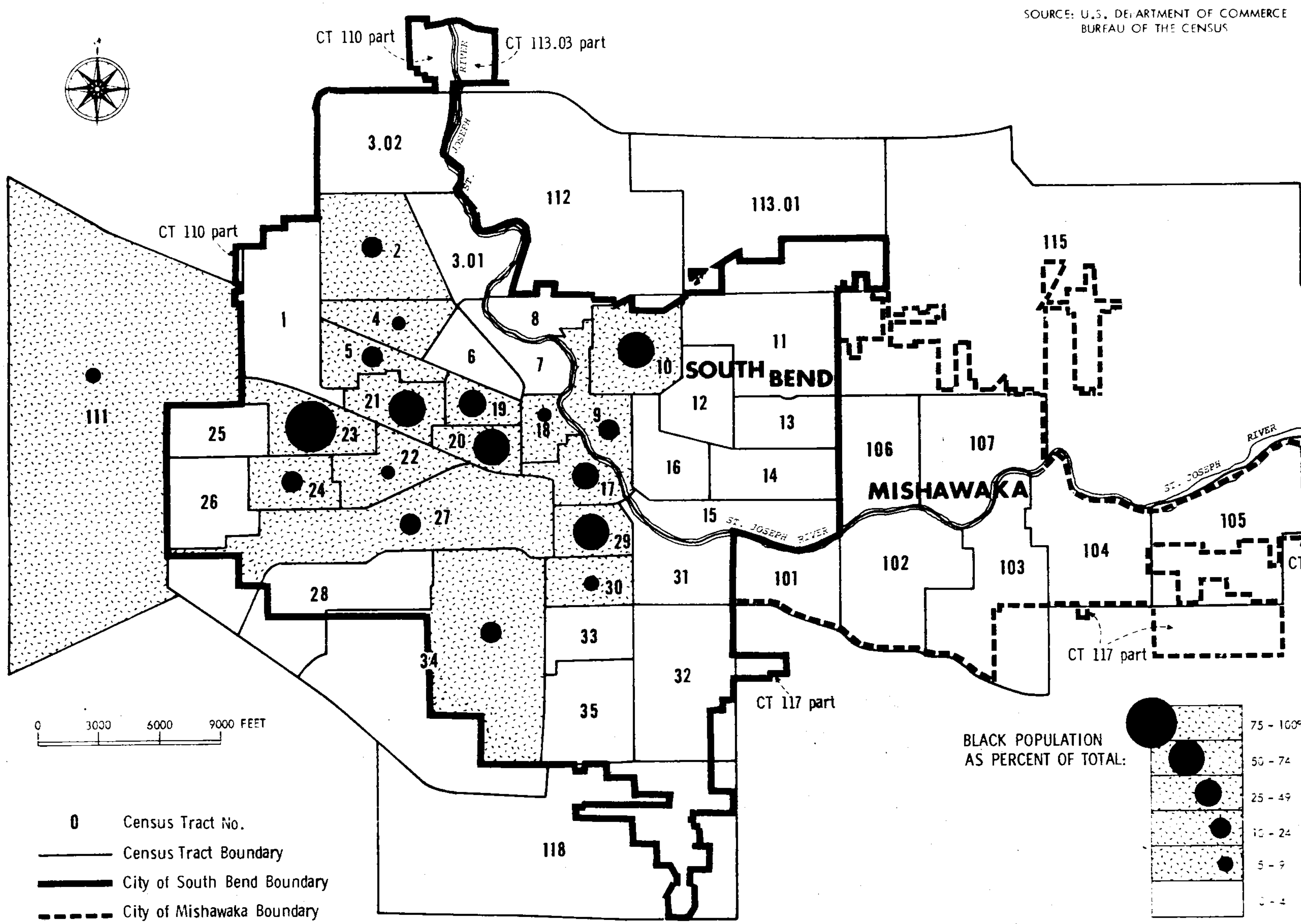
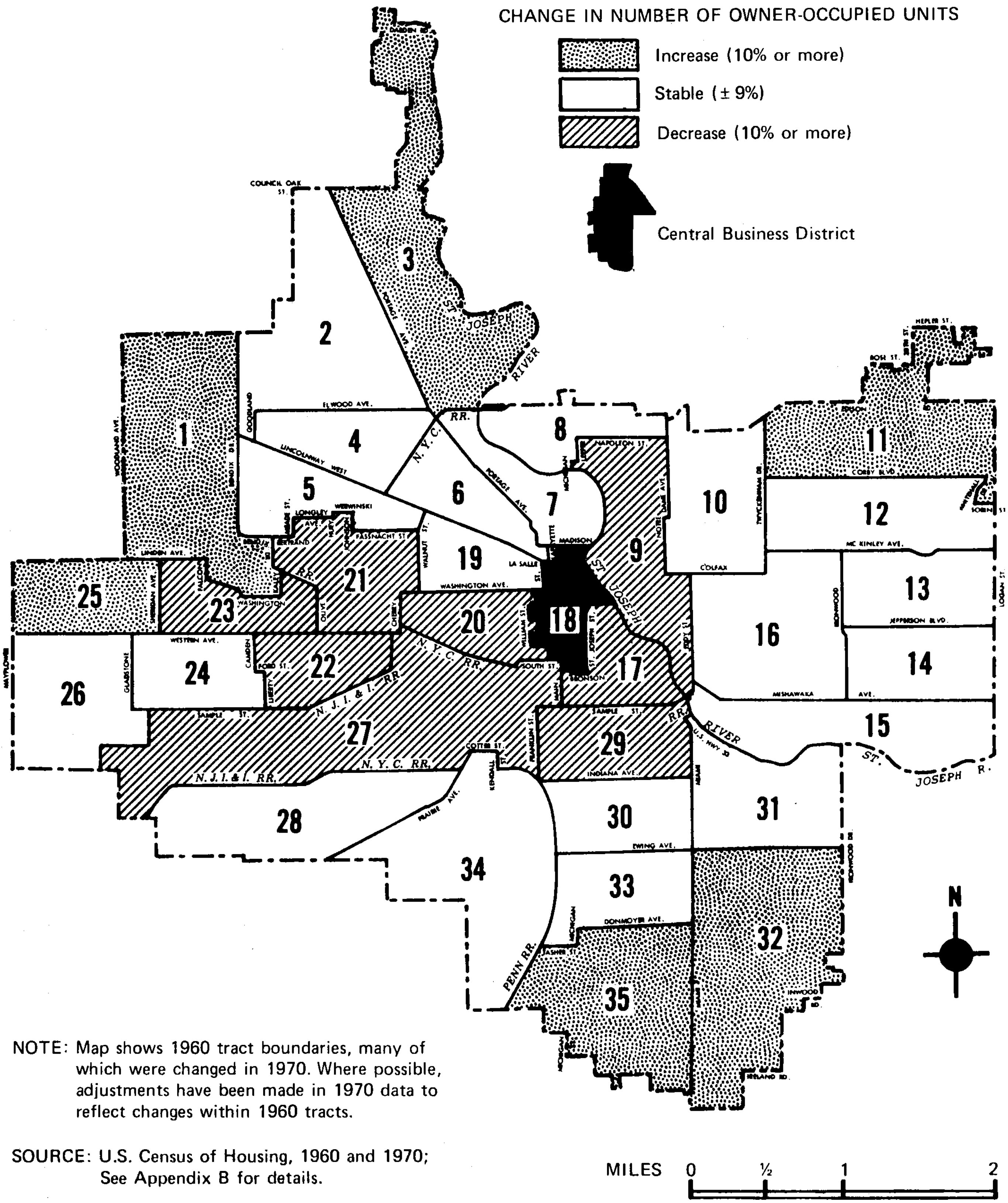


Fig. 1 – Census tracts in South Bend, Mishawaka, and adjacent areas, and distribution of black population in 1970



NOTE: Map shows 1960 tract boundaries, many of which were changed in 1970. Where possible, adjustments have been made in 1970 data to reflect changes within 1960 tracts.

SOURCE: U.S. Census of Housing, 1960 and 1970; See Appendix B for details.

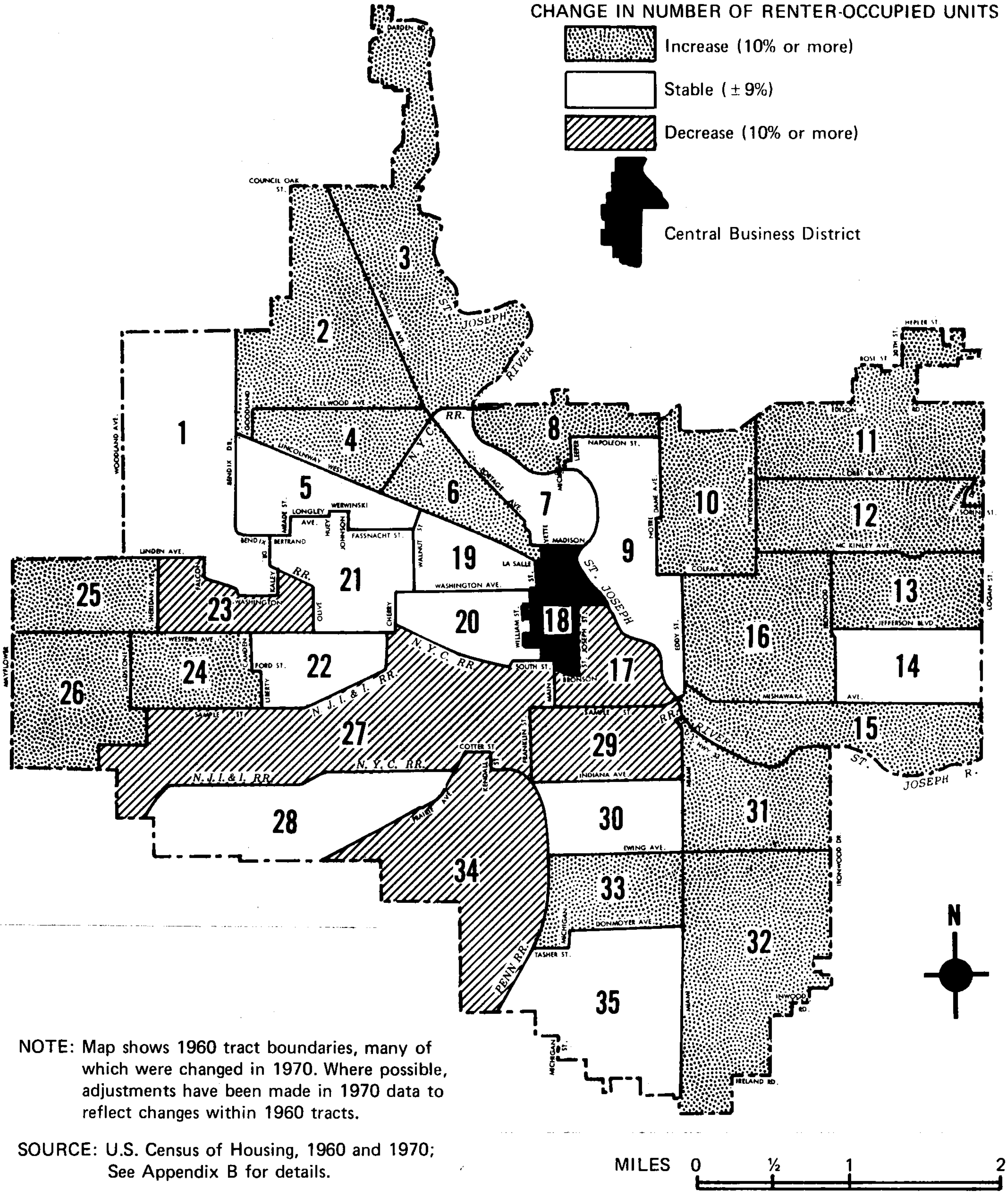
Fig. 2 — Change in the number of owner-occupied housing units, by census tract: South Bend, Indiana, 1960 to 1970

The market for rental housing was not much more vigorous in South Bend during the 1960s. Citywide, the number of occupied rental units increased by only 860 units and at the end of the decade, the rental vacancy rate was over 8 percent. Generally, the tracts in which the number of renter-occupied units increased by at least 10 percent either are the same as or adjoin those whose owner-occupied stock also increased significantly (see Fig. 3). Four tracts southeast of the central business district lost 10 percent or more of their renter-occupied units; all but one of these also lost 10 percent or more of their owner-occupied units.

The slack housing market in the central city has held down home prices there. Citywide, the median value of owner-occupied homes increased by only 12.5 percent between 1960 and 1970 despite demolition of some older homes and construction of some new ones. There are several thousand homes in the older areas of South Bend with market values of less than $10,000. Most of these units either would meet allowance program standards in their present condition or would require only minor repairs. Similar homes in Green Bay would easily sell for more than $15,000. Because of this large potential for home purchase by allowance recipients, the practices of mortgage lenders and real estate brokers may have a significant bearing on experimental outcomes, at least within South Bend itself.

Because of changes in census tract boundaries between 1960 and 1970, trends in housing values and rents in various parts of South Bend cannot be precisely determined. In 12 out of 20 tracts for which comparable data are available for owner-occupied homes, median values either decreased or increased by less than 5 percent during the decade (see Fig. 4). Values in the inner-city tracts to the west, northwest, and southeast of the central business district lagged farthest behind the slow citywide increase.

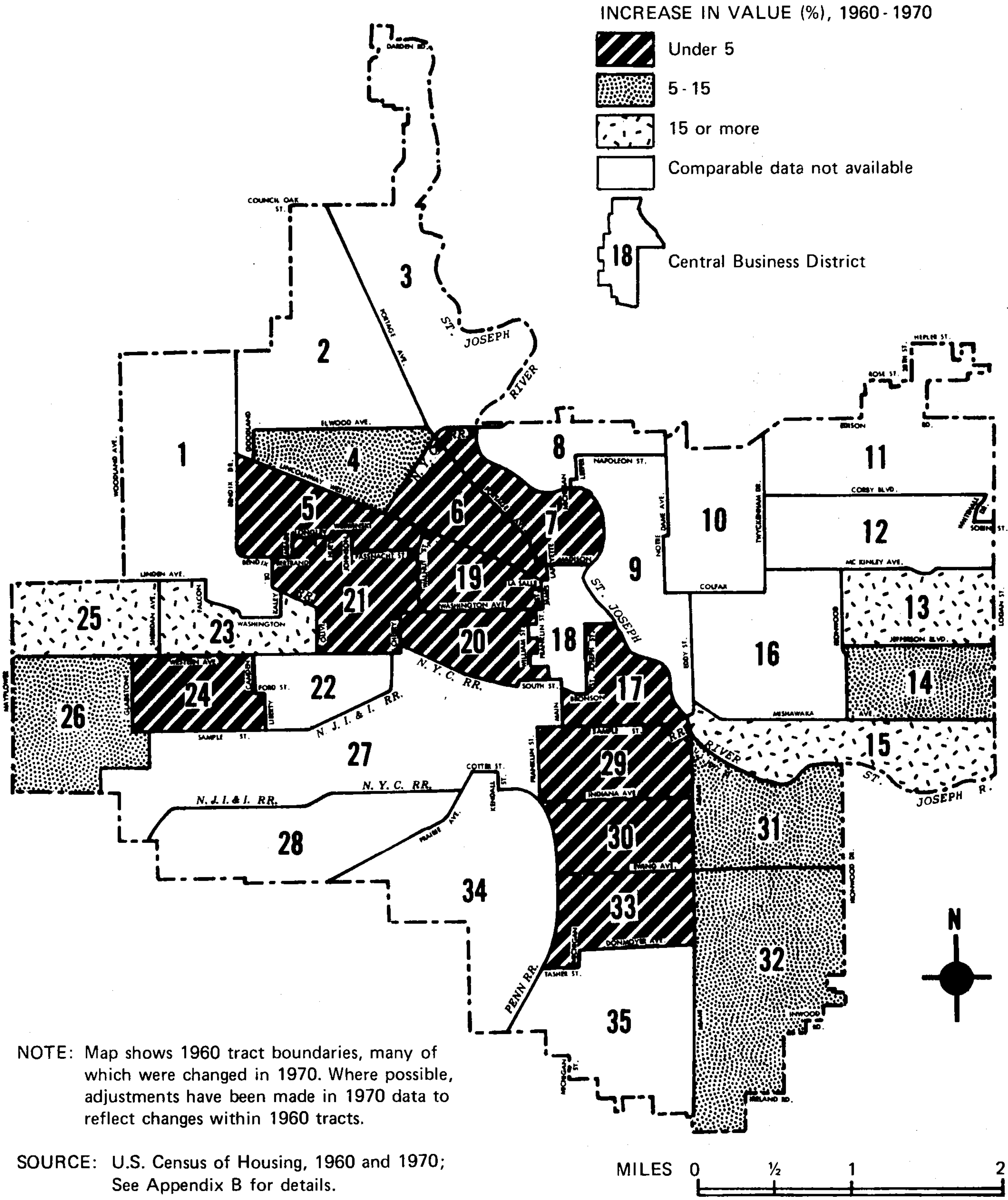
The relatively depressed state of parts of the central-city housing market, while creating a potential for homeownership among allowance recipients, may have had an adverse effect on housing quality. A housing inspector for South Bend estimates that about one-third of the residential structures in the city as a whole have other than minor code



NOTE: Map shows 1960 tract boundaries, many of which were changed in 1970. Where possible, adjustments have been made in 1970 data to reflect changes within 1960 tracts.

SOURCE: U.S. Census of Housing, 1960 and 1970; See Appendix B for details.

Fig. 3 — Change in the number of renter-occupied housing units, by census tract: South Bend, Indiana, 1960 to 1970



NOTE: Map shows 1960 tract boundaries, many of which were changed in 1970. Where possible, adjustments have been made in 1970 data to reflect changes within 1960 tracts.

SOURCE: U.S. Census of Housing, 1960 and 1970; See Appendix B for details.

Fig. 4 — Change in the median value of owner-occupied housing units, by census tract: South Bend, Indiana, 1960 to 1970

violations and that at least 10 percent have violations that would require more than $500 to repair. If the substandard stock is to be brought up to allowance program standards, both home improvement lending and speculative rehabilitation must be done on a larger scale than in Site I.

As suggested by the above discussion, in South Bend most low-income families, minority families, deteriorated dwelling units, and social problems are concentrated in a few neighborhoods. These neighborhoods are held in low regard by market intermediaries and by the bulk of housing consumers. Adjacent neighborhoods are now considered marginal, and opinions about their futures are not entirely optimistic.

While variations in neighborhood quality are clearly more important in South Bend than in Green Bay, they are not as important as in larger cities. South Bend has no areas as badly deteriorated as the worst slums of New York, Chicago, Philadelphia, or St. Louis, to name a few familiar places. Even in the worst area of South Bend, at least 20 percent of the stock is clearly in sound condition; and social problems such as crime, drug abuse, poor schools, and racial tension are less serious than in the worst areas of most larger cities. Moreover, South Bend's deteriorated neighborhoods are not so large that they create a self-contained residential environment, or dominate, for example, a whole school district. Quality of education differs by neighborhood, but there is enough mixture of student backgrounds in all schools to forestall the worst consequences of educational segregation.

Also, marginal neighborhoods in South Bend are small enough so that complete redevelopment of all such areas by public agencies is a possibility. In fact, large portions of the worst housing stock in South Bend have already been removed in the last ten years through urban renewal, city and federal rehabilitation projects, and the active demolition program run by the city. A $375,000 project funded out of revenue sharing funds and the contemplated use for housing improvement of a portion of the $3.6 million available to South Bend under the Housing and Community Development Act of 1974 promise to eliminate more of the substandard stock.

Nonetheless, the future of several South Bend neighborhoods looks bleak to local mortgage lenders. Some of the lenders are openly reluctant to make loans in these neighborhoods and others effectively exclude the areas by refusing loans on inexpensive properties. We found no evidence of such "redlining" in Green Bay.

A significant feature of the Site II market is the existence of number of mortgage banks which deal regularly in FHA and Veterans Administration (VA) mortgages. (In Site I, there was only one small mortgage bank, and other lending institutions there were reluctant to deal in FHA or VA mortgages.) These mortgage lenders have a substantial share of the residential mortgage market. Since the FHA and VA will insure or guarantee both smaller and riskier loans than most conventional lenders are willing to handle, they may become key actors in the experiment. We think that FHA policies and regulations will, at least at the beginning of the allowance program, govern the availability of mortgage financing to allowance recipients who seek to purchase homes.

Finally, it is important that South Bend's black population, though now concentrated in predominantly black neighborhoods, is not rigidly confined to them. Most census tracts in the city have at least a few black residents, and blacks as well as whites have told us that black families are able to move into white neighborhoods without encountering serious resistance. By way of confirmation, we note that 10 of the 20 census tracts that were virtually all-white in 1960 had 50 or more black residents in 1970 (see Table 1).

Although the market may be open, anecdotal evidence indicates that many problems affecting the housing market are connected with race. It is common, for instance, for a realtor to receive complaints from residents in an all-white neighborhood about the sale of a home there to a black family. Negative reactions are most frequent in low-income neighborhoods where the entry of a few black families is thought by some to signal the beginning of a decline in property values and a gradual transition to a predominantly black neighborhood.

The role of market intermediaries in these trends is not yet clear to us. We have solid evidence that more than a few real estate brokers steer whites to white areas and away from neighborhoods with more than a token number of black residents. We could not determine whether they also steer blacks, but a testing program recently undertaken by South Bend should provide this information. Steering whites may not much alter residential patterns, because most white homebuyers probably would steer themselves, whatever their realtor's policy. But steering blacks could have a significant impact, because only a few purchases by blacks in previously all-white areas would integrate the entire city in at least a token sense. Since more than a few blacks who enroll in the allowance program will likely try to purchase homes, the practice of steering will be of more than tangential interest to the experiment.

We found no evidence of racial discrimination by lenders toward individual borrowers. It is possible, however, that mortgage and home improvement lenders may view the introduction of black families into some areas as a signal of neighborhood decline and alter their policies accordingly.

IV. FINANCIAL INTERMEDIARIES

It is often alleged that financial institutions are unnecessarily reluctant to provide loans to low-income families for property transfers and improvements. Lenders may reject the families themselves, the property that is offered as collateral, the neighborhood in which the property is located, or all three. It may be that the housing allowance program will reduce the perceived riskiness of such loans, causing mortgage capital to be channeled to neighborhoods, types of housing, or classes of borrowers that formerly were shunned. For this reason, we plan to monitor the residential mortgage market throughout the course of the Supply Experiment by means of (a) the annual surveys of landlords, homeowners, and lenders, (b) other interviews with lenders, (c) public and private records, and (d) records of the Housing Allowance Office. Originally, the study of financial intermediaries was to focus on five questions:

1. Do institutional lenders discriminate against any areas of St. Joseph County (a) by not making loans in these areas at all, (b) by making loans only to preferred borrowers, or (c) by making loans only on more conservative terms than they grant elsewhere? To what extent does such discrimination prevent allowance participants from purchasing homes?*
2. Do the criteria lenders use to screen properties tend to exclude loans on homes that allowance recipients could afford to purchase?
3. Do the criteria used by lenders to screen potential borrowers tend to exclude allowance recipients from the homeownership market?
4. Do the policies of lenders change significantly as a result of the experiment? Equally, how do these policies and their changes affect experimental outcomes?

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*The term *discrimination* is not used here pejoratively. We do not have any evidence that lenders in South Bend misperceive risks.

5. Do changes in the mortgage market or in regulations governing lending institutions alter lending policies so as to affect experimental outcomes?

To verify the appropriateness of these research questions in Site II and to determine the feasibility of answering them, we talked with representatives of the thirteen largest mortgage lending institutions in South Bend,* the managers of a commercial credit company and of a consumer credit department of a bank, and a person familiar with local FHA policies. The results of these discussions are summarized below. First, we describe the mortgage lending industry in St. Joseph County; next, we discuss current lending policies; finally, we present our plan for analyzing trends in these policies and in the mortgage market generally.

THE RESIDENTIAL MORTGAGE MARKET IN ST. JOSEPH COUNTY

Although the residential mortgage market in Site II has many features in common with its Site I counterpart, there are also some important differences between the sites. One that was described earlier is the practice of redlining, which is common in Site II but absent in Site I. Another is the major role of mortgage banks and FHA insurance in Site II's mortgage market, contrasting with the dominance of conventional lenders (i.e., commercial banks and savings and loan associations) in Site I. As shown in Table 2, mortgage banks are responsible for nearly half of all mortgage lending activity in Site II, whether measured by the number of loans in effect or by the unamortized balance of these loans. They far outstrip savings and loan associations (which dominate mortgage lending nationally) and commercial banks.

A third difference from Site I is the slightly more cautious outlook of several of the conventional lenders in Site II. As an example, during recent months when loanable funds were scarce, many lenders

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*Lending institutions that are active in Mishawaka will be interviewed if and when Mishawaka decides to participate in the allowance program.

Table 2

OUTSTANDING MORTGAGE LOANS ON SINGLE-FAMILY HOMES, BY TYPE OF LENDER: ST. JOSEPH COUNTY, INDIANA, JANUARY 1974

Type of Lender	Loans in Effect		Unamortized Balances		
	Number	Percent of Total	Amount ($000,000)	Percent of Total	Average per Loan ($000)
Mortgage banks	13,822	48	218.5	47	15.8
Savings and loan associations	9,458	33	125.7	27	13.3
Commercial banks	5,471	19	122.7	26	22.4
All major lenders	28,751	100	466.9	100	16.2

SOURCE: Survey of Lenders, Baseline, Site II; and informal discussions with respondents.

NOTE: The figures include loans that were originated by local lenders and sold to investors outside St. Joseph County, if the servicing is still performed by the originating institution. The figures do not include loans originated elsewhere and purchased by local institutions. Although the Survey of Lenders covers all major residential mortgage lenders in St. Joseph County, it does not include all lending institutions or noninstitutional lenders. Therefore, the data shown above are incomplete.

around the country have searched vigorously for new sources of funds, including those provided by the federally sponsored GNMA-FNMA tandem plan.* But all of the conventional lenders in South Bend have chosen to sit tight and wait out the market. One lender even felt it wiser to accept heavy withdrawals of deposits rather than raise interest rates on savings accounts.

A fourth difference from Site I is the potential importance of land-contract financing. Although the frequency with which such financing is used in Site II has decreased since 1970, a few of those

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*Under this plan, the Government National Mortgage Association (GNMA), agrees to buy at par mortgage loans made to homeowners by private lenders at below-market interest rates; GNMA in turn sells these loans at a discount to the Federal National Mortgage Association (FNMA). The loss is covered by federal contributions.

we interviewed thought that it was still an important source of residential capital in inner-city areas. As recently as the fall of 1974, one major realtor advertised the availability of land-contract financing for ordinary home purchases.

Other important characteristics of Site II's mortgage market are the origination of a few short-term first-mortgage loans at high interest rates by the installment loan departments of commercial banks and by consumer finance companies; the absence of the variable-interest-rate mortgage loans that are common in Site I; the absence of any special mortgage program for veterans; the seemingly large number of home improvement loans made in the area; and the absence of a significant amount of lending (only about 40 loans in all of St. Joseph County) by the Farm Home Administration.

CURRENT MORTGAGE LENDING POLICIES

Mortgage lenders vary mortgage terms according to neighborhood, type of property, and class of borrower. Their policies in this regard also vary over time depending on available funds, market opportunities, federal and state regulations, and the guiding principles of the lending institution. The primary focus of our monitoring of Site II lenders will be on their policies toward (a) housing in marginal neighborhoods, (b) older, inexpensive structures, and (c) allowance recipients. The monitoring strategy we propose will inform us about any changes in such policies, although accounting for these changes may be difficult.

Policies Toward Housing in Marginal Neighborhoods

As mentioned earlier, our reconnaissance revealed that there were parts of the city in which financial institutions are reluctant to make real estate loans and that there were other areas where they would make loans only on less favorable terms than elsewhere. As expected, the policies with respect to these areas are not clearly articulated, and the boundaries of the areas--the so-called red lines--are not precisely drawn. Often, areas are excluded only indirectly, for instance, by setting minimum loan levels above average home values in a neighborhood.

Typically, mortgage lenders retreat gradually from declining neighborhoods. When they first become doubtful about the future of an area, they may require slightly higher downpayments or shorter amortization periods; or they may simply suggest that their loan officers screen applications more carefully. Later, as their concern increases, they may cease lending to potential homeowners but continue providing funds to investors with good credit ratings. Still later, they may refuse to make new loans but will refinance existing loans that come due. Finally, they may refuse even to refinance, preferring instead to foreclose if the borrower cannot pay off the loan.

Moreover, lenders do not withdraw in unison. One lender told us that his institution retreats as soon as values appear to advance more gradually than for the market as a whole. Others continue making loans as long as their foreclosure experience is satisfactory. The FHA will typically insure loans in areas that conventional lenders avoid. Thus, both lending policy and the areas to which it applies are continually in flux; the shadings of policy cannot always be accurately described by lenders themselves, and they vary among lenders at any given time.

In St. Joseph County, we have not been spared the task of dealing with these ambiguities. Nonetheless, a reasonably clear picture of redlining practices did emerge from our discussions with lenders. Most of them will not make loans in the Southeast area (neighborhoods 400 and 410 in Fig. 5) and many would avoid much of the Model Cities area (neighborhoods 600 and 610 in Fig. 5).* The other shaded areas apparently are not redlined, but loan applications for properties there are probably treated less favorably than loan applications for similar properties elsewhere in the city.

Only in the Southeast and in a few smaller neighborhoods scattered in the older parts of South Bend does the condition of the housing stock and its environs seem to us to justify withdrawal of mortgage financing. These sections of the city have too many dilapidated and boarded-up structures and too many vacancies to qualify as safe areas for investment. In other redlined areas, the physical condition of the neighborhoods appears quite good, though there may be a concentration of poor

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*As defined by HASE staff for use in coding data from field surveys and HAO records.

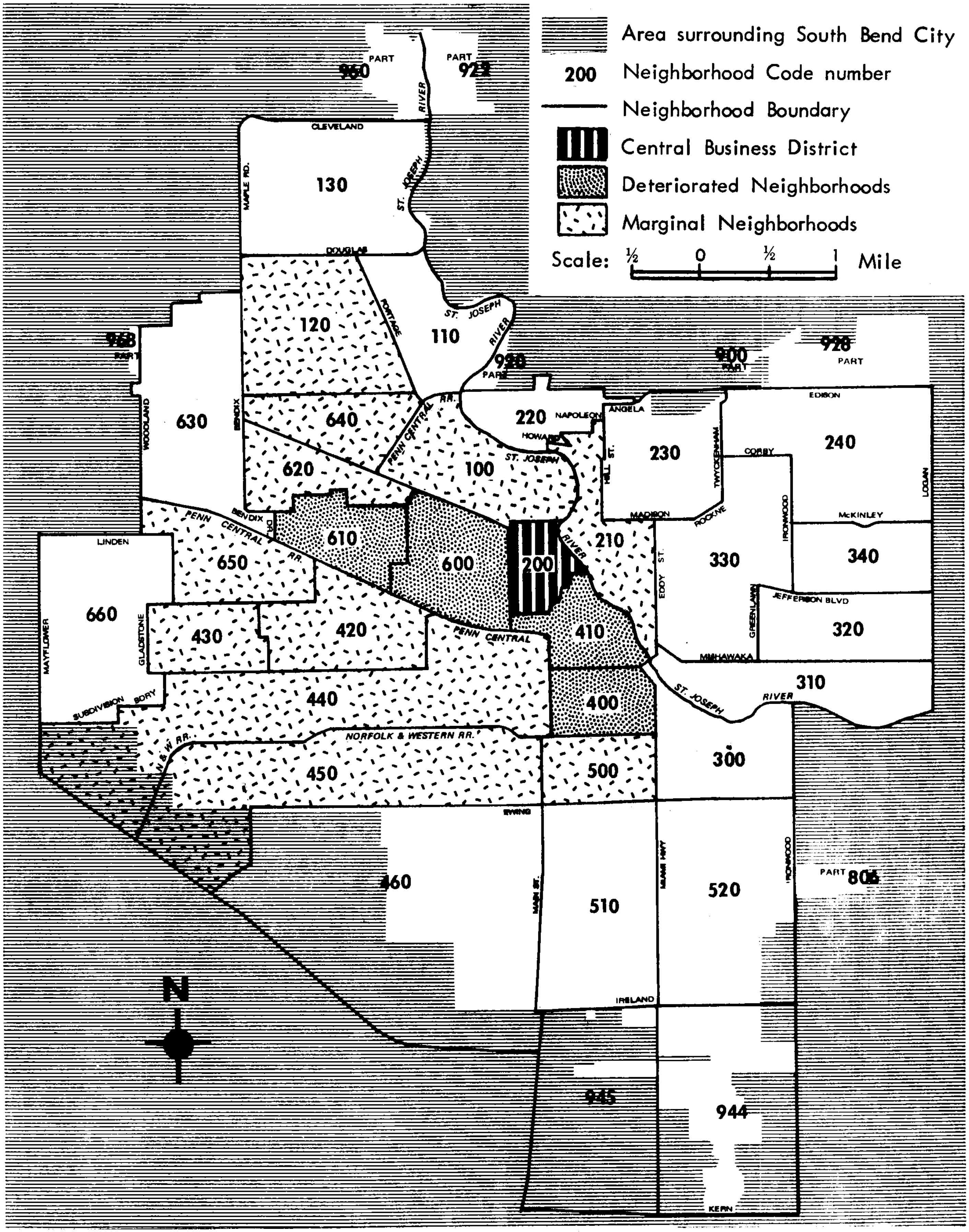

Fig. 5 — Deteriorated and marginal urban neighborhoods in South Bend, Indiana

families, high crime rates, or poor schools that influence the judgments of lenders about the future. Withdrawal of mortgage funds based on such perceptions may actually cause the decline in property values that the lenders anticipate. In any event, because of the abundant evidence of redlining currently, the geographical distribution of new mortgage loans should be closely monitored over the course of the experiment to see what changes occur in institutional policies respecting marginal neighborhoods.

Given the potential importance of FHA insurance to allowance-assisted home buyers, some discussion of FHA policies toward neighborhoods is appropriate. Since 1968, the FHA has been prohibited by law from redlining neighborhoods. However, on a case-by-case basis, it may refuse to insure loans for reasons related to the immediate neighborhood environs of a candidate property. An FHA loan-insurance application lists a number of such considerations, e.g., unsatisfactory market conditions; location subject to noxious odors, smoke, or noise; location on heavily traveled arterial street or adjacent to a railroad; area subject to periodic flooding; and "inspection reveals location is unacceptable." In South Bend, these policies are interpreted to exclude loan insurance on properties in the Southeast area (neighborhoods 400 and 410 in Fig. 5). Other unacceptable areas, usually no larger than a block or two, are scattered in some of the older sections of the city. It is unclear exactly how many housing units are within areas unacceptable to the FHA, but the number does not appear large enough to significantly affect experimental outcomes.

Policies Toward Older Properties

If lenders discriminate against older homes through conservative appraisals, short amortization periods, or expensive repair requirements, they may effectively remove these homes not only from the market of allowance-receiving homebuyers but also from the whole homeownership market. Our discussions with conventional lenders revealed no special aversion toward older properties, although residential structures must meet city code standards before loans will be granted.

Current minimum loan requirements, coupled with redlining, reduce the importance of policies of commercial banks and savings and loan associations toward older properties with obsolete equipment or that are in slightly run-down condition. Most such structures are either within redlined neighborhoods or are priced below the minimum loan levels of these institutions. The issue of whether a specific property constitutes adequate loan collateral arises, therefore, only in the case of FHA-insured loans made by mortgage banks. In such cases the quality standards are set by the FHA, not the mortgage banks.

The FHA now has rather stringent housing quality standards. For older homes in South Bend valued at between $6,000 and $12,000, insurance of a loan by the FHA is nearly always conditioned on numerous repairs being completed by the seller. In general, FHA standards are more stringent than those of the Housing Allowance Office, the differences reflecting different objectives. To protect the buyer, the FHA tries to ensure that a house will require no major repairs for three to five years after the sale. The seller is therefore required to correct any incipient problems. The HAO, on the other hand, requires correction only of conditions that are an immediate threat to the integrity of the building or to the health or safety of its occupants. While the HAO notifies the participant of incipient problems and suggests that repairs be undertaken, it will not fail a structure because it may later need repairs.

A comparison of the evaluation standards of the two agencies reveals the following list of FHA requirements that imply expensive repairs but are not HAO requirements:

- Wiring: Hundred-ampere service is required.
- Heating: Coal furnaces or coal furnaces converted to gas or oil are not acceptable.
- Roof: If less than three years of life remain, it must be replaced.
- Exterior Walls: If paint is peeling, the structure must be repainted.
- Insulation: Six-inch insulation is required in the attic.
- Water: Private wells or cisterns are unacceptable if municipal water service is available.

We judge that the wiring standard and the exterior painting requirements are those most likely to prevent FHA insurance of an HAO-approved residence.*

There are other differences between FHA and HAO standards that do not imply major repair costs but may complicate life for a home purchaser seeking to satisfy both agencies. For instance, the FHA requires that gutters and downspouts always be present and not rusty. On the other hand, the HAO requires some things the FHA does not, for instance, handrailings on all stairways.

Whatever the virtues of the FHA's housing standards, the important point is that the agency requires correction of property defects before title is passed. This may create an impossible situation for the seller by delaying transfer and by forcing him to make expensive repairs without assurance that a buyer will still be around when the work has been completed. Mortgage bankers in South Bend told us that current FHA requirements would prevent many homes priced at between $6,000 and $12,000 from being purchased by program participants. If the cost of required repairs was reflected in the purchase price, but some of the actual work could be done by the buyer after title passed, this difficulty would be ameliorated. Whether the FHA is likely to alter its repair requirements during the course of the experiment can only be guessed at this time. In the absence of a change in FHA policy, some of the homebuying potential of allowance recipients will not be realized.

Policies Toward Allowance Recipients

Judging from the homeownership preferences of low-income families who have been surveyed from time to time in other cities, a large proportion of allowance recipients who now rent would like to become homeowners. Depending on the kinds of counseling the program offers, many of these families may seek to buy homes with the aid of their housing allowances. As mentioned earlier, because house prices in parts of South Bend are so low, recipients should have no difficulty finding

*The HAO's current standards for exterior condition may soon be amended to strengthen their compliance with federal standards relating to lead-based paint hazards.

homes they can afford. It is therefore important whether local lending policies concerning borrower characteristics will thwart or facilitate such purchases and whether the experiences of lenders with participants will change their policies toward borrowers with low incomes.

If program participants who seek mortgage financing go through normal market channels, most of them will apply to a mortgage bank for an FHA-insured loan. The FHA will insure loans to borrowers who could not otherwise get mortgage credit, and will accept repayment terms that families of moderate means can afford.* The FHA is even willing to insure a loan to a family with a history of credit problems if the family has a good credit record for the recent past or if special circumstances (e.g., illness of the family wage-earner) could account for former financial difficulties.

We judge that the current policies of commercial banks and savings and loan associations toward housing in marginal neighborhoods and their minimum loan requirements will together preclude loans to most program participants, whatever their personal credit ratings. A few of the conventional lenders in South Bend indicated to us that they were willing to consider applications from program participants, but most of them said that even if the applicant's allowance-augmented income was sufficient to meet usual standards, few participants were likely to pass other tests of creditworthiness.

To be acceptable to a conventional lender, loans to such borrowers would have to be underwritten by a private mortgage insurance company; the conventional lenders do not seek FHA insurance because of accompanying red tape and restrictions on the terms of the loan. No one was able to tell us how private mortgage insurance companies will view an applicant's participation in the housing allowance program. One positive note, however, is that the customary term of private mortgage insurance is ten years, the same period as the term of the allowance program.

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*Downpayments required by the FHA can be as low as 3 percent and loans can run for as long as 30 years.

The housing allowance alters both the magnitude and continuity of recipient income. Lenders differed in their views of how these two changes would affect the ability of allowance recipients to repay mortgage loans. One thought the allowance comparable to a temporary income source; most considered it as good as income from a job; and a few viewed it as an addition to what a family could pay for housing, thus making it more valuable than income. We plan to monitor changes in these views over the course of the experiment.

HOME IMPROVEMENT LENDING POLICIES

In Site I, some program applicants have claimed they could not obtain the home improvement loans they needed to bring their homes up to HAO standards and thus qualify for allowance payments.* Neighborhood groups there have also alleged that such loans were hard for low-income homeowners, especially elderly persons, to obtain. Local lenders discount these claims.

Whatever the facts in Site I, we note that similar complaints are commonly voiced by neighborhood groups in the worst sections of South Bend. One lender there told us that program participants might well find financing for home improvements a problem because banks and other lenders would not regard enrollment in the program as a sufficient guarantee that the required work would be properly done and that the family would eventually receive allowance payments to help pay off the loan.

We think that the problems of obtaining home improvement loans have been greatly overstated. Most owner-occupied homes, even though owned by lower-income families, will require only minor repairs to meet HAO standards, and few owner-occupants will need loans to finance the necessary work. For those families that do require loans, the equities they have accumulated in their homes will ordinarily provide more than adequate security for a loan.

Nevertheless, a few of the participants who must make major improvements in their homes may encounter financial obstacles. Whether the

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*On the other hand, one enrollee in Green Bay is said to have used her enrollment papers to obtain ordinary consumer credit from a home improvement contractor.

housing allowance program can stimulate major as well as minor home improvements is an important research question, and the availability of financing may be the critical constraint. We do not yet have a full picture of the current policies of home improvement lenders toward properties in various neighborhoods, toward different types of property, or toward different classes of borrowers; nor do we know how lenders will view the allowance payment in assessing credit risks. We plan to make the necessary inquiries within the next few months.

MONITORING STRATEGY AND ANALYSIS PLAN

As background for analysis of more specific issues, we plan an annual survey of lenders that seeks information about their mortgage portfolios and current lending activity. The specific items of information to be collected in this survey are listed in Table 3; they are designed to enable us to track changes in the local supply of and demand for mortgage money and shifts in the institutional roles in the market. In addition to the quantitative data that we gather from each major lending institution, we plan periodic interviews with loan officers to probe for their views on market conditions, information on institutional policies, and attitudes toward the housing allowance program.

Given the findings reported earlier in this section, we plan special efforts to gather evidence on institutional policies relating to each of the three elements of mortgage risk: the neighborhood, the property, and the borrower. We also plan special attention to any problems that homeowners in the allowance program encounter when they seek home improvement loans. Our plans concerning these four topics are discussed below.

Analysis of Neighborhood Trends

A question of great importance is whether a program of housing allowances can revive declining neighborhoods. If by placing a floor under housing quality such a program can reverse the downward spiral of decay and abandonment and alter expectations about the future of old neighborhoods, it will change much of what we think we know about

Table 3

ANNUAL DATA ON MORTGAGE LENDING TO BE OBTAINED
FOR MAJOR INSTITUTIONAL LENDERS IN
ST. JOSEPH COUNTY, INDIANA, 1974-1979

1. Total assets.
2. Total number of residential mortgages outstanding, by type of property (number of units).
3. Dollar volume of residential mortgages outstanding, by type of property.
4. Number and dollar volume of residential mortgages outstanding, by type of mortgage (FHA, VA, conventional insured, conventional uninsured).
5. Number and dollar volume of residential second mortgages outstanding.
6. Number of mobile home loans outstanding.
7. Number of home improvement loans outstanding.
8. Total number of residential mortgages granted, by type of property.
9. Dollar volume of residential mortgages granted, by type of property.
10. Number and dollar volume of residential mortgages granted, by type of mortgage (FHA insured, VA guaranteed, conventional insured, conventional uninsured).
11. Number and dollar volume of residential second mortgages granted.
12. Number and dollar volume, average downpayment, and average amortization period of mobile home loans granted.
13. Number of mobile home loans contractually delinquent 60 days or more any time during the calendar year.
14. Number and dollar volume of home improvement loans granted.
15. Number and dollar volume of FHA-subsidized mortgage loans outstanding.
16. Number of mortgage loans granted to allowance recipients.
17. Number of residential mortgage foreclosures.
18. Percent of residential mortgage loans that are delinquent 60 days or more any time during the calendar year.
19. Dollar volume of funds borrowed for the purpose of making residential mortgage loans.
20. Number and dollar value of residential mortgage loans bought and sold.

Table 3 (continued)

21. Dollar volume of mortgage-backed securities bought.
22. Number and dollar value of permanent mortgage loans on new residential construction.
23. Number and dollar value of residential mortgage loans granted not in connection with a property transfer.
24. Percent of residential mortgage loans granted, by amount of downpayment (up to 10%, 11% to 30%, or greater than 30% of the sale price).
25. Average face value of single-family first mortgages granted.
26. Percent of total single-family first mortgage loans granted that had a face value of less than $12,000.
27. Prevailing interest rate on conventional residential mortgages granted in May.
28. Percent of residential mortgage loans granted that had an amortization period of less than 20 years.
29. Number of allowance recipients who applied for loans and were refused, 1974-1979.[a]
30. Policies of mortgage lenders toward program participants and landlords serving program participants.[b]
31. Views concerning market and neighborhood trends and their relation to the housing allowance program.[b]

SOURCE: Instrument for the Survey of Lenders, Baseline, Site II.

NOTE: Because institutional records vary in format and in the ease with which the indicated data items can be tabulated, we expect each respondent to estimate some of the items.

[a]Data may not be obtainable.

[b]Information to be obtained by informal discussions with officers of lending institutions.

housing market dynamics. Older areas will be viewed differently by lenders, brokers, investors, and consumers alike, with a potentially large number of favorable ramifications. Conversely, if the allowance program is only capable of improving housing conditions for its participants, its strategic role in a broad agenda of civic betterment will be limited.

Unlike Green Bay, South Bend has a large residential area that is now deteriorated and seems likely to get worse. This area includes 15 HASE neighborhoods (see Fig. 5) containing about 18,000 households. We propose a three-part monitoring program addressed to these neighborhoods.

For the area as a whole, we propose to compile data on the sources, amounts, and terms of mortgage financing from the annual HASE surveys of landlords and homeowners and to compare this information with the same data for the rest of the county. For most questions in the survey, this area will contain a large enough sample to permit reliable generalizations about the financing of its housing stock. The items of information that we propose to analyze are indicated in Table 4.

Within the 15-neighborhood area there are four neighborhoods that have been declining for some time, resisting all attempts at improvement. These are neighborhoods 400 and 410 in the Southeast area and 600 and 610 on the West Side, shown in Fig. 5. These areas collectively contain about 5,300 households. All are predominantly black and have a considerable amount of substandard housing as well as numerous boarded-up structures. They stand out among the 15 neighborhoods as areas worthy of special study and will be the object of the second part of our monitoring program.

Because of the small size of the survey sample in these four neighborhoods, little of the survey data described in Table 4 will be useful. However, trends in lending can be crudely measured from mortgage and deed recordings and possibly from property records kept by the Multiple Listing Service (MLS) of St. Joseph County. The data we hope to obtain are listed in Table 5. We estimate that the transcription of the mortgage recordings and other public records at baseline could be completed by a junior person in three man-weeks.

Table 4

ANNUAL DATA ON MORTGAGE LENDING TO BE OBTAINED FOR DETERIORATED AND MARGINAL AREA OF SOUTH BEND AND FOR ALL OF ST. JOSEPH COUNTY, INDIANA, 1974-1979

1. Number of residential mortgage loans and land contracts obtained, by type of lender (institutional, individual, government).
2. Distribution of interest rates on single-family home mortgage loans obtained by owner-occupants.
3. Distribution of loan-to-value ratios of single-family home mortgage loans obtained by owner-occupants.
4. Distribution of amortization periods of single-family home mortgage loans obtained by owner-occupants.
5. Distribution of interest rates on residential mortgage loans obtained by investors.
6. Distribution of loan-to-value ratios of residential mortgage loans obtained by investors.
7. Distribution of amortization periods of residential mortgage loans obtained by investors.
8. Distribution of single-family home mortgage loans obtained by owner-occupants, by amount of loan.
9. Number of residential mortgage loans and land contracts obtained, by type of borrower (homeowner, investor).
10. Number of first and second residential mortgage loans obtained, by interest rate.
11. Number of first and second residential mortgage loans obtained, by type of loan (FHA insured, VA guaranteed, conventional insured, conventional uninsured).
12. Number of residential mortgage loans obtained, by type of structure (one-family, two-family, apartment, mobile home).
13. Distribution of amortization periods of single-family home mortgage loans obtained by owner-occupants, by age of structure.
14. Distribution of loan-to-value ratios of single-family home mortgage loans obtained by owner-occupants, by age of structure.
15. Distribution of interest rates on single-family home mortgage loans obtained by owner-occupants, by age of structure.
16. Distribution of loan-to-value ratios of mortgage loans obtained by home purchasers, by owner's estimate of the value of the home.
17. Distribution of interest rates on mortgage loans obtained by home purchasers, by owner's estimates of the value of the home.

Table 4 (continued)

18. Distribution of amortization periods of mortgage loans obtained by home-purchasers, by owner's estimate of the value of the home.
19. Distribution of amortization periods of residential mortgage loans obtained by investors, by age of structure.
20. Distribution of loan-to-value ratios of residential mortgage loans obtained by investors, by age of structure.
21. Distribution of interest rates on residential mortgage loans obtained by investors, by age of structure.
22. Distribution of loan-to-value ratios of mortgage loans obtained by investors building or purchasing residential property, by investor's estimate of the value of the property.
23. Distribution of interest rates on mortgage loans obtained by investors building or purchasing residential property, by investor's estimate of the value of the property.
24. Number of mortgage loans on single-family owner-occupied homes in default at the end of each year.

SOURCE: Survey of Landlords, Baseline, Site II, Module F; Survey of Tenants and Homeowners, Baseline, Site II, Module C-2.

NOTE: Details of planned crosstabulations listed above may change; the list is for general guidance only.

Table 5

ANNUAL DATA ON MORTGAGE LENDING TO BE OBTAINED
FOR FOUR DETERIORATED NEIGHBORHOODS IN
SOUTH BEND, INDIANA, 1974-1979

1. Number of residential mortgage loans and land contracts recorded by type of lender (institutional, individual, government).[a]
2. Distribution of loan-to-value ratios of single-family home mortgage loans obtained, by type of borrower.[b]
3. Distribution of mortgage loans obtained by homeowners, by amount of loan.[b]
4. Distribution of prices of single-family homes transferred.[b]
5. Number of residential mortgage loans and land contracts recorded, by type of borrower (homeowner, investor).[a]
6. Number of mortgage loans obtained in connection with a property transfer, by type of loan (FHA insured, VA guaranteed, conventional, land contract).[b]
7. Number of mortgage loans obtained by program participants, by amount and type of loan.[c]

SOURCE: Public records of St. Joseph County, Multiple Listing Service for St. Joseph County, and records of the Housing Allowance Office.

NOTE: Details of the planned crosstabulations listed above may change; the list is for general guidance only.

[a]These data are available from public records.

[b]These data exist in the records of the Multiple Listing Service. Access to these records has not yet been secured and may not be obtainable.

[c]These data can be obtained from HAO records.

The third part of our monitoring program will give special attention to each of the 15 neighborhoods during the course of the experiment. Our primary source of data will be the annual interviews with landlords and homeowners, and the survey of neighborhoods. Neighborhood samples for the interview surveys are too small for statistical analysis but may give us useful clues as to neighborhood trends and problems. The survey of neighborhoods should provide useful data on neighborhood characteristics and amenities. Information on trends in property values by neighborhood may be obtained from the MLS; however, no request has yet been made to the MLS and in the past all such requests have been refused. Also, information obtained from interviews with lenders and real estate brokers concerning specific areas will supplement our examination of each of the 15 neighborhoods.

Analysis of Property-related Lending Standards

As we have already indicated, the key factor in setting property standards for mortgage loans in the older sections of Site II is the FHA. Consequently, we will try to determine annually the number of FHA loan-insurance applications that do not result in a sale because the seller chooses not to comply with FHA property standards. We propose to make our count of unconsummated sales from FHA records. Thus far cooperation has not been requested.

Unconsummated sales, unfortunately, greatly understate the effects of the FHA regulations, because as FHA policy becomes known to mortgage bankers and real estate brokers, they screen out some applications themselves. At the moment, however, we do not know how to obtain more complete estimates of unconsummated sales that are blocked by FHA requirements. Discussions with lenders and brokers may shed some light on the subject.

Analysis of Borrower-related Lending Standards

Those who are eligible for housing allowances are almost by definition marginal credit risks before they join the program. This is because their eligibility reflects low incomes relative to family responsibilities, and low-income borrowers frequently are unable to meet all their financial obligations on schedule. An important research question is whether, once they are receiving allowances, such households find it easier to obtain mortgage financing. Equally important is the question whether lenders will conclude that the allowance program provides a form of income insurance and be willing, therefore, to relax credit standards for nonparticipating homebuyers (who could enroll in the program in the event their incomes decreased).

In Site I, lenders so far have been skeptical about lending to allowance recipients who would not otherwise be acceptable risks. Almost unanimously, they say that a bad credit rating reflects personal attitudes more than personal situations. Not unless receipt of an allowance can be shown to have improved the recipient's sense of financial responsibility would a mortgage loan be considered for someone previously tagged as a poor risk. At the same time, though, the protective features of the allowance program have not been lost on them. During the current recession, several mortgagors who are in default have been sent by lenders to the Housing Allowance Office for assistance.

In both sites, we expect that lenders will gradually realize not only that allowance recipients as a class are better credit risks than many ordinary borrowers with similar nonallowance incomes, but also that the system of allowances, by supporting the market, protects the lender from defaults generally. Whether within the life of the experiment this realization will work its way back into loan criteria is another question. And whether there will be any way to determine with certainty that loan criteria have been changed is even more difficult to judge now. We do plan to use HAO records to keep count of participants who purchase homes and to discuss the question of loan criteria with lenders during our regular interviews, even if our questioning itself stimulates changes in institutional policy that might not otherwise occur for several more years. Additionally, we have given some thought to monitoring foreclosure rates at the two experimental sites and at several control sites simply to determine whether foreclosure rates do change perceptibly after the allowance program begins. The costs of such monitoring remain to be calculated.

One further item of importance relative to the policies of mortgage lenders toward recipients seeking to purchase homes has to do with the question whether the allowance is to be viewed as an addition to income or as a reduction in housing expense. The latter view obviously greatly increases the homebuying potential of recipients. The former view is currently more widespread among lenders, though it is at odds with the allowance concept. We expect lenders to adopt the correct position eventually, but wish to follow this shift and make sure that in fact it does take place.

Analysis of Standards for Home Improvement Loans

As mentioned previously, an important research question is the extent to which the lack of home improvement financing prevents program enrollees from rehabilitating their homes. The problem is most likely to be faced by elderly homeowners.

We cannot obtain an accurate assessment of the problem from an occasional highly publicized incident, which blows the issue out of proportion. Nor can we rely solely on lenders' records of turn-downs, since most turn-downs are probably not recorded and since a restrictive policy regarding home improvement loans would drive away potential applicants. We can determine from the records of the Housing Allowance Office the number and characteristics of recipient homeowners who did obtain home improvement loans. If we find a fair sprinkling of loans across age groups, we can reasonably infer that a problem does not exist. If we find either no loans or no loans to elderly enrollees, we will ask the Housing Allowance Office to interview a small sample of homeowners who enrolled in the program and then withdrew without receiving payments, to see whether inability to obtain a home improvement loan was the reason.

In addition to the above, we will periodically talk informally with home improvement lenders to discuss their general lending policies with regard to neighborhood, property, and borrowers and their experience with the allowance program.

V. REAL ESTATE BROKERS AND RENTAL AGENTS

A major benefit many persons hope will accrue from an allowance program is a substantial expansion of the geographic area within which low-income families, especially racial minorities, seek and find housing. It is the contention of these persons that the spatial concentration of the poor is a more serious social problem than the poor quality of their housing. While this view might be debated, housing allowances will nevertheless be judged in some quarters by their effects on the pattern of housing segregation.

It is vitally important, therefore, to learn how much the locational choices of various types of recipients are channeled or constrained by real estate brokers and the rental agents of landlords. To determine whether brokers and rental agents in Site II "manage" the flow of families into various parts of the market, and also how we might monitor these practices, we talked with several highly regarded South Bend realtors. We also solicited their views about conditions in the lower value and rent sectors of the market, a topic on which they are likely to be better informed than any of the other intermediaries covered by our study.

THE RESIDENTIAL BROKERAGE INDUSTRY IN SITE II

As in other communities, residential real estate in the South Bend area is sold primarily through brokers, most of whom are members of the local Board of Realtors and the Multiple Listing Service. According to our informants, the board's membership of about 71 firms accounts for 90 to 95 percent of all residential sales, and 90 percent of this business is transacted through only 15 offices.

Because there is a Multiple Listing Service in St. Joseph County, every member broker can in theory operate in the entire market. However, in the older neighborhoods, our informants estimate that no more than 50 percent of all properties sold are listed by the Multiple Listing Service.

Most realtors in the county earn most of their income from brokerage. However, a number of them also engage in various brokerage-related activities, including land development, new construction, investment in rental property, property appraisal, and property management. Not many of them manage property that they themselves do not own, except in special situations, e.g., where an agreement to manage may be necessary to consummate a sale. Although they occasionally act as rental agents for owners of multiple dwellings, most landlords in Site II perform this function themselves.

CURRENT POLICIES

Although a real estate broker can legally represent only one party in any given transaction, to be successful he or she must cater to the interests of many parties--buyers and sellers, mortgage lenders, fellow brokers, and the community at large. If the policies and preferences of any of these parties are regularly violated, the broker is soon isolated. Thus, for example, if racial discrimination is fairly common in a community, it will be reflected in the practices of individual brokers regardless of their personal views. Similarly, if a particular lender redlines certain neighborhoods, brokers will not attempt to finance sales in those neighborhoods through that institution. However, it is seldom clear whether brokers simply execute the policies of others or whether, by misconstruing those policies, they actually make policy themselves. Do brokers steer buyers away from marginal neighborhoods before lenders would? Do they try to preserve the racial homogeneity of a neighborhood when the issue is no longer important to its residents?

Under current laws, it would be dangerous for a broker to decline to show a property or refuse to complete a transaction because of the race of the buyer. However, subtler, though equally illegal, techniques may serve the same end. From conversations with both black and white brokers and recent home purchasers, we concluded that overt discrimination is rare but that brokers do steer homebuyers by race either toward or away from certain neighborhoods. From all accounts, it appears that whites are steered away from many racially mixed neighborhoods and that blacks may be steered toward black neighborhoods.

We expect these practices to decline gradually over the course of the experiment as neighborhoods become more integrated and as more pressure is put on realtors to comply with laws concerning steering; but until the practice disappears, the movements of both participants and nonparticipants in the allowance program will be at least marginally affected, as will the perceptions and behavior of mortgage lenders.

MONITORING STRATEGY AND ANALYSIS PLAN

With regard to steering, we plan to use two sources of information. First, we will periodically ask brokers for their readings on current steering practices. Second, we will have access to the findings of the city's current testing program in which blacks and whites visit brokers and landlords separately to see if they receive the same treatment. While we believe these two sources will be helpful, we do not believe that they alone will show whether the residential distributions of whites and blacks are significantly affected by brokers' practices.*

Originally, we had hoped to obtain from respondents to the second and subsequent tenant and homeowner surveys the names of any brokers with whom they had recently dealt and to interview the brokers who most often had contact with program participants about how they channel their clients to specific houses and neighborhoods. Second thoughts about the wisdom of asking respondents to give us the names of their brokers led us to abandon this plan, so we will use less systematic methods to determine which brokers are the most appropriate to interview. While our reconnaissance revealed that no large-volume firms specialize in the low-income market, For Sale signs in older neighborhoods will give us clues as to which firms are most active in the relevant sectors of the market.

In any case, we will continue to interview realtors about their contacts with allowance program participants, trends in the housing market, changes in the boundaries of redlined areas, the effects of

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*Whether and how those distributions are changing and what part program participants play in such changes is the subject of a separate HASE study of residential mobility and neighborhood change, based on annual household interviews and HAO records.

FHA mortgage insurance and property standards on housing transactions in older neighborhoods, speculative activity in the market for older homes, and other matters of interest to the experiment. Until the program is under way and its impact is felt in the real estate community, it is not possible to suggest the depth and direction of these interviews.

VI. BUILDING CONTRACTORS AND TRADESMEN

Since participants in the experimental allowance program will receive payments only if their housing meets specified standards of quality, one effect of the program will be to stimulate home repairs and improvements, at least temporarily. The success of the program will depend in part on how well the home repair and improvement industry responds to this new demand for its services.

In Site I, about half of all housing units occupied by program enrollees failed the HAO's initial evaluation. However, most of the deficiencies listed by the HAO have been inexpensive to remedy, and the allowance program has yet to strain the resources of the home repair and improvement industry in Site I.

We know from Site II's screening survey that its housing stock is in substantially worse condition than that of Site I; moreover, a more rapid pace of enrollment is planned in Site II. Consequently, the allowance program in Site II should generate a sharper increase in the demand for repairs than it has so far in Site I. Even so, our reconnaissance of contractors in St. Joseph County does not suggest that landlords or homeowners there will experience unusual difficulties in securing the materials or services they will need to improve their properties to program standards.

We do foresee two kinds of problems, probably not caused by the allowance program but possibly affecting its outcome. One is that costs for home repairs and improvements have been rising sharply even though the industry's resources are more than adequate to meet current demand. Another concerns the quality of workmanship and the reliability of performance. Therefore, our monitoring plan will pay close attention to these issues.

Our present understanding of the organization of the industry in St. Joseph County and of problems that may arise in connection with home repairs and improvements reflects interviews with officers of three remodeling firms, the rehabilitation section of the South Bend Redevelopment Authority, the city's Department of Substandard Buildings, and the housing evaluation section of the HAO.

INDUSTRY CHARACTERISTICS

In most communities, residential repairs and improvements are done by a variety of establishments and individuals, some of whom move in and out of the market as the demand for such services changes. The following are the most common elements of the industry:

- Firms that engage exclusively in remodeling work of all kinds.
- Construction firms that do some remodeling work, especially when other business is slow.
- Firms that specialize in a particular trade, such as plumbing, heating, roofing, or electrical, and who may work either directly for a property owner or on subcontract with a builder or a remodeling firm.
- Independent carpenters and other tradesmen who usually work directly for property owners. Some take on small repair or remodeling jobs as weekend supplements to regular employment; others are semiretired.
- Property owners who do some of their own repair work or have it done by full-time employees. The former are usually homeowners or landlords of a small number of rental properties; the latter typically own a large number of housing units.

With the information available at this time, it is impossible to estimate the relative importance of each of these five sectors of the industry. However, some general observations about the structure of the industry there can be made.

Relative to those in Site I, establishments active in home repair and improvement in Site II range more widely in size. One rehabilitation firm in South Bend, for instance, employs 30 full-time carpenters and usually has a hundred or more separate jobs in its pipeline. In contrast, the largest firm in Brown County never employed more than eight carpenters at any one time. Only in these larger firms are the employees organized.

At the other end of the scale, there are many one- or two-man firms actively seeking rehabilitation work. The formation of such small firms was partly stimulated by publicly funded rehabilitation programs; the smaller firms, because of their low overhead and greater flexibility, could usually underbid the larger ones. According to our informants, their performance has been uneven. Some have been poorly managed or have bid inexpertly and a few have been unethical in their practices or unskilled in their work. Moreover, during recent materials shortages, the small firms have been treated less well by their suppliers than the larger and older establishments.

PROBABLE SHORT-TERM RESPONSE OF THE INDUSTRY TO THE EXPERIMENTAL ALLOWANCE PROGRAM

From the standpoint of the Supply Experiment, the significant question about the residential repair and improvement industry is how well it will respond to the immediate demands placed upon it at the beginning of the experiment. Local opinions on this matter differ.

The problem most often mentioned by our informants is the likelihood that program participants or their landlords will be victimized by small firms that bid low but do poor work. Such firms are attractive to inexperienced homeowners and amateur landlords. We do not believe that poor workmanship will typify the performance of the industry in St. Joseph County, although a few bad examples may receive much publicity. In any case, the quality of the work done for program participants and their landlords seems to us to be the aspect of the rehabilitation industry that is most important for us to monitor.

Other potential problems in the rehabilitation industry were identified by those we interviewed. One person emphasized the rising costs of rehabilitation work, citing one job he had recently rebid whose estimated cost had increased by 25 percent in a single year. Another person mentioned that many contractors were reluctant to give firm bids for work on older homes. Another identified a potential shortage of electricians and yet another thought carpenters might be in short supply. Two others, however, thought there was a large surplus of workers with the requisite skills, even making liberal assumptions about the amount and pace of upgrading.

South Bend's experience with publicly funded housing rehabilitation programs offers some guidance, although there the contractors dealt with public agencies rather than private homeowners. Since 1972, there have been four such projects active in deteriorated neighborhoods of the city, each dealing with 50 to 200 housing units. Although these projects stimulated the formation of a number of smaller rehabilitation firms, these new firms performed unevenly, and most of them are no longer in business.

On the whole, we think that supply response problems for this industry in South Bend are unlikely to be severe, especially given the current low level of housing starts and the probability that structures needing major repairs will be slow in coming into the program. The most likely problem is a certain amount of poor workmanship rather than program-induced price increases.

MONITORING STRATEGY AND ANALYSIS PLAN

In view of our preliminary findings, it seems to us that monitoring the home repair and improvement industry would have the greatest value to the overall study if it focused on just three general questions, recognizing that the quality of workmanship appears at the outset to be the most important issue:

1. What is the structure of the industry in South Bend? What proportion of all work performed by the industry is accounted for by each of the five types of suppliers listed above?
2. What parts of the industry do owners of residential buildings use in upgrading their properties? How much work do they do themselves? To what extent do they use casual labor, moonlighters, and professional firms? The answers to these questions will be sought both for all owners of residential properties and for owners who respond to the allowance program.
3. What problems do owners encounter in dealing with the repair and improvement industry and what problems does the industry encounter in responding to increased demand resulting from

the allowance program? Do these problems arise randomly? Are they peculiar to South Bend, or are they common in other housing markets? And if no serious problems arise, why?

Answers to these questions will be sought from the surveys of landlords and homeowners, from periodic interviews with a sample of remodeling contractors, from the Housing Allowance Office, and from public records on building permits. The information we need from the baseline and subsequent surveys of landlords and homeowners is listed in Table 6. It should be noted, however, that neither the baseline survey in Site II nor the baseline or Wave 2 surveys in Site I ask respondents to identify the type of firm doing the work, time required to complete jobs, satisfaction with work done, or specific complaints about jobs. While such questions were proposed for these surveys, they were eliminated to reduce the length of the instruments. We therefore will make shift with less reliable methods.

We ourselves will informally interview a sample of contractors suggested to us by city officials, real estate brokers, and contractors. The information we plan to collect is indicated in Table 7. The entire inquiry will be repeated at the time of the third survey of landlords and homeowners but probably not thereafter, since we assume that pressures on the industry will subside after the allowance program has been phased in.

The housing evaluation section of the HAO can provide useful information, particularly with regard to experiences of allowance participants and landlords with the industry. First, since the HAO will have data on the types of repairs and improvements required of those who have enrolled in the program, we can estimate the extent to which each building trade is involved. Second, anecdotal reports from the housing evaluators will alert us to any problems program participants or landlords are having with the industry. This source of information will be extremely important to us in the early part of the allowance program before formal survey data are available.

Another possible source of information is building permits. Since building permits identify the name of the contractor, we can get some

Table 6

ANNUAL DATA ON RESIDENTIAL REPAIRS AND IMPROVEMENTS TO BE OBTAINED FROM SURVEYS OF LANDLORDS AND HOMEOWNERS: ST. JOSEPH COUNTY, INDIANA, 1974-1976

1. Dollar volume of residential repair and remodeling work, by type of property owner (e.g., homeowner, resident landlord, absentee landlord) and by type of trade (e.g., carpentry, electrical), 1974-1976.

2. Dollar volume of residential repair and remodeling work, by type of property owner (homeowner, resident landlord, absentee landlord) and by type of individual or firm doing the work (property owner, full- or part-time employee of property owner, full-time individual contractor, part-time individual contractor, remodeling firm, building contractor or subcontractor), 1974-1976.[a]

3. Dollar volume of residential repair and remodeling work, by type of trade and type of individual or firm doing the work, 1974-1976.[a]

4. Dollar volume of residential repair and remodeling work undertaken to qualify structures for participation in the housing allowance program, by type of property owner and by type of trade, 1975-1976.[b]

5. Time required to have residences repaired and improved, by type of trade and by type of property owner, for property owners who brought their structures into compliance with the requirements of the housing allowance program, 1975-1976.[b]

6. Time required to have residences repaired and improved, by type of trade and by dollar volume of work, for property owners who brought their structures into compliance with the requirements of the housing allowance program, 1975-1976.[b]

7. Degree of satisfaction with residential repair and remodeling work by type of property owner and by type of firm or individual doing the work, 1975-1976.[b]

8. Degree of satisfaction with residential repair and remodeling work, by type of property owner and by type of trade, 1975-1976.[b]

9. Specific complaints about quality of residential repair and remodeling work, by type of property owner and by type of individual or firm doing the work, 1975-1976.[b]

10. Specific complaints about the quality of residential repair and remodeling work, by type of property owner and by type of trade, 1975-1976.[b]

NOTES TO TABLE 6

SOURCE: Instruments for the Surveys of Landlords and Homeowners, Baseline, Site II, and specifications by the authors.

NOTE: Only the first tabulation listed can be completed from data in the baseline survey instruments. Additional questions needed for the remaining tabulations are proposed for subsequent waves of each survey. If appropriate, the time-series may be extended beyond 1976.

[a]Concerning the type of individual or firm doing the work, the present instrument distinguishes only jobs requiring cash payments for labor or materials from those that did not and those that relied at least in part on "free" labor by the landlord or an associate.

[b]The present instrument does not distinguish jobs related to qualifying structures for occupancy by program participants, time required for repairs, satisfaction with repairs, or specific complaints about workmanship.

Table 7

ANNUAL DATA ON THE RESIDENTIAL REPAIR AND IMPROVEMENT INDUSTRY TO BE OBTAINED FROM A SAMPLE OF ACTIVE FIRMS: ST. JOSEPH COUNTY, INDIANA, 1974-1976

1. Type of work performed (e.g., electrical, plumbing).
2. Indication of work priorities (e.g., by type of work, type of customer, size of job).
3. Estimates of the average number of inquiries per month and the number of jobs contracted for per month.
4. Total number of full-time and part-time employees.
5. Estimates of the number of employees who work full-time at their trade.
6. Proportion of gross revenues accounted for by work on existing residential structures.
7. Average hourly wages paid to journeymen in various trades.[a]
8. Estimates of the cost of performing specific repair and improvement jobs.
9. Specific problems in obtaining materials, working on older structures or in older neighborhoods, obtaining and supervising qualified labor, working with city agencies, and working with allowance program participants or their landlords.
10. Estimates of lead time required for specific jobs.

SOURCE: Survey of Residential Repair and Remodeling Firms, draft instrument.

[a]These data will also be obtained from the U.S. Bureau of Labor Statistics for the Midwest region.

insights into the structure of the industry and also obtain names of potential interviewees by checking building permit files. Regrettably for our purposes, however, most repair work probably will not require a permit.

We do not anticipate statistical analysis beyond a few simple tabulations. The preliminary lists of such tabulations, presented in Tables 6 and 7, indicate the scope of our proposed inquiry. Insights gained from these tabulations will no doubt lead to changes in emphasis, but the boundaries of the study should remain fixed.

VII. OTHER MARKET INTERMEDIARIES

It became apparent during our reconnaissance that market intermediaries other than the five we originally designated for study will, at least potentially, play an important role in the outcome of the experiment. We have already discussed, for instance, the city government's role in stimulating housing improvements and in changing brokers' practices, and the FHA's role in providing mortgage financing to program participants.

Other intermediaries connected with mortgage lending institutions may become important if local banks and savings and loans should start making loans to program participants. Since conventional loans for program participants will usually require insurance, the policies of private mortgage insurers may determine whether such loans are made. For lenders who sell the mortgage loans they originate, guidelines of major public and private investors in mortgages (e.g., the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association) may determine whether program participants can obtain financing from those institutions. Some mortgage banks, for instance, told us that their minimum loan requirements were actually set by the mortgage investors to whom they sold their loans.

Speculators in real estate may also play a role in the allowance program. If the program is perceived as one that will increase the demand for older homes in decayed parts of South Bend, professional investors may begin to purchase such homes, fix them up, then resell them. Such speculative activity has occurred elsewhere under the stimulus of both Sections 235 and 221(d)(2) of the National Housing Act, with both good and bad results.

Two other intermediaries are worth mentioning. First, the VA, like the FHA, will deal with riskier neighborhoods and borrowers than will conventional lenders. Their property standards are less rigorous than the FHA's. The VA has already approved at least one loan to a program participant in Green Bay. For participants who are veterans, the VA is an attractive lender. Second, South Bend has a few nonprofit organizations, active in the housing field, which may play a role in the experiment. One group specializes in acquiring and rehabilitating older homes through contributions and volunteer work and then selling these homes to low-income families on land contracts. This group is already considering ways in which housing allowances might facilitate their program.

We intend to monitor the activities of these other market intermediaries only as they seem to affect the major intermediaries, not as separate topics of research. For example, if the city does put a large portion of its Housing and Community Development Act funds into housing rehabilitation, a move they would not likely make without the allowance program, the impact of that decision on lender attitudes and responses will be closely watched.

Appendix A

STUDY TOPICS AND SOURCES OF INFORMATION

Topic	Sources of Information
A. Financial Intermediaries	
Characteristics of the industry (types of firms and market shares)	• Surveys of Landlords and Homeowners • Surveys of Lenders • Interviews with lenders, brokers, and others
Availability of loanable funds and effects of regulations governing lending institutions	• Interviews with lenders and others • Site monitor's reports
Lenders' policies toward borrowers by: • Type of neighborhood • Type of property • Type of borrower	• Interviews with lenders, brokers, and others • Public records and Multiple Listing Service • HAO records • Site monitor's reports
Availability of FHA, VA, and private mortgage insurance, by: • Type of neighborhood • Type of property • Type of borrower	• Interviews with lenders, brokers, and others • Interviews with insurers • Site monitor's reports
Availability of home improvement loans, by: • Type of neighborhood • Type of property • Type of borrower	• Interviews with home improvement lenders • HAO records and special studies • Site monitor's reports
Attitudes of lenders toward the allowance program and expectations about its effects	• Interviews with lenders
Experience of program participants who seek loans	• HAO records • Interviews with lenders, brokers, and others
B. Real Estate Brokers and Rental Agents	
Characteristics of the industry (type of firms and areas of specialization)	• Interviews with brokers and others • Site monitor's reports

STUDY TOPICS AND SOURCES OF INFORMATION
(Continued)

Topic	Sources of Information
B. Real Estate Brokers and Rental Agents (Cont.)	
Brokers' policies toward home-buyers and renters ("steering" by race or otherwise)	• Interviews with brokers and others • Local testing program • Site monitor's reports
Direct dealings with the allowance program and its participants: • Referring clients to the HAO • Managing properties occupied by program participants	• Interviews with brokers and others • Site monitor's reports
Attitudes of brokers toward the allowance program and expectations about its effects	• Interviews with brokers
C. Remodeling Contractors and Tradesmen	
Characteristics of the industry (types of firms and market shares)	• Survey of Residential Repair and Remodeling Firms • Building permit records • Surveys of Landlords and Homeowners[a]
Utilization by landlords and home-owners	• Surveys of Landlords and Homeowners[a]
Industry problems in responding to program-generated demand	• Survey of Residential Repair and Remodeling Firms • Interviews with rehabilitation contractors • BLS price indexes • Site monitor's reports
User problems in obtaining good work promptly at reasonable prices	• HAO records and special studies • Site monitor's reports • Surveys of Landlords and Homeowners[a]

SOURCE: Compiled by the authors from plans discussed in Secs. IV-VI, above.

[a]Appropriate questions were not included in the baseline survey instruments, but will be proposed for future instruments.

Appendix B

CHANGES IN THE NUMBER AND VALUE OF OCCUPIED HOUSING UNITS, BY TENURE: CENSUS TRACTS IN SOUTH BEND, INDIANA, 1960 TO 1970

	Owner-occupied Housing Units						Renter-occupied Housing Units					
	Number of Units			Median Value ($000)			Number of Units			Median Gross Rent ($/Month)		
Census Tract[a]	1960	1970	% Change	1960	1970	% Change	1960	1970	% Change	1960	1970	% Change
1	597	681	14.0	(b)	(b)	(b)	150	145	-3.3	(b)	(b)	(b)
2	1,203	1,230	2.2	(b)	(b)	(b)	109	224	105.5	(b)	(b)	(b)
3	1,050	1,286	22.5	(b)	(b)	(b)	123	333	170.7	(b)	(b)	(b)
4[c]	1,035	1,026	-.9	9.9	10.4	5.0	129	150	16.3	(b)	(b)	(b)
5	786	826	5.1	11.0	11.3	2.7	127	119	-6.3	(b)	(b)	(b)
6[c]	902	906	.4	9.3	9.3	--	588	698	18.7	75	102	36.0
7	455	474	4.2	11.8	11.7	-.8	681	725	6.5	81	103	27.2
8	637	652	2.4	(b)	(b)	(b)	72	112	55.6	(b)	(b)	(b)
9	883	784	-11.2	(b)	(b)	(b)	596	586	-1.7	(b)	(b)	(b)
10	1,110	1,110	--	(b)	(b)	(b)	283	324	14.5	(b)	(b)	(b)
11	1,215	1,420	16.9	(b)	(b)	(b)	56	148	164.3	(b)	(b)	(b)
12	774	794	2.6	(b)	(b)	(b)	27	60	122.2	(b)	(b)	(b)
13	622	634	1.9	15.2	20.8	36.8	4	597	14825.0	(b)	(b)	(b)
14[c]	1,130	1,123	-.6	8.8	10.0	13.6	420	440	4.8	103	125	21.4
15	1,091	1,050	-3.8	8.9	10.5	18.0	313	475	51.8	76	119	56.6
16	1,124	1,161	3.3	(b)	(b)	(b)	78	95	21.8	(b)	(b)	(b)
17[d]	345	248	-28.1	7.9	8.0	1.3	589	456	-22.6	(b)	(b)	(b)
18[e]	23	36	56.5	(b)	(b)	(b)	571	200	-65.0	(b)	(b)	(b)
19[c]	556	544	-2.2	8.8	8.3	-5.7	796	755	-5.2	73	86	17.8
20[c]	500	431	-13.8	7.7	7.3	-5.2	665	726	9.2	70	70	--
21[c]	890	803	-9.8	7.3	7.4	1.4	302	293	-3.0	68	92	35.3
22	896	714	-20.3	(b)	(b)	(b)	231	235	1.7	(b)	(b)	(b)
23[c,e]	570	434	-23.9	6.8	8.9	30.9	232	139	-40.1	77	95	23.4
24	970	1,020	5.2	8.9	9.3	4.5	96	117	21.9	(b)	(b)	(b)
25	462	571	23.6	10.0	11.6	16.0	16	68	325.0	(b)	(b)	(b)
26	951	984	3.5	12.3	13.1	6.5	79	188	138.0	(b)	(b)	(b)
27	665	410	-38.3	(b)	(b)	(b)	369	146	-60.4	(b)	(b)	(b)
28	662	590	-10.9	(b)	(b)	(b)	99	95	-4.0	(b)	(b)	(b)
29[d]	737	601	-18.4	7.9	6.9	-12.6	799	663	-17.0	(b)	(b)	(b)
30[c]	887	849	-4.3	8.6	8.5	-1.2	359	373	3.9	73	98	34.2
31	1,294	1,245	-3.8	8.9	10.0	12.4	292	360	23.3	81	112	38.3
32[c]	1,428	1,604	12.3	17.4	18.9	8.6	67	106	58.2	(b)	(b)	(b)
33[c]	1,131	1,117	-1.2	12.4	12.8	3.2	141	166	17.7	(b)	(b)	(b)
34	1,115	1,024	-8.2	(b)	(b)	(b)	262	206	-21.4	(b)	(b)	(b)
35	814	935	14.9	(b)	(b)	(b)	377	346	-8.2	(b)	(b)	(b)
TOTAL, CITY OF SOUTH BEND	30,796	30,309	-.6	10.4	11.7	12.5	10,132	10,973	7.6	74	107	44.6

SOURCE: U.S. Census of Housing, *Census Tracts, 1960*, PHC(1)-146; *Census Tracts, 1970*, PHC(1)-200.

NOTE: Housing unit counts for tracts whose boundaries changed were reconstructed from block statistics. Tract detail does not always add exactly to the total for the city of South Bend because of errors in reconciling 1960 and 1970 tract boundaries. Median value and median rent could not be readily adjusted for such cases, so are often omitted from the table. See notes *b*, *c*, and *d* for special cases.

Unit increases or decreases for each tenure-class may reflect changes in the number of vacancies or changes in tenure for existing units as well as construction and demolition.

[a] Tract boundaries for 1960 are used, and only areas tracted in 1960 are shown in the table. See Fig. 1 for the location of each tract.

[b] Omitted because 1960 and 1970 tract boundaries could not be reconciled or because data were suppressed by the Bureau of the Census for tracts in which few values were reported.

[c] Entries for 1970 were estimated, because 1960 and 1970 tract boundaries could be exactly reconciled, or because of a few suppressed values; they may be off by as much as 5 percent.

[d] See note *c*; these entries may be off by as much as 10 percent.

[e] These tracts include areas that were cleared for redevelopment as part of urban renewal projects.