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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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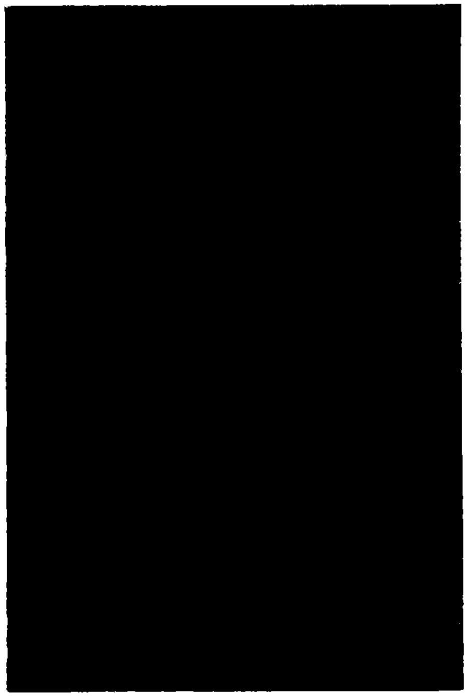

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MARKET INTERMEDIARIES AND INDIRECT SUPPLIERS: FIRST YEAR REPORT FOR SITE II

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August 1977

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PREFACE

This working note was prepared for the Office of Policy Development and Research, U.S. Department of Housing and Urban Development (HUD). It reports on the activities and attitudes of three groups of market intermediaries--mortgage lenders, real estate brokers, and home repair contractors--during the first year* of HUD's experimental housing allowance program in St. Joseph County, Indiana.

The fieldwork and analysis reported here were conducted by the author, following the research plan described in an earlier working note.** The coauthors of that plan, William G. Grigsby and Michael G. Shanley, reviewed the author's findings and consulted with him in preparing this report. Ira S. Lowry helped prepare the final draft.

In addition to the author's fieldwork, the report draws on administrative records of the St. Joseph County Housing Allowance Office, tabulated by Iao Katagiri, Lawrence Helbers, and Ann Wang; records of the baseline survey of homeowners, tabulated by Helbers; records of the survey of landlords, tabulated by Therman Britt; and mortgage lending data tabulated by the Indiana Public Interest Research Group under the direction of Michael G. Shanley.

Doris Dong prepared the map of St. Joseph County neighborhoods. Rachel Kuntz typed most of the draft text and tables. Charlotte Cox edited the final draft and supervised its production as a working note. Joan Pederson was the production typist.

This note was prepared pursuant to HUD Contract H-1789 and partially fulfills the requirements of Task 2.10(4) of that contract.

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*Open enrollment in the allowance program began on 2 April 1975 and this report covers events through 31 March 1976. However, open enrollment was preceded by three months of invitational enrollment (homeowners only). Other reports describe the first program year as ending 31 December 1975.

**William G. Grigsby, Michael G. Shanley, and Sammis B. White, *Market Intermediaries and Indirect Suppliers: Reconnaissance and Research Design for Site II*, The Rand Corporation, WN-9026-HUD, May 1975.

SUMMARY

Participants in the experimental housing allowance program may need the services of real estate brokers and mortgage lenders if they seek to buy homes. Those who are already homeowners may need home improvement loans or home repair contractors to make repairs required by the HAO or undertake improvements they can afford because of their allowances.

Over the long run, the program's effects on the St. Joseph County housing market may depend on more than transactions by HAO clients. Spillover effects will be governed largely by institutional lenders' policies concerning loans in specific neighborhoods, on specific types of properties, and to specific types of households; and by brokers' policies in placing homebuyers or renters in various neighborhoods or types of housing.

HOME PURCHASE BY PROGRAM PARTICIPANTS

During the first year of open enrollment (through March 1976), 2,343 renter households joined the program. Because inexpensive houses abound in St. Joseph County, we expected many enrollees to try buying a home with their allowance aid. Brokers report about 200 inquiries, and 70 enrollees asked the HAO to evaluate the condition of dwellings that were up for sale. But lending institutions reported only 35 applications from HAO clients, and HAO records show that only 39 renter enrollees became homeowners before April 1976.

To our surprise, the successful homebuyers were predominantly female household heads with children, and about half of all the buyers depended primarily on welfare and housing allowances for financial support. They generally secured FHA-insured loans from local mortgage banks or bought rehabilitated homes on land contracts from a philanthropic organization. To the best of our knowledge, none of the purchases were financed by conventional loans from commercial banks or savings and loan associations.

We attribute the modest incidence of home purchase to a variety of factors: disinterest in owning, uncertainty about the reliability of program benefits, credit records unacceptable to lenders, lack of the liquid assets needed for a downpayment, and reluctance to buy in neighborhoods with a history of falling property values. Our interviews with brokers indicate that they screened prospective buyers as to income and creditworthiness, sending only good prospects to the several mortgage banks that customarily write FHA-insured loans. We have no evidence that the brokers misinterpreted the lenders' policies.

IMPROVEMENTS TO PARTICIPANTS' HOMES

During the first program year, 744 owner-occupied and 721 rented homes were repaired to qualify the occupants for housing allowances. These initial repairs were generally simple and inexpensive, seldom requiring either a professional contractor or credit. The median cash outlay per repaired dwelling was about $10, and most of the work was done by either the occupants, their friends, or the landlord.

In the year following initial certification of participants' dwellings, many were further repaired or improved. These subsequent repairs focused on structural features (e.g., walls and roofs) and utility systems. They were much more expensive than initial repairs, and much of the work was done by professional contractors.

Considering the cost of repairs to participants' dwellings and the limited role of contractors in this work, the demands of HAO clients clearly will not strain the local home repair industry. Cash expenditures for repairs, replacements, and improvements by program participants and their landlords were about $830,000 during the first program year. The comparable countywide expenditure by all homeowners, landlords, and tenants was nearly $38 million, of which $20 to $25 million probably went to professional contractors.

Partly because the cost of initial repairs was typically trivial and partly because enrollees in the allowance program have access to home improvement credit and even grants from a variety of sources, we found no evidence that participation has been impeded by the inability to finance repairs.

MORTGAGE LENDING IN ST. JOSEPH COUNTY

Financial institutions are the primary source of residential capital in St. Joseph County, but the use of land contracts and private mortgages seems to be increasing, especially for inexpensive homes in central South Bend and the rural parts of the county. During the money shortage of 1974-75, mortgage banks were the most active lenders and the only institutions willing to write FHA-insured loans. Interest rates were then in the vicinity of 9.0 to 10.5 percent. In 1976, loanable funds became more plentiful and lending activity increased.

The shortage of mortgage money may have temporarily curtailed home purchases by HAO clients (during the last nine months of 1976, another 48 clients bought homes, bringing the total to 87). A more enduring damper is the evident aversion of institutional lenders to properties in central South Bend, reflected in fewer loans, shorter amortization periods, and higher interest rates there as compared with certain other parts of the county. In 1974, five of the largest lenders adopted a loan minimum of $10,000, which would exclude about 13 percent of the single-family homes in the county.

FHA-insured loans written by mortgage banks are the only institutional financing consistently available to HAO clients in particular and low-income households in general. The salient requirements for these loans are a good credit history, a prospectively stable income (even if from transfer payments), and a property that meets FHA standards of quality. Alternatively, HAO clients and other low-income households can sometimes finance a purchase by means of a land contract, held by either the previous owner or a broker who acts as intermediary.

During the second year of the allowance program we do not expect many changes in these lending patterns, despite the increased supply of loanable funds. Home purchase by program participants is not likely to become so common as to alter lenders' policies toward decaying neighborhoods, inexpensive properties, or low-income borrowers. On the other hand, so long as FHA policies favor HAO clients as they now do, home purchase will be a genuine option for renters in the allowance program.

INTERMEDIARIES' VIEWS OF THE ALLOWANCE PROGRAM

In April and May of 1976, only a few of the market intermediaries we interviewed reported much contact with program participants. Consequently, few had strong opinions about the effectiveness or desirability of the program. None of them thought it had much affected the homeownership market in St. Joseph County, and those with views of its effect on the rental market were sharply divided. As enrollment grows, contact between intermediaries and HAO clients will increase, so we expect more definite opinions from our next round of interviews.

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I. INTRODUCTION

The Housing Assistance Supply Experiment (HASE) is designed to evaluate the effects of a fullscale housing allowance program on participants and local housing markets in Brown County, Wisconsin, and St. Joseph County, Indiana. One of the issues being studied is how the program affects and is affected by the policies of mortgage lenders, real estate brokers, and home improvement contractors.*

The organization and activity levels of these three industries in St. Joseph County at the beginning of the experiment are described in an earlier report.** Here we report how they related to the allowance program during its first year of open enrollment, ending as of April 1976. During this period, 2,303 homeowners and 2,343 renters enrolled.

The allowance program is open to all families and elderly single persons in St. Joseph County*** who cannot afford the standard cost of adequate housing on the local market without spending more than a fourth of their adjusted gross income. Each enrolled household receives monthly cash payments equal to the "housing gap" thus calculated, provided the housing unit it occupies meets program standards of decency, safety, and sanitation.

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*See Ira S. Lowry (ed.), *General Design Report: First Draft,* The Rand Corporation, WN-8198-HUD, May 1973, Sec. VII. Originally, we expected property management firms, maintenance contractors, and insurance companies to be major actors in these housing markets, but onsite reconnaissance persuaded us otherwise (see William G. Grigsby, Michael G. Shanley, and Sammis B. White, *Market Intermediaries and Indirect Suppliers: Reconnaissance and Research Design for Site II,* The Rand Corporation, WN-9026-HUD, May 1975, p. 3).

**Grigsby, Shanley, and White (1975). Parallel reports for Brown County are Grigsby, Shanley, and White, *Market Intermediaries and Indirect Suppliers: Baseline Report and Prospectus for Site I,* The Rand Corporation, WN-8577-HUD, February 1974; and White, *Market Intermediaries and Indirect Suppliers: First Year Report for Site I,* The Rand Corporation, WN-9400-HUD, September 1976.

***At first, the program was limited to South Bend, the largest city in the county. By April 1976, it included the neighboring city of Mishawaka and most of the urban portion of the county. By July 1976, the program encompassed all but one minor civil division in the county.

Benefits are offered to homeowners and renters on the same terms, and participants may change tenure or place of residence (within the program jurisdiction) without losing benefits. Participating renters are responsible for locating suitable housing, negotiating with landlords over rent and conditions of occupancy, paying the rent, and seeing that their dwellings are maintained to program standards. Participating owners are entirely responsible for negotiating purchases and mortgage financing, meeting their obligations to lenders, and maintaining their properties to program standards.

The preenrollment homes of many enrollees do not meet these standards. To qualify for payments, an enrollee in a substandard unit must either arrange for repairs or move to an acceptable dwelling. Repairing a dwelling may require work by a home improvement contractor and credit from a bank or other lender. Moving may require the assistance of a real estate broker, and the housing alternatives open to enrollees (especially those belonging to racial minorities) may be limited by brokers' policies. A renter seeking to become a homeowner with the aid of his allowance also may need the help of a real estate broker to find a home and almost certainly will need mortgage financing.

Thus the policies of lenders, real estate brokers, and home improvement contractors in St. Joseph County all affect the ability of program participants to improve their housing circumstances and qualify for benefits. However, in advance of the experiment, we could not know how influential these intermediaries would be nor how they would respond to program enrollees as customers. The market intermediary study is designed to answer these questions.

Much of the information in this report was obtained from interviews with representatives of 14 lending institutions, 14 real estate firms, and five home repair contractors in St. Joseph County. The interviews were conducted by the author in April and May of 1976. The lenders and real estate firms selected for interviewing account for most of each industry's activity in the county. The home repair industry is amorphous; the contractors we interviewed were chosen because they had worked for program participants.*

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*See Grigsby, Shanley, and White (1975) for details on the market intermediary survey strategy.

The report also draws on records of the baseline surveys of residential property owners, which were conducted for Rand by Westat, Inc., between November 1974 and June 1975. The surveys were addressed to owners of a stratified probability sample of rental properties and owner-occupied homes throughout the county. The instrument included questions about property values and mortgage financing.*

Information on program participants was obtained from administrative records of the St. Joseph County Housing Allowance Office (HAO), and additional data on mortgage loans and property transactions were obtained from local public records. The author also drew on the observations of Rand's resident site monitors, one of whom directed the Indiana Public Interest Research Group in a study of redlining in St. Joseph County.**

Section II of this report details our first-year findings about home purchase activity among HAO clients and the involvement of real estate brokers and mortgage lenders in this activity. Section III reports on program-related home improvements and the involvement in them of home repair contractors and lending institutions. These two sections thus treat the most important and direct interactions between the allowance program and the intermediary institutions.

Over the long run, the allowance program's effects on the housing market of St. Joseph County may depend on more than transactions by HAO clients. Spillover effects will be governed largely by institutional lenders' policies concerning loans in specific neighborhoods, on specific types of properties, and to specific types of households; and by brokers' policies in placing both homebuyers and renters in various neighborhoods or types of housing. Section IV draws on the market intermediary surveys, the baseline surveys of property owners,

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*The survey sample design and data collection plan are described in Ira S. Lowry, *Monitoring the Experiment: An Update of Sec. IV of the General Design Report*, The Rand Corporation, WN-9051-HUD, April 1975. Field results of the baseline surveys are summarized in *Second Annual Report of the Housing Assistance Supply Experiment*, The Rand Corporation, R-1959-HUD, May 1976, pp. 49-61.

**The findings reported here are based on data compiled by Michael G. Shanley, now deputy manager of the Rand site office in St. Joseph County.

and public records to show how the market is being shaped by these forces.

We had hoped to report on racial steering by real estate brokers, as disclosed by formal tests conducted by the South Bend Human Relations Commission. However, since the commission did not undertake its tests during the period covered by this report, we lack the evidence needed to appraise the extent and effect of such practices.*

The final section of the report summarizes the views of lenders and brokers concerning the allowance program's effect on the housing market.

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*Because brokers play only a minor role in placing renters in St. Joseph County, the issue would be pertinent mainly to homebuying.

II. HOME PURCHASE BY PROGRAM PARTICIPANTS

Unlike most federal housing assistance, housing allowances are offered to specific households rather than to occupants of particular dwellings. Renters in the allowance program can purchase homes without losing benefits, provided only that their newly acquired dwellings meet the HAO quality standards. However, the program offers no special incentives for home purchase, and many enrollees may prefer renting.

Those interested in homeownership usually get the help of a real estate broker to find a suitable dwelling that is for sale, then arrange a mortgage loan or land contract to finance its purchase. The general policies and case-by-case judgments of both real estate brokers and institutional lenders are thus important in determining whether such a transaction is completed.

Through March 1976, a total of 2,343 renters had enrolled in the allowance program. The real estate brokers we interviewed could not tell us precisely how many had inquired about home purchase, but their collective estimate exceeded 200. Seventy renter enrollees asked the HAO to evaluate dwellings up for sale. The lending institutions reported only 35 applications for mortgages from HAO clients. HAO records show 39 home purchases during the period.

It thus appears that perhaps 10 percent of the renters who enrolled in the program during its first year actively investigated home purchase. All but a handful were screened out by brokers, but most of those who found a suitable house and applied to a mortgage lender were granted purchase loans.

In this section, we explore the financial and institutional circumstances that produced the outcome described above. Although renter enrollees in St. Joseph County's allowance program have quite low incomes, we judge that many of them could carry a mortgage on a low-priced home. Moreover, many such homes are available, and lenders are accustomed to financing the purchase of inexpensive dwellings.

However, few of those who made inquiries met lenders' standards of creditworthiness. Even if allowance-augmented income is adequate to justify a loan, lack of cash for a downpayment and closing costs, a history of bad debts, or evidence of financial instability or misjudgment may cause credit to be refused. We note however that most of the screening is done not by the lenders themselves but by real estate brokers interpreting lenders' policies.

RENTER ENROLLEES AS POTENTIAL HOMEBUYERS

Although homeownership is generally well regarded in this country, it does not necessarily interest everyone. Some circumstances favor renting in spite of the ability to buy. For instance, elderly persons may not want or be able to maintain a single-family house. Those whose family circumstances or financial prospects are unstable may prudently avoid longterm commitments in favor of month-to-month renting.

Table 2.1 shows the distribution of first-year renter enrollees by stage in the household life cycle. Note that 18 percent of the total are older persons without children in their households. Nearly 52 percent are households composed of a single head with children; the absence of a spouse leaves home maintenance to one person, usually a woman. Nearly 4 percent are disabled single persons, who might also find home maintenance a burden. Homes are most often bought by couples with children (stages 3, 4, and 5); only a fifth of all renter enrollees are in those stages of the household life cycle.

Among enrollees, renters tend to have substantially lower incomes than homeowners, and the differences are only partly offset by allowance payments. The most convenient figures for comparison are annual averages for those receiving payments in April 1976:

	Renters	Homeowners
Gross income	\$3,099	\$4,225
Allowance payments	998	678
Total	\$4,097	\$4,903

Given that only the poorer homeowners are eligible for the program, the fact that renters' income is even lower raises general doubts

Table 2.1

FIRST-YEAR RENTER ENROLLEES BY LIFE-CYCLE STAGE AT TIME OF ENROLLMENT

Stage in Life Cycle	Enrolled Renter Households	
	Number	Percent
1. Young single head, no children[a]	81	3.5
2. Young couple, no children	121	5.2
3. Young couple, young children	371	15.8
4. Young couple, older children	83	3.5
5. Older couple, older children	41	1.7
6. Older couple, no children	66	2.8
7. Older single head, no children	360	15.4
8. Single head with children	1,212	51.7
9. All other	8	.3
All stages	2,343	100.0

SOURCE: Tabulated by HASE staff from HAO records for Site II covering enrollment through 31 March 1976.

NOTE: See Kevin F. McCarthy, *Housing Choices and Residential Mobility in Site I at Baseline*, The Rand Corporation, WN-9029-HUD, August 1976, for precise definitions of life-cycle stages.

[a]Under 62 years, handicapped, disabled, or displaced by public action.

about their ability to buy a home. As Table 2.2 shows, only a third of the renter enrollees in the life-cycle stages (3, 4, and 5) where they should be most interested in homebuying have a total income above $6,000.

Households with such low incomes are not generally regarded as prime candidates for home purchase. However, property values in St. Joseph County are extraordinarily low. Our survey of homeowners indicates that in 1974, 30 percent of the county's single-family homes were valued at less than $15,000, and 13 percent at less than $10,000. Debt service, real estate taxes, and insurance on a $10,000 home then cost about $1,200 annually. Heating fuel, utility services, and normal maintenance added $400 to $500 to a homeowner's annual costs. A yearly cash outlay of $1,600 to $1,700 was thus required to support a modest home in St. Joseph County.

The significance of these figures for prospective home purchases can be appreciated by comparing them with the housing costs of renters in the allowance program. The median annual expenditure for contract rent, fuel, and utilities by those receiving allowance payments in December 1975 was just over $1,800. In short, we judge that at least half the renter enrollees could afford homeownership as easily as renting.

Some of those who could manage the monthly payments for an inexpensive home may not qualify as borrowers because they lack the liquid assets for downpayments and closing costs (about $400 for a $10,000 home). Table 2.3 shows that only 19 percent of all renter enrollees reported liquid assets in excess of $250 in cash or checking accounts. Of 495 couples with children (the group identified as the most likely candidates for home purchase), only 15 had more than $250 in liquid assets.

Simple caution may also restrain enrollees from home purchase. Although over 2,300 had enrolled by April 1976, about 40 percent had been enrolled for less than six months and fewer than 1,400 had actually qualified for payments as renters. One might expect only an

Table 2.2

FIRST-YEAR RENTER ENROLLEES BY GROSS INCOME PLUS ALLOWANCE ENTITLEMENT AT TIME OF ENROLLMENT

Stage in Life Cycle	Percentage Distribution of Households by Annual Amount ($)						
	Under 2,000	2,000 -2,999	3,000 -3,999	4,000 -4,999	5,000 -5,999	6,000 or more	Total
1. Young single head, no children	29.6	22.2	24.7	14.8	7.4	1.2	100.0
2. Young couple, no children	25.6	9.1	19.8	17.4	26.4	1.7	100.0
3. Young couple, young children	20.5	4.9	9.4	14.8	18.3	32.1	100.0
4. Young couple, older children	13.3	2.4	10.8	18.1	15.7	39.8	100.0
5. Older couple, older children	12.2	4.9	9.8	9.8	22.0	41.5	100.0
6. Older couple, no children	10.6	3.0	18.2	24.2	18.2	25.8	100.0
7. Older single head, no children	6.7	32.5	40.0	15.6	3.3	1.9	100.0
8. Single head with children	8.0	17.9	23.5	21.0	13.7	15.9	100.0
9. All other	0.0	12.5	12.5	12.5	37.5	25.0	100.0
All stages	11.7	16.6	22.8	18.5	13.7	16.7	100.0

SOURCE: Tabulated by HASE staff from HAO records for Site II covering enrollment through 31 March 1976.

NOTE: See Table 2.1 for counts of all renter enrollees by life-cycle stage. Percentage distributions may not add exactly to 100.0 because of rounding. Because allowance payments cannot exceed actual housing expenses, some enrollees may receive less than the maximum entitlement on which these entries are based.

Table 2.3

FIRST-YEAR RENTER ENROLLEES BY AMOUNT OF LIQUID ASSETS AT TIME OF ENROLLMENT

Stage in Life Cycle	Percentage Distribution of Households by Asset Amount ($), Excluding up to $250 in Cash[a]									
	Zero	1-99	100-199	200-299	300-399	400-499	500-999	1,000-4,999	5,000+	Total
1. Young single head, no children	84.0	6.2	3.7	1.2	1.2	0.0	0.0	2.5	1.2	100.0
2. Young couple, no children	76.9	9.1	3.3	1.7	1.7	0.0	2.5	4.1	0.8	100.0
3. Young couple, young children	85.2	10.2	1.1	.3	1.3	0.0	1.1	0.8	0.0	100.0
4. Young couple, older children	86.7	3.6	3.6	0.0	2.4	1.2	2.4	0.0	0.0	100.0
5. Older couple, older children	85.4	12.2	2.4	0.0	0.0	0.0	0.0	0.0	0.0	100.0
6. Older couple, no children	59.1	4.5	1.5	3.0	3.0	1.5	4.5	18.2	4.5	100.0
7. Older single head, no children	50.6	3.9	2.5	2.2	3.1	0.8	6.9	15.0	15.0	100.0
8. Single head with children	89.6	6.7	1.3	0.5	0.7	0.2	0.8	0.2	0.0	100.0
9. All other	87.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	12.5	100.0
All stages	81.0	6.8	1.7	0.9	1.3	0.3	2.0	3.4	2.6	100.0

SOURCE: Tabulated by HASE staff from HAO records for Site II covering enrollment through 31 March 1976.

NOTE: See Table 2.1 for counts of all renter enrollees by life-cycle stage. Percentage distributions may not add exactly to 100.0 because of rounding.

[a]Liquid assets include cash on hand, checking and savings accounts, stocks, bonds, and other securities. The first $250 of cash or checking account balances is excluded.

unusually adventurous enrollee to accept without reservation the HAO's promise of allowance support for a longterm financial commitment.*

Given the circumstances of renter enrollees and the newness of the program, it is unclear how much interest in home purchase should be expected from them. Contracting a broker to discuss the possibility

*The HAO makes it clear to all enrollees that moving or changing tenure will not affect their eligibility for allowance payments so long as a new residence meets the program's quality standards. It also offers guidance on home purchase, but few enrollees have attended the voluntary information sessions covering that topic.

of buying a home is one indication of serious interest. The brokers, as discussed below, reported a substantial number of inquiries--perhaps from as much as 10 percent of the enrolled renters. Another indication is asking the HAO to evaluate a dwelling whose purchase the enrollee is considering. During the first year, only 70 renter enrollees requested such evaluations.

We also know how many transactions were completed. Through March 1976, 39 enrollees who were formerly renters purchased homes. All but two of these homes met the HAO housing standards and their purchasers began receiving allowance payments as homeowners. However, by December 1976, one homebuyer had returned to rental tenure and ten had terminated their enrollment in the allowance program.

As we expected, the homes thus purchased were inexpensive. We estimate that their market value averaged $12,000 and that three-fourths were worth less than $15,000.* Twenty of these purchases were financed by Federal Housing Administration (FHA) insured loans and one loan was guaranteed by the Veterans Administration (VA). Six homes were purchased on land contracts.** We have not yet determined how the remaining 12 were financed, but think that the buyers took over existing mortgages from the sellers. The average debt was about $10,000, or some $2,000 less than our estimate of the average market value.

The purchasers themselves are surprising (see Table 2.4). Twenty-six were single women with children, including 19 who received Aid for

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*Market value was estimated by multiplying the assessed value of each property by an equalization rate derived from our homeowner survey data (4.7 for properties in central South Bend, 5.3 for those elsewhere). Comparing the result for each property with the balance due on the land contract or mortgage, we found 10 cases of implied negative equity and 11 with implausibly large equities. A large variance in the estimator of market value is expectable; there is also some evidence that the mean value is biased upward, perhaps by as much as 20 percent.

**Land contracts are common in St. Joseph County. They differ from mortgages in that title remains with the seller until all or most of the purchase price has been paid. Interest comparable to that on a first mortgage is paid on the balance due. The purchase is thus financed by the seller instead of by a market intermediary.

Table 2.4

SELECTED CHARACTERISTICS OF RENTER ENROLLEES WHO PURCHASED HOMES, BY GROSS INCOME PLUS ALLOWANCE ENTITLEMENT

Gross Income Plus Allowance Entitlement ($)	Number of Households	Average Number of Persons	Percent Headed by Females	Percent Receiving AFDC[a]	Average Amount of Debt[b] ($)
2,000 - 2,999	2	1.5	100	--	11,800
3,000 - 3,999	12	3.0	58	42	8,500
4,000 - 4,999	6	4.8	83	83	9,200
5,000 - 5,999	2	6.0	100	100	6,700
6,000 - 6,999	9	4.1	78	33	11,300
7,000 - 7,999	6	5.1	50	33	12,600
8,000 - 8,999	2	5.5	100	100	10,100
All incomes	39	4.1	72	49	10,000

SOURCE: Tabulated by HASE staff from HAO records for Site II covering 39 renter enrollees who purchased homes through 31 March 1976.

NOTE: All entries except those for amount of debt refer to the client's circumstances at the time of enrollment.

[a]Only 4 households reported any earned income; all others depended on Aid for Dependent Children (AFDC) (19), social security (7), supplemental security income (5), child support payments (4), unemployment compensation or strike benefits (3), or regular cash contributions from relatives (2). Six reported more than one source of income, so are counted two or more times above. Income records on 5 are incomplete.

[b]Balance due on land contract or mortgage at last recertification before December 1976.

Dependent Children. Four were single persons without children, including two elderly persons dependent on social security or supplemental security benefits. Only nine were couples with children. Two-thirds were households headed by blacks.

Over half the purchasers had an income (including housing allowances) of less than $6,000 when they enrolled, and only four then reported significant liquid assets ($500 to $750, excluding up to $250 in cash or checking accounts). By traditional standards, few of these households could have obtained home purchase credit. As we shall see, FHA-insured loans and land contract sales by a local philanthropy made nearly all these purchases possible. Even so, it is not clear how downpayments were managed; quite possibly, liquid assets were underreported to the HAO even though eligibility and allowance entitlement are unaffected by net assets of less than $20,000.

DEALING WITH REAL ESTATE BROKERS

In April and May of 1976 we interviewed representatives of 14 brokerage firms, of which 12 specialize in sales and two deal mostly in rental property. The firms range in size from a single broker to thirty. A few deal mostly with lower income clients and inner-city properties; the others serve the full spectrum of income groups and handle properties throughout the county. The firms chosen for interviews were selected for either their volume or their specialization in low-value properties.

All the firms specializing in sales reported numerous inquiries from HAO clients about home purchasing. None kept count of such inquiries, but their collective estimate for the first year of renter enrollment in the program was well over 200, including a few inquiries about rentals. The two firms specializing in rentals also had many contacts with HAO clients, but neither handled any inquiries about home purchase.

Ten of the brokers specializing in sales had closed at least one sale to an HAO client and the two most active firms had each closed six. Altogether, they reported 23 such closings, a figure that may be compared with lenders' reports of 35 mortgage applications and HAO records indicating 39 home purchases by renter clients. We judge that the interviewed brokers included most of those who had much contact with the program.

The two firms that each completed six sales to HAO clients differed in their modes of operation. The largest firm concentrated only on a few HAO clients who were considered "live" prospects. The smaller firm actively promoted homeownership to program participants and was less selective in its efforts.

Given the substantial number of inquiries and the manifest availability of inexpensive homes, why were there so few sales to HAO clients? The reason the brokers most frequently offered was the poor credit records of most low-income families, including those enrolled in the allowance program. Only exceptionally was mortgage credit available to such families without FHA insurance, and the FHA has been scrutinizing credit records carefully before issuing insurance coverage.*

A number of inquiries came from families whose income, even with an allowance, was too small to carry a loan. Nominally, the lender rather than the real estate broker makes that judgment, but a broker usually satisfies himself that a would-be buyer can get an adequate loan before taking the trouble to find him a suitable house.

Another reason offered for infrequent sales to HAO clients was that the homes they could afford were mostly in neighborhoods where property values have been falling, and many prospective buyers are unwilling to invest there.**

Two brokers thought their colleagues were reluctant to deal in inexpensive properties because of the small commissions. However, they noted that the number of brokers in the county had doubled over the preceding decade, which ought to lead to competition for listings and acceptance of more modest commissions.

DEALING WITH MORTGAGE LENDERS

The 14 mortgage lenders we interviewed account for about 60 percent of all loans made in St. Joseph County and represent the county's leading commercial banks, savings and loan associations, and mortgage banks. These respondents reported a total of 35 applications for mortgage loans on which housing allowances were listed as a source of income. There may have been other serious inquiries, but lenders, like real estate brokers, do their best to screen out unlikely prospects without paperwork. Almost all the applications and inquiries

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*For example, a broker reported that the FHA rejected one couple's application because the wife's credit record was unacceptable, even though their income was adequate. She had failed to pay a $50 auto repair bill incurred by her brother, whose note she had cosigned; and had failed to pay telephone charges that had accumulated in her name at her mother's house.

**In fact, three-fourths of the purchases recorded by the HAO were properties in central South Bend, where the average value of owner-occupied homes, discounted for general price inflation, fell by about 40 percent between 1961 and 1975.

were reported by the mortgage banks, which granted 20 FHA-insured loans and one with a VA guarantee. Neither the commercial banks nor the savings and loan associations reported any loans to HAO clients.

Although we did not survey all lenders who may have dealt with HAO clients, the mortgage bankers we interviewed had arranged financing for 21 of the 39 home purchases reported by the HAO. Six of the remainder were financed by the sellers, using land contracts: Five were from a local nonprofit organization that rehabilitates inexpensive homes for resale to low-income families, and the other from a broker who bought the property specifically for resale to a client unable to obtain institutional financing.

Policies of Institutional Lenders

As explained in Sec. IV, the commercial banks and savings and loan associations had little interest during this period in lending on inexpensive properties and no interest in loans that entailed FHA or VA approval. They were short of loanable funds, so found it advantageous to allocate those available to more profitable transactions that entailed less paperwork.

The mortgage banks, on the other hand, were better able to import loanable funds and have made a practice of covering their loans with FHA insurance. The insured mortgages can then easily be sold in secondary markets, replenishing the bankers' lending capacity. Real estate brokers apparently understand who will lend to low-income homebuyers and refer their clients to the right windows.

In appraising prospects for FHA-insured loans, the mortgage bankers do little more than apply FHA guidelines. The availability of mortgage credit to HAO clients in St. Joseph County thus depends primarily on the FHA's view of the allowance program.

FHA Policies

In at least one respect, the FHA has treated the housing allowance very favorably. By counting the allowance as a direct reduction of housing expenditures rather than as an addition to income, the FHA has greatly decreased the income a recipient must have to qualify for a loan.* The regional office in Indianapolis says the FHA is "very supportive" of the housing allowance program, sees the allowance as "good" income, and hopes applications from HAO clients will continue.

Some lenders and brokers think the FHA applied more stringent underwriting policies during the first year of the experiment, and worried that this source of funds for HAO clients might dry up. Regional FHA representatives say that policies have not changed but that stricter interpretation is indeed being given to certain rules, most notably those relating to the amount and form of proof required for income verification. The FHA requires collateral proof that declared income will continue for at least the first five years of the mortgage. The housing allowance meets this rule.

Contrary to the beliefs of some brokers and lenders we interviewed, the FHA has no earned income requirement for insured loans. It will accept Aid for Dependent Children or housing allowance payments as the only source of income, if that aid or its equivalent will last at least five years. Reports from lenders verify that FHA loans have been approved for applicants listing only these income sources.

A Nonprofit Lender

At least five of the six HAO clients who bought homes on land contracts were beneficiaries of a private, nonprofit organization called RENEW. The organization buys, rehabilitates, and then resells

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*The FHA subtracts the full value of the allowance from total housing expenses. Thus if monthly mortgage, taxes, utilities, insurance, etc., equal \$250 and the housing allowance is \$80, net housing expense is \$170. If this amount is less than 35 percent of income, the FHA will approve the mortgage application, assuming other requirements are also met and that income is at least twice the sum of net housing expense and other fixed obligations such as car payments. For example, if housing expenses total \$170 and car payments \$50, income must be at least \$440 (2 × \$200). With both rules in force, the household in this example would need a monthly income of at least \$485 (\$170/.35) to receive an FHA loan. Considering the allowance as an addition to income, the household would need a preallowance income of \$634 a month (\$250/.35 = \$714 - \$80 = \$634) to buy the home with an FHA mortgage.

homes to low-income families. The average sale price of a RENEWed house is about $7,000, well within reach of many HAO clients, and the terms of the organization's land contracts are not onerous. In addition to the five transactions noted above, 25 families who purchased homes from RENEW subsequently enrolled in the allowance program and qualified for payments as homeowners.

SUMMARY AND PROSPECTS

Only 39 of the 2,343 renter enrollees in the allowance program purchased homes during the first year of renter enrollment, too few to have much effect on the homeownership market in St. Joseph County or the institutions that support it.

Inexpensive single-family homes are abundant in the county--especially in central South Bend, where property values have fallen as population has declined. We think at least half the renters who have enrolled in the program could buy homes without increasing their annual housing expenditures, but few have the liquid assets to cover downpayments and closing costs.

We had supposed that couples with children (about a fifth of all renter enrollees) were the most promising candidates for home purchase, but two-thirds of the first year's buyers were single women with children. Such households make up half of all renter enrollees.

Those interested in buying a home can be discouraged at various steps along the way. Some may lack the confidence even to make inquiries, despite the HAO's assurance that their allowance entitlement will continue for up to ten years, so long as their low income makes them eligible. Others may be discouraged by brokers who doubt their ability to obtain financing because of their low income or lack of cash for downpayments and closing costs; or by lending institutions that are unenthusiastic about loans on inexpensive homes or to borrowers with poor credit histories.

The evidence so far indicates that most of the screening of HAO clients interested in home purchase is done by real estate brokers; and that the few who pass this screen have an excellent chance of getting an FHA-insured loan. It does not follow that the brokers are stifling home purchase. We have no evidence that brokers misinterpret lenders' policies, and about 40 percent of the applicants who actually reached the lenders were refused at that stage.

We have identified the lenders who financed 26 of the 39 home purchases by HAO clients through March 1976. Twenty-one were financed by FHA-insured or VA-guaranteed loans granted by mortgage banks, who were thus protected from default. Five were financed by land contracts written by a philanthropic organization that rehabilitates homes and sells them to low-income families. One was financed by a broker who bought the property specifically for resale to an HAO client unable to get institutional financing.

HAO clients have thus not yet entered the mainstream of the mortgage market; they cannot get conventional loans from commercial banks or savings and loan associations. Barring a major increase in their loanable funds, these institutions are unlikely to finance home purchases by HAO clients.

However, there is no reason mortgage banks, backed by FHA insurance, cannot meet the potential demand from HAO clients. Even if home purchase applications from renter enrollees increase substantially--say, to 50 per year--the demand could be satisfied by $500,000 in mortgage loans each year, a small fraction of the marketwide volume.

The FHA's role is critical. Most of those screened out by brokers or refused loans by mortgage bankers are apparently turned down not because they are in the allowance program but because their credit histories do not meet FHA standards. It should be presumed that the FHA has enough experience to distinguish risky from reliable borrowers, but its guidelines apparently determine how many renter enrollees become homeowners.

During the second year of the program, we do not foresee a great change in the level of home purchase activity by renter enrollees.* About 2,000 renters enrolled during the program's second year, nearly as many as in the first year; second-year enrollment differs primarily in that more of the enrollees are white and their incomes are somewhat

*Between April and December of 1976, renter enrollees purchased an additional 48 homes.

higher. Allowance benefits were increased by about 5 percent in September 1976, which adds to the enrollees' ability to pay; but home prices have risen by at least that much.

On the supply side of the market, we expect institutional lenders to have more loanable funds during the year ending in March 1977 than they did during the previous year.

We will continue to monitor the dealings of HAO clients with real estate brokers and mortgage lenders, hoping to clarify the ambiguous interactions between consumer preferences and lending standards, and noting signs of a change in either.

III. IMPROVEMENTS TO PARTICIPANTS' HOMES

Under the rules of the housing allowance program, monthly payments are made only to enrollees whose current dwellings have been approved by the HAO as to space and interior privacy, the presence of essential facilities, and the absence of hazards to health or safety.

If a dwelling occupied at the time of enrollment fails the HAO's on-site evaluation, to qualify for payment the enrollee must either arrange for its repair or move to another acceptable dwelling. Once approved, a dwelling is reevaluated annually during the participant's residence to make sure it continues to meet program standards. If a dwelling fails its annual evaluation, allowance payments are suspended until repairs are made or until the participant moves to an acceptable dwelling.

Following an evaluation, the HAO simply reports the findings, including a list of deficiencies, to the client. If the client is a homeowner, arranging for needed repairs is entirely his responsibility. A renter client may undertake the repairs himself or persuade his landlord to do them, perhaps by negotiating a compensatory rent increase or by threatening to move. The owners of rental property thus learn that program participants can be attracted or retained as tenants only if the property is maintained.

This section reviews the demand for home repairs and improvements generated by the program through 31 March 1976, how the demand was met by the home repair industry, and how the work was financed. Our information on types of repairs, who did the work, and repair costs is for an overlapping period--January through June of 1976.

Briefly, during the first year of open enrollment nearly 1,500 dwellings were repaired specifically to qualify them for occupancy by program participants. The repairs rarely involved major alterations or large cash outlays and were done mostly by program participants, their friends, or their landlords. Voluntary repairs, made during the year following certification of each participant's dwelling, were more substantial, more costly, and made considerable use of home repair contractors.

We cannot yet estimate what proportion of the voluntary repairs should be attributed to the program. Even if all are counted, program-induced demands for materials and labor were too small during the first year of open enrollment to strain the resources of suppliers or contractors. Nor does it appear that program participation was significantly hampered by lack of the cash or credit needed to pay for repairing substandard dwellings.

DEMAND FOR HOME IMPROVEMENTS

About half of those who enrolled in the program before 1 April 1976 were, when they enrolled, living in dwellings that subsequently failed their initial evaluation. Some enrollees moved to other dwellings that also failed initially. By 1 April, 1,465 dwellings (744 owner-occupied and 721 rented homes) had been repaired and approved by the HAO for occupancy. Thus at the end of the first program year, one out of every three dwellings occupied by enrollees had been repaired in order to meet program standards.

In January 1976 the HAO began collecting information on how such repairs were made and how much they cost. These data were obtained from clients during reevaluations of failed dwellings and annual evaluations of previously certified dwellings. We use information collected between January and June of 1976 to estimate the cost of repairs made during the first program year.

Initial and Annual Repairs

During the first six months of 1976, some 831 dwellings were repaired to qualify for initial or continued occupancy (see Table 3.1).* Evaluation records distinguish 1,312 repair actions,** most of which

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*A few of the repairs listed in Table 3.1 were to dwellings that failed the annual evaluation. Repair data were not collected (because the procedure for doing so had not been developed) from 50 owners and 51 renters whose homes were evaluated early in January 1976.

**As shown in the stub of the table, repair actions include repairing, replacing, installing, connecting, and painting, as relevant to the item acted upon. The evaluation records distinguish these modes of repair.

Table 3.1

REPAIRS MADE TO QUALIFY DWELLINGS FOR OCCUPANCY BY PROGRAM ENROLLEES: JANUARY-JUNE 1976

Type of Repair or Improvement	Percentage Distribution of Repair Actions		
	Owners	Renters	Total
Ceiling repaired, replaced, or installed	1.0	1.3	1.1
Curtain or partition installed	5.8	7.3	6.6
Door repaired or installed	3.2	2.0	2.5
Electrical wiring or fixture repaired, replaced, or installed	4.5	5.1	4.8
Floor repaired	1.0	2.4	1.8
Handrail repaired or installed	40.9	30.4	35.2
Heating system repaired, replaced, or installed	1.2	3.7	2.5
Plumbing system or fixture repaired, replaced, or installed[a]	6.5	11.0	8.9
Porch or steps repaired or replaced	3.2	2.0	2.5
Roof repaired or replaced	1.5	.3	.8
Wall repaired or painted	3.2	1.4	2.2
Water heater repaired, replaced, or installed	2.8	5.6	4.3
Window repaired,[b] replaced, or installed	18.8	21.2	20.1
Other or unspecified	6.5	6.5	6.5
Total	100.0	100.0	100.0
Number of repair actions	601	711	1,312
Number of dwellings repaired	408	423	831
Number of dwellings evaluated	441	459	900

SOURCE: Tabulated by HASE staff from HAO records for Site II, covering 900 deficiency reevaluations conducted between 1 January and 30 June 1976 for which repair data were collected.

NOTE: Entries describe repairs and improvements made to correct housing defects noted on initial or annual evaluations of enrollees' dwellings.

[a] Includes bathtub, toilet, sink, and shower.

[b] Includes prying open sealed windows to improve ventilation.

remedied rather simple defects. Thus 35 percent concerned handrails for interior stairways and 20 percent were repairs to broken or sealed windows. Actions on electrical, heating, and plumbing systems and appliances accounted for 21 percent of the total; some simply entailed connecting utilities or appliances that were already in place. Less than 10 percent of the repairs were to ceilings, walls, floors, foundations, roofs, or other structural parts.

When dwellings were reevaluated after a year of occupancy by households receiving payments, the occupants were asked to report all repairs and improvements completed during that year. HAO records show 971 repair actions on 367 of the 581 dwellings that were reevaluated during the first half of 1976.*

These annual repairs are distributed differently by type than the repairs required by the HAO (see Table 3.2). Walls and plumbing systems rather than handrails and windows were the most frequently repaired items. Roofs were repaired on a sixth of the dwellings (10 percent of all repairs). Altogether, structural repairs account for 43 percent of the total, and repairs to utility systems or appliances account for 27 percent.

Tables 3.1 and 3.2 distinguish owner-occupied from rented homes. It is interesting that owner-occupied homes averaged fewer initial repairs but more annual repairs than did rented homes:

	Repair Actions per Dwelling		
	Owners	Renters	Total
Initial repairs	1.36	1.55	1.46
Annual repairs	2.10	.82	1.67

However, the repairs to owned and rented dwellings are similarly distributed by type and shift in the same way from minor initial repairs to major annual repairs.

Who Did the Work

The differences between initial and annual repairs reflect in

*Repair data were not collected from 21 homeowners and 22 renters whose homes were evaluated early in January 1976.

Table 3.2

VOLUNTARY REPAIRS TO PREVIOUSLY CERTIFIED DWELLINGS: JANUARY-JUNE 1976

Type of Repair or Improvement	Percentage Distribution of Repair Actions		
	Owners	Renters	Total
Ceiling repaired, replaced, or installed	3.9	2.5	3.7
Curtain or partition installed	.2	.6	.3
Door repaired or installed	4.6	6.9	4.9
Electrical wiring or fixture repaired, replaced, or installed	4.1	3.1	3.9
Floor repaired	5.3	5.6	5.4
Handrail repaired or installed	2.2	1.3	2.1
Heating system repaired, replaced, or installed	4.4	1.9	4.0
Plumbing system or fixture repaired, replaced, or installed[a]	15.7	21.3	16.6
Porch or steps repaired or replaced	4.8	1.9	4.3
Roof repaired or replaced	10.5	7.5	10.0
Wall repaired or painted	18.1	27.5	19.7
Water heater repaired, replaced, or installed	2.6	2.5	2.6
Window repaired,[b] replaced, or installed	5.7	7.5	6.0
Other or unspecified	17.9	10.0	16.6
Total	100.0	100.0	100.0
Number of repair actions	811	160	971
Number of dwellings repaired	286	81	367
Number of dwellings evaluated	386	195	581

SOURCE: Tabulated by HASE staff from HAO records for Site II, covering 581 annual reevaluations conducted between 1 January and 30 June 1976 for which repair data were collected.

NOTE: Entries describe repairs and improvements made voluntarily during the year preceding annual evaluations of previously certified dwellings. They cover only participants whose annual evaluations were conducted during the first half of 1976.

[a]Includes bathtub, toilet, sink, and shower.

[b]Includes prying open sealed windows to improve ventilation.

how the work was done. As shown in Table 3.3, professionals were hired for only 15 percent of the simple initial repairs but 41 percent of the more difficult annual repairs. The remainder in both cases were done by the occupants, their friends or relatives, or their landlords. A few were repaired by volunteer workers for community organizations.

Table 3.3

INITIAL AND ANNUAL REPAIRS BY WHO DID THE WORK:
JANUARY-JUNE 1976

Party Doing All or Most of the Work	Percentage Distribution of Repair Actions					
	Initial Repairs			Annual Repairs		
	Owners	Renters	Total	Owners	Renters	Total
Homeowner	45.2	6.3[a]	24.1	36.4	3.8[a]	31.1
Renter	1.2[b]	33.8	18.8	.5[b]	33.8	5.9
Landlord	2.8[b]	40.0	23.0	.1[b]	37.6	6.2
Relative or friend[c]	26.4	8.6	16.7	13.0	3.2	11.4
Contractor	20.5	10.4	15.0	45.0	19.1	40.8
Civic organization	3.3	.3	1.7	3.3	--	2.8
Other	.5	.7	.6	1.6	2.5	1.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
Number of repairs	599	711	1,310	807	157	964
Number of dwellings	408	423	831	286	81	367

SOURCE: Tabulated by HASE staff from HAO records for Site II, covering 900 deficiency reevaluations and 581 annual evaluations conducted between 1 January and 30 June 1976 for which repair data were collected.

NOTE: Information on who did the work was not reported for two initial and seven annual repair actions; these are excluded from the distributions shown in the table. Distributions may not add exactly to 100.0 because of rounding.

[a] Manifest coding or keyboarding error. Probably should be coded as landlord.

[b] Manifest coding or keyboarding error. Probably should be coded as homeowner.

[c] Relative or friend of HAO client occupying the dwelling.

Contractors were hired more often by homeowners than by landlords or tenants, probably for two reasons. First, most of the enrolled homeowners are elderly and many are women, unable to do heavy work even if they had the skills. Second, most landlords develop home repair skills in the course of property management. Also, their tenants are often able to help; tenants did about a third of both the initial and annual repairs to rented dwellings, and the friends or relatives of tenants also helped substantially with initial repairs.

Initial and Annual Repair Costs

Table 3.4 shows that initial and annual repairs also differ sharply in reported costs. Note that these data exclude the value of the unpaid labor contributed by homeowners, tenants, relatives, friends, landlords, and community organizations; only cash outlays for materials or paid labor were reported.* Equally important, our information comes entirely from HAO clients; those who were renters often did not know the cost of repairs paid for by their landlords. Those in multiple dwellings may not even have been aware of repairs elsewhere in the building (e.g., to a basement furnace or water heater).

We presume that the most complete entries are for homeowners. Including those who made no repairs, the median cash outlay for initial repairs was about $11, but the few large jobs bring the average to $126. Annual repairs were much more expensive; the median cash outlay per dwelling was $129 and the average was $140. However, no annual repairs were reported for 26 percent of the homes evaluated. Excluding those dwellings raises the median to $253 and the average to $553.

The figures for renters are lower, especially for annual repairs, partly reflecting less use of paid labor and partly tenants' lack of information about landlord-paid repair costs. For example, Table 3.3 shows that contractors were hired for 45 percent of the annual repairs to owner-occupied homes but only 19 percent of those to rented dwellings. Yet the distribution of annual repairs by type (Table 3.2) is similar for owners and renters.

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*Early in 1977, the HAOs began collecting client estimates of the amount of unpaid labor on each repair action. That information can be used to estimate full repair costs.

Table 3.4

CASH EXPENSES FOR INITIAL AND ANNUAL REPAIRS TO PARTICIPANTS' DWELLINGS: JANUARY-JUNE 1976

Cash Expense ($) per Dwelling Evaluated	Percentage Distribution of Dwellings Evaluated					
	Initial Repairs			Annual Repairs		
	Owners	Renters	Total	Owners	Renters	Total
Not repaired, no expense	7.5	7.9	7.7	25.9	58.8	36.9
Repaired at no expense	20.9	25.6	23.3	2.8	1.5	2.4
Repaired, by expense amount:						
1-20	41.7	40.0	40.9	3.1	8.8	5.0
21-40	11.8	12.9	12.4	2.6	10.8	5.3
41-70	5.2	5.3	5.2	4.4	4.1	4.3
71-100	3.9	4.2	4.0	7.3	1.5	5.3
101-150	2.3	1.1	1.7	7.0	2.1	5.3
151-200	2.0	.9	1.4	5.4	1.5	4.1
201-300	.5	.9	.7	8.5	2.6	6.6
301-400	.2	.2	.2	5.4	1.5	4.1
401-500	.2	.4	.3	4.9	2.1	4.3
501-600	--	--	--	3.4	2.1	2.9
601-700	.2	.2	.2	2.6	--	1.7
701-1,000	.7	--	.3	6.2	1.0	4.5
1,000 or more	2.7	.4	1.6	10.4	1.5	7.4
Total	100.0	100.0	100.0	100.0	100.0	100.0
Median cost ($)	11	9	10	129	(*a*)	43
Average cost ($)	126	34	80	410	90	303

SOURCE: Tabulated by HASE staff from HAO records for Site II, covering 900 deficiency reevaluations and 581 annual evaluations conducted between 1 January and 30 June 1976 for which repair data were collected.

NOTE: Costs were estimated by the client and do not include unpaid labor. Renter clients may lack information on costs paid by their landlords. Information on costs was missing for three initial and one annual evaluation; these are excluded from the distributions shown in the table. Distributions may not add exactly to 100.0 because of rounding.

[a] Over half of all cases reported no repair expenses.

Annual repair costs for enrollees may be compared with those for similar housing in St. Joseph County. Our baseline surveys of the owners and occupants of residential properties used more detailed questions to obtain information on 1974 expenses for repairs, replacements, and improvements to both owner-occupied and rented homes. Table 3.5 shows estimated expenses for dwellings most comparable to the housing occupied by program participants (urban homes with low value or rent).

Table 3.5

AVERAGE ANNUAL EXPENSES FOR REPAIRS, REPLACEMENTS, AND IMPROVEMENTS TO MODEST URBAN DWELLINGS: ST. JOSEPH COUNTY, 1974

Item	Average Expense in 1974 ($ per Unit)			
	Home-owners	Renters		
		Landlords	Tenants	Total
Cash Expense				
Repairs	83.80	65.20	4.50	69.70
Replacements	313.60	59.90	9.60	69.50
Improvements	208.90	66.50	*(a)*	66.50
Total	606.30	191.60	14.10	205.70
Unpaid Labor[b]				
Repairs	31.40	1.30	5.50	6.80
Replacements	35.00	1.00	1.20	2.20
Improvements	38.60	--	*(a)*	--
Total	105.00	2.30	6.70	9.00
All items	711.30	193.90	20.80	214.70

SOURCE: Estimated by HASE staff from records of the baseline surveys of landlords, tenants, and homeowners in Site II.

NOTE: Estimates for homeowners are based on 363 records for properties in sampling stratum 12 (urban, owner-occupied, lower tercile of equalized assessed value). Estimates for landlords are based on 269 records for properties in sampling strata 1, 2, and 3 (urban rental, lower quartile of gross rent). Estimates for tenants are based on all tenant records associated with these properties.

[a]All capital expenditures by tenants are classified as replacements; they are usually appliances such as stoves or refrigerators.

[b]Unpaid labor by homeowners and tenants is valued at $1.60 per hour; unpaid labor by landlords was valued by the respondents at an average of $1.84 per hour.

The annual cash expenses of these homeowners averaged $606, which may be compared with the average of $410 for homeowners in the allowance program. However, the *median* cash expense for urban owners of low-valued homes (not shown in Table 3.5) was only $200, and for owners in the allowance program, $129. For both groups of homeowners, a few very large expenditures raise the average far above the median.

By either measure, it seems that the typical program participant spent only two-thirds as much on repairs, replacements, and improvements as did the typical owner of a modest home. However, until more annual repair data accumulate, we prefer not to draw general conclusions about the program's effects on homeowners' repair expenditures.

Cash outlays for repairs, replacements, and improvements to rental properties similar to those occupied by program participants averaged $206 per unit, including about $14 spent by the tenant. Renters in the allowance program reported an average cash outlay of $90, a figure we judge to be a considerable understatement. For technical reasons, we are unable to compare medians for rented dwellings.*

First-Year Repair Costs

Assuming the initial and annual repairs completed during the first half of 1976 are typical, we can estimate total cash expenses for repairs to participants' dwellings during the first year of enrollment. Table 3.6 shows the factors we used to make the estimate.

Based on the tenure mix of first-year enrollees, the percentages of owners and renters who repaired their dwellings to qualify for assistance, and the average cash expense per repaired dwelling, we estimate that initial repairs entailed expenditures of $27,532 per thousand enrollees. During the first year, 4,646 households enrolled, so the total outlay for initial repairs must have been about $130,000.

A similar calculation leads to an estimated outlay of $267,895 for each thousand enrollees during the first year of their participation. As of 1 April 1976, the earliest enrollees were just completing

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*Our survey of rental properties collects expense data for entire properties, which can readily be transformed into an average per dwelling. To compute the median expense per unit would require a separate account for each dwelling on each property.

Table 3.6

ESTIMATES OF INITIAL AND ANNUAL REPAIR EXPENSES
PER THOUSAND ENROLLEES OR PARTICIPANTS

Tenure	Enrollees or Participants: Assumed Number	Enrollees or Participants: Percentage Making Repairs	Cash Expense ($): Average per Repaired Dwelling[a]	Cash Expense ($): Total
Initial Repairs by Enrollees				
Owner	496	32.3	136	21,788
Renter	504	30.8	37	5,744
Total	1,000	31.5	87	27,532
Annual Repairs by Participants				
Owner	556	74.1	553	227,834
Renter	444	41.2	219	40,061
Total	1,000	59.4	451	267,895

SOURCE: Calculated by HASE staff from HAO enrollment and participation records through 31 March 1976 and repair records for 1 January to 30 June 1976.

NOTE: See Tables 3.1, 3.2, and 3.4 for details of repair incidence and costs. Vertical and horizontal totals for cash expenses differ slightly because of rounding.

[a]The average costs shown in Table 3.4 include dwellings that were not repaired, so are smaller than the entries below. In this table, enrollees or participants not making repairs are factored out separately.

that first year; but if we count a full year's expenditure for each of the 2,602 enrollees then receiving payments, the annual total would be about $700,000.

The total of $830,000 for both initial and annual repairs during the year ending 31 March 1976 is far from exact. Nor should it be considered a net addition to the community's annual cash expenditure for residential repairs, replacements, and improvements, which amounted to

\$37.8 million in 1974.* Much of the work would have been done even without the incentive and the means provided by housing allowance payments. However, it does give us a sense of the scale of home repair work associated with participants' dwellings: In terms of cash outlays, it amounts to around 2.2 percent of the county total.

ROLE OF HOME REPAIR CONTRACTORS

Table 3.3, above, showed that professional contractors did 15 percent of the initial repairs and 41 percent of the annual repairs completed during the first half of 1976. Even if we treat all such work as a net addition to contractors' workloads, the resources of the county's home repair industry would not be strained.

Table 3.7 shows the distribution of costs for two-thirds of the contract repairs completed during the first half of 1976. (In the remaining cases, the HAO client--our only source of information--did not know the cost per item because either the contractor billed several repairs jointly or the landlord paid for the work.) Initial repairs by contractors cost an average of \$219; annual repairs cost an average of \$272. These figures are averages for repair actions, not repaired dwellings.

Although these data have severe limitations, we have used them to estimate the dollar volume of contracted work on participants' dwellings during the year ending 31 March 1976. Table 3.8 shows the factors involved in our calculations. The general assumptions about enrollment and participation by homeowners and renters are those used earlier to estimate total repair expenditures.

Briefly, we estimate that the cost of initial repairs undertaken by each thousand enrollees includes about \$15,000 for contracted work; and that the cost of annual repairs undertaken by each thousand participants includes about \$170,000 for contractors. At these rates, contractors' charges for work on participants' dwellings would total

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*This estimate is based on sample data from the baseline surveys of landlords, tenants, and homeowners, and covers cash expenditures for materials and labor, including payments to contractors.

Table 3.7

COSTS OF INITIAL AND ANNUAL REPAIRS MADE BY CONTRACTORS TO PARTICIPANTS' DWELLINGS: JANUARY-JUNE 1976

	Percentage of All Repairs Made by Contractors					
	Initial Repairs			Annual Repairs		
Cost of Repair ($)	Owners	Renters	Total	Owners	Renters	Total
Under 11	17.1	29.4	20.9	2.4	7.7	2.6
11-25	21.0	32.4	24.5	7.9	--	7.5
26-50	34.2	23.5	30.9	17.1	--	16.2
51-75	6.6	5.9	6.4	13.9	15.3	14.0
76-100	2.6	--	1.8	12.3	15.3	12.5
101-200	5.3	2.9	4.5	17.5	15.3	17.4
201-500	3.9	5.9	4.5	16.3	7.7	15.8
501-1,000	3.9	--	2.7	7.1	30.8	8.3
Over 1,000	5.3	--	3.6	5.6	7.7	5.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
Median cost ($)	35	21	30	94	176	95
Average cost ($)	296	47	219	260	495	272

SOURCE: Tabulated by HASE staff from HAO records for Site II, covering 900 deficiency reevaluations and 581 annual evaluations conducted between 1 January and 30 June 1976 for which repair data were collected.

NOTE: Distributions are based on 110 initial and 265 annual repair actions for which contractors' charges were separately reported. Another 87 initial and 128 annual repair actions were completed by contractors but the HAO client was able to give only aggregated cost estimates covering several repair actions. Distributions may not add exactly to 100.0 because of rounding.

about $510,000, comprising $70,000 for initial repairs and $440,000 for annual repairs.

Contract work thus accounts for over 60 percent of all cash expenses for repairs to participants' dwellings. Surely at least half this work would have been done even without the incentive and means provided by the allowance program. If so, the remainder would hardly tax an industry that does at least $5 million worth of business annually, and perhaps as much as $25 million.

Table 3.8

ESTIMATES OF INITIAL AND ANNUAL CONTRACTED REPAIR
COSTS PER THOUSAND ENROLLEES OR PARTICIPANTS

	Enrollees or Participants		Contracted Repairs		Cash Expense ($)	
Tenure	Assumed Number	Percentage Making Repairs	per Repaired Dwelling	Total	per Contracted Repair	Total
Initial Repairs by Enrollees						
Owner	496	32.3	.30	48.1	296	14,237
Renter	504	30.8	.17	26.4	47	1,241
Total	1,000	31.5	.24	74.5	208	15,478
Annual Repairs by Participants						
Owner	556	74.1	1.27	523.2	260	136,032
Renter	444	41.2	.37	67.7	495	33,512
Total	1,000	59.4	.99	590.9	286	169,544

SOURCE: Calculated by HASE staff from HAO enrollment and participation records through 31 March 1976 and repair records for 1 January to 30 June 1976.

NOTE: See Tables 3.3 and 3.6 for details of contractor repair actions and costs. Vertical and horizontal totals for cash expenses differ slightly because of rounding.

The industry in St. Joseph County, as elsewhere, is amorphous, consisting of a few general contractors and hundreds of independent tradesmen--such as electricians, plumbers, and carpenters. Permits issued in 1975 for home repairs and improvements estimated their cost at $5.5 million; the corresponding figure for 1976 was $6.2 million. But many repairs do not require permits and not all permit work is done by contractors, so these figures do not reliably measure the industry's volume. From our sample surveys, we estimate that cash expenditures in 1974 for repairs, replacements, and improvements totaled $37.8 million. If, as appears to be true for program-related repairs, 60 percent of the dollar volume is accounted for by contractors, their billings would have been $22.7 million in 1974.

It seems safe to conclude that the allowance program caused at most a very small increase in the countywide demand for contract repairs and improvements during its first year. Even in the second year, when the number of enrollees and participants roughly doubled, we doubt that the net increase in program-related expenditures will noticeably affect the industry.

Judging by the nature of the contract repairs reported by HAO clients, the work is distributed by trade in roughly the following percentages:

Carpentry	30
Plumbing and heating	28
Roofing	11
Electrical	7
Other	24
Total	100

Given the diversity of the work as well as its modest volume, no single trade is likely to be taxed by inordinate demands for allowance-induced repairs. The contractors we interviewed agreed with that conclusion.

FINANCING HOME IMPROVEMENTS

Because the HAO does not advance money to enrollees (or their landlords) for home repairs or improvements and does not authorize allowance payments until all the defects noted in an enrollee's dwelling have been remedied, the lack of cash or credit to make repairs could impede participation in the program. In St. Joseph County, we find little evidence of such difficulties.

One reason is that the cash outlay needed for initial repairs is typically small, at least for dwellings that are repaired (see Table 3.4, above). During the first half of 1976, over 90 percent of all homeowners who made initial repairs reported cash expenses of under $100 and only 3 percent spent more than $500. The expenses reported for repairs to rented dwellings were even lower.

It is possible that clients whose repair costs would be high leave the program without qualifying for payments because they lack the cash to pay for repairs and are unwilling or unable to borrow it. But the HAO log of client complaints has none on this score. And it appears that homeowners whose initial repair costs are high have access to credit from a variety of sources: lending institutions, contractors, and for residents of South Bend, the city government. Although we have not tabulated the survey data on improvement loans to landlords, we judge that they would have no difficulty raising the typically small sums needed for program-required repairs.

Annual repairs entail larger expenditures, and we have considerable anecdotal evidence that program participants have used their housing allowances to pay for them. Most borrowing from institutional lenders has probably been for annual rather than initial repairs. City-sponsored programs, however, have focused on initial repairs needed to qualify homeowners for assistance payments.

Institutional Lenders

Although commercial banks in the county have not financed home purchases by program participants, their installment loan departments do lend to low-income homeowners for repairs and improvements. Three commercial banks and one mortgage bank which also make home improvement loans estimate that during the first program year they jointly received between 80 and 100 applications from HAO clients and granted loans to nearly half of them.

By far the most common reason for refusing a loan was the applicant's poor credit record. One lender said he had trouble verifying that the applicant would receive an allowance if the indicated repairs were made.

Retail Credit

When an HAO client does his own repairs, he usually buys materials or even appliances such as stoves or refrigerators. If his credit record is good, the building supply or appliance store will usually offer him ordinary retail credit. Some home repair contractors are also willing to extend credit beyond the normal monthly billing cycle. We have documented two instances in which an HAO client financed his repairs this way.

Public and Nonprofit Support of Home Improvements

The city of South Bend allocated slightly over $1 million in fiscal 1976 to six housing repair and improvement programs designed to supplement the housing allowance program. The funds came from a larger federal grant under the Housing and Community Development Act (HCDA) of 1974. Table 3.9 describes the six programs.

Three of them offer outright grants to low-income or elderly homeowners to help them repair or rehabilitate their dwellings; one is specifically for elderly homeowners whose dwellings have failed an HAO evaluation. A fourth grant program supports nonprofit organizations (such as RENEW) that acquire and rehabilitate homes for sale to low-income households.

One of the two loan programs is aimed at restoring a historic district of the city, so has little relevance to the allowance program. The other underwrites a $200,000 fund established by a bank consortium to make market-rate home improvement loans to homeowners unable to obtain ordinary credit.

The six programs began during the last quarter of 1975; the table shows their status as of 1 January 1976. HAO records for January to June of 1976 show that 63 homeowner clients obtained funding for home repairs from one or another of these programs.

However, in June 1976 HUD ruled that HCDA funds should not support three of the programs--emergency repairs, HAO referrals, and nonprofit rehabilitation--because they were citywide rather than restricted to a designated renewal area. The cancellation of those programs, and the principle on which they were cancelled, limits the city's ability to help HAO clients qualify for assistance.*

Another potential source of home improvement loans for HAO clients is the newly formed St. Joseph County Community Federal Credit Union, sponsored by the Urban League. The new credit union took over the assets and liabilities of the former Model Cities Credit Union and plans to offer small home improvement loans at reasonable interest rates.

SUMMARY AND PROSPECTS

During the first year of open enrollment in the allowance program,

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*In June 1976 over 150 elderly homeowners had applied for but not yet received grants under the HAO referral program.

Table 3.9

HOUSING REPAIR AND IMPROVEMENT PROGRAMS FUNDED BY CITY OF SOUTH BEND, 1975

Program	Type of Aid	Eligible Recipients	Conditions and Limitations	Program Area	Amount Budgeted ($)	Program Activity Through December 1975
Project rehabilitation	Grant	Low-income homeowners	$8,000 maximum	SE and NE neighborhoods	535,000	Advertising for bids from rehabilitation contractors
Emergency repair	Grant	Homeowners with housing emergencies, no repair funds	$2,000 maximum	Citywide	150,000	13 homes repaired at average cost of $551; 33 applicants refused.
HAO referrals	Grant	Elderly homeowners whose dwellings fails HAO evaluation	$5,000 maximum	Citywide	100,000	Contractors' bids invited on 17 homes
Nonprofit rehabilitation	Grant	Nonprofit groups who buy, rehabilitate, and sell modest homes	Negotiated by city	Citywide	50,000	2 grants of $5,000 to RENEW
Home improvement loans[a]	Loan	Homeowners unable to obtain ordinary credit for home improvements	$5,000 maximum at 9.0%, if approved by bank credit committee	Seven deteriorating neighborhoods	100,000	2 loans averaging $1,900 approved: 12 applications pending.
Southhold restoration	Loan	Chosen by Southhold directors	Below-market interest rate	W. Washington Historical District	75,000	None

SOURCE: Compiled by HASE staff from program documents.

NOTE: All funds except for home improvement loans are derived from a federal community development block grant for fiscal 1976.

[a] Administered by a consortium of commercial banks which established a $200,000 revolving loan fund backed by a city guarantee of $100,000 against defaults.

744 owner-occupied and 721 rented homes were repaired to qualify the occupants for housing allowances. The initial repairs were generally simple and inexpensive, seldom requiring either the services of professional contractors or credit. The median cash outlay per repaired dwelling was about $10, and most of the work was done by either the occupants, their friends, or the landlord.

In the year following their initial certification, many participants' dwellings were further repaired and improved. The annual repairs focused on structural features (e.g., walls and roofs) and utility systems. They were much more expensive than initial repairs and much of the work was done by professional contractors. The median expenditure by homeowners was about $129; renters were unable to tell us about all their landlords' expenditures, but it is clear that annual repair costs for rented dwellings were usually considerably less than for owner-occupied homes. Professional contractors did 45 percent of the repairs on owner-occupied homes and 19 percent of those on rented dwellings.

Annual repairs were not required by the HAO, though some may have been made in anticipation of the HAO's annual reevaluation, and allowance benefits helped pay for them. Comparing the annual repair expenditures of participating homeowners with those of all owners of modest homes shows that both the median and the average amount spent by participants were only two-thirds of the corresponding amount spent by all owners.

We cannot yet judge the program's effects on the demand for home repairs and improvements in St. Joseph County, but are reasonably sure that program-induced demands are too small to strain the home repair industry. During the year ending 31 March 1976, the volume of contracted work on participants' homes was about $510,000. The annual volume of all contract home repair in St. Joseph County is at least $5 million and could be as much as $25 million. Total cash expenditure for repairs to participants' homes was about $830,000, whereas the countywide total for all home repairs, replacements, and improvements was nearly $38 million.

Partly because the cost of initial repairs was typically trivial and partly because enrollees in the allowance program have access to home improvement loans and grants from a variety of sources, there is no evidence that participation has been impeded by the inability to finance repairs. Loans are available from local banks to those with good credit records, and the city of South Bend offers assistance to those who might not qualify for institutional loans.* So far the issue of credit is more pertinent to annual than to initial repairs.

During the second year of the program, the demand for initial repairs should be about the same as during the first year. Since the number of participants doubled during the second year, their annual repair expenditures should also double. It is nevertheless unlikely that the net increase in repair expenditures due to the program will strain the resources of either contractors, suppliers, or lenders.

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*The termination in June 1976 of a city program offering grants to elderly homeowners for home repair to meet HAO standards may impede that group's participation in the future.

IV. MORTGAGE LENDING IN ST. JOSEPH COUNTY

Although real estate brokers reported about 200 contacts with HAO clients interested in buying homes, only 39 clients completed such a transaction during the first year of enrollment. Our interviews with brokers indicate that they normally screen prospective buyers as to income and creditworthiness, sending only the good prospects to the several mortgage banks that customarily make FHA-insured loans. Neither commercial banks nor savings and loan associations reported any loan applications from program participants.

This section explores the institutional policies that affect the availability of credit to program participants. We find that conventional mortgage lenders (commercial banks and savings and loan associations) have been avoiding the parts of South Bend where inexpensive homes are most abundant and that six of the largest institutions are unwilling to lend on properties valued at less than $10,000. However, two conventional lenders are still active in the neighborhoods in question and several still lend on inexpensive homes.

Federal and local opposition to redlining,* combined with an ample supply of loanable funds, should influence the policies of St. Joseph County lenders in ways favorable to buyers of inexpensive homes. Although the allowance program may increase the number who can afford homeownership, we do not think the program alone would alter lenders' policies. Under most foreseeable circumstances, the continued willingness of several mortgage bankers to write FHA-insured loans is the key to home purchase by program participants.

RESIDENTIAL FINANCE, 1960-76

As in Brown County, financial institutions supply most of the

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*Redlining is discrimination by lenders against properties in a specific area (delimited on a map by a red boundary line). It may entail flat refusal to lend, lending for shorter periods or at higher interest rates than those prevailing locally, or applying more stringent tests of income adequacy or creditworthiness to the buyer.

residential loans in St. Joseph County. They held mortgages on 78 percent of the owner-occupied homes and 73 percent of the rental properties with liens outstanding in 1974 (see Table 4.1). The remaining liens were mostly land contracts (rare in Brown County) or mortgages held by previous owners, friends, or relatives.

Table 4.1

PROPERTIES WITH CURRENT DEBT BY YEAR DEBT WAS INCURRED AND SOURCE OF FUNDS: 1974

Year Debt Was Incurred	Number of Properties with Debts	Percentage Distribution by Source of Funds				
		Private Firm or Institution[a]	Previous Owner[b]	Friend or Relative	Other	Total
Owner-occupied Homes						
Before 1960	3,093	83.3	4.7	9.7	2.3	100.0
1960-69	13,690	78.3	19.9	1.8	--	100.0
1970-74	17,860	75.8	23.0	1.2	--	100.0
All years	34,643	77.5	20.1	2.2	.2	100.0
Rental Properties						
Before 1960	273	90.1	9.9	--	--	100.0
1960-69	1,415	68.8	28.9	2.1	.2	100.0
1970-74	2,100	73.2	25.8	1.0	--	100.0
All years	3,788	72.8	25.8	1.3	.1	100.0

SOURCE: Tabulated by HASE staff from records of the baseline surveys of homeowners and landlords in Site II.

NOTE: Estimates are based on sample data provided by 321 homeowners and owners of 688 rental properties in St. Joseph County. Residential debt includes all first mortgage loans and land contracts for which the subject property is collateral. Junior liens, unsecured home improvement loans, and debts incurred in the years indicated but amortized before 1974 are excluded.

[a]May include a few direct loans from federal agencies. Survey respondents did not always distinguish federally guaranteed or insured loans from federally funded loans.

[b]Includes all land contracts as well as some mortgage loans. A land contract is by definition held by the previous owner of the property, but that owner may never have occupied the property.

Since 1960, the shares of the market held by different types of institutions have shifted (see Table 4.2). Before then, mortgage loans were written almost exclusively by commercial banks and savings and loan associations. By 1970-74, mortgage banks were writing 43 percent of the institutional loans on owner-occupied homes and 22 percent of

Table 4.2

INSTITUTIONAL MORTGAGES BY YEAR INCURRED AND TYPE OF LENDER: 1974

Year Loan Was Written	Number of Loans[a]	Percentage Distribution by Type of Lender				
		Mortgage Bank	Commercial Bank	Savings and Loan Assoc.	Other[b]	Total
Owner-occupied Homes						
Before 1960	2,059	3.2	44.9	45.2	6.7	100.0
1960-69	9,993	38.8	18.6	26.1	16.5	100.0
1970-74	12,658	42.6	28.3	19.1	10.0	100.0
All years	24,710	37.8	25.7	24.1	12.4	100.0
Rental Properties						
Before 1960	231	8.7	13.8	39.0	38.5	100.0
1960-69	943	20.8	35.6	35.5	8.1	100.0
1970-74	1,383	21.7	38.8	27.0	12.5	100.0
All years	2,557	20.2	35.4	31.2	13.2	100.0

SOURCE: Tabulated by HASE staff from records of the baseline surveys of homeowners and landlords in Site II.

NOTE: Estimates are based on sample data provided by 208 homeowners and owners of 498 rental properties with first mortgages extant in 1974 who identified the lending institution and the year the loan was made.

[a]Entries in this table account for 92 percent of the loans made by private firms or institutions, as reported in Table 4.1. In the remaining cases the respondent failed to identify the lender.

[b]Includes credit unions, commercial finance firms, and life insurance companies.

those on rental properties. Commercial banks have shifted their lending from owner-occupied homes to rental properties. Opposing the national trend, savings and loan associations in St. Joseph County have steadily lost ground since 1960. Credit unions, commercial finance firms, and life insurance companies have become more active in the home loan market.

Our survey records indicate that financial institutions wrote an average of 1,200 mortgage loans annually, 1960-69, and 3,000 annually, 1970-74.* But late in 1974, the commercial banks and savings and loan associations began losing savings deposits. Rather than seek alternative sources of loanable funds, they curtailed lending.** Mortgage banks, on the other hand, borrowed capital from financial institutions in states where interest rates were limited by usury laws. Mortgage banks in St. Joseph County were thus the most active lenders during the period of tight money and high (9 to 10.5 percent) interest rates.

The 1974-75 shortage of mortgage funds is reflected in residential sales. According to St. Joseph County's Multiple Listing Service, members of the Board of Realtors handled 2,546 sales in 1974; 2,288 in 1975; and 3,021 in 1976, when the capital shortage eased.*** Hence during the allowance program's first year, purchases by HAO clients may well have been restricted by market conditions that no longer prevail. Lenders with limited funds were not likely to commit them to small, risky mortgages.

In 1974, the ten financial institutions that now hold about 60 percent (dollar volume) of the outstanding mortgage loans in the county wrote 2,783 first mortgages and 1,827 other loans on residential property. From the entries in Table 4.3, we calculate that 41 percent of the first mortgages were uninsured, 22 percent were covered by private insurance, 21 percent were guaranteed by the VA, and 16 percent were insured by the FHA. As shown in the last column, the smaller loans were more likely than the larger ones to be backed by the VA or the FHA. Given the scarcity of mortgage money, we were surprised to learn

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*These estimates are calculated from entries in Table 4.1. The first column of Table 4.2 accounts for only 92 percent of all institutional loans.

**In Brown County, a number of institutions obtained loanable funds during this period by selling mortgages on advantageous terms to the Government National Mortgage Association (GNMA). Under the "tandem plan," the GNMA resold these mortgages at discounts to the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association, the Federal Treasury absorbing the loss. Only one lender in St. Joseph County made much use of this program.

***The board estimates that their members handle 95 percent of the sales in St. Joseph County and that 90 percent of all sales are financed by mortgages.

Table 4.3

NUMBER AND VALUE OF RESIDENTIAL LOANS WRITTEN BY TEN MAJOR LENDERS: 1974

Type of Loan	Number of Loans	Amount of Loans: Total ($ million)	Amount of Loans: Average ($ thousand)
First Mortgages			
Conventional uninsured	1,137	35.8	31.4
Conventional insured	613	15.5	25.1
VA guaranteed	597	10.9	18.3
FHA insured	436	8.0	18.4
Total	2,783	70.2	25.2
Other Residential Loans			
Second mortgage[a]	122	.5	4.1
Home improvement	1,215	3.7	3.1
Mobile home	490	2.7	5.5
Total	1,827	6.9	3.8

SOURCE: Tabulated by HASE staff from records of the 1975 survey of residential lenders.

NOTE: Entries are based on reports from four mortgage banks, three commercial banks, and three savings and loan associations, which together account for over 80 percent of the annual number of residential loans in St. Joseph County.

[a]Excludes loans known to have been used for home improvements.

that three-fifths of these first mortgages had downpayments of 20 percent or less and two-fifths had downpayments of 10 percent or less. (During the same period in Brown County, only a sixth of all first mortgage loans entailed downpayments of 10 percent or less.)

POLICIES TOWARD NEIGHBORHOODS

Residential property values in central South Bend have been falling for over a decade. Much housing there is badly deteriorated and many dwellings have been demolished. The shrinking population of the area has shifted from white to black.

It is often alleged that financial institutions contribute to this familiar pattern of neighborhood decay by their reluctance to finance real estate transactions in unstable submarkets. Such reluctance is understandable, since neighborhood decay diminishes the value of loan collateral even when the borrower and the property itself are above reproach. As a general practice, however, redlining can easily become a self-fulfilling prophecy.

Our interviews with lenders and brokers in 1974-75 revealed that financial institutions were generally reluctant to lend on properties in the area designated in the figure on p. 46 as the core of central South Bend. Most institutions avoided neighborhoods 400 and 410 and some avoided 600 and 610. Loans were available on properties in adjoining neighborhoods (e.g., 210, 620, 640, 650, 420-450) but on less favorable terms than elsewhere in the city.*

These impressions are generally confirmed by data on the geographic distribution of lending activity and mortgage terms in St. Joseph County, drawn from the 1975 HASE surveys of homeowners and landlords, public mortgage records for 1971 and 1975, and records of FHA-insured mortgages for 1971 and 1974-75.

<u>Area Data from HASE Surveys</u>

We report below on 1974 patterns of finance for owner-occupied homes and for rental properties by area within St. Joseph County. At the indicated level of geographical detail, survey samples are small, so only substantial differences should be considered significant.** We find a number of such differences for owner-occupied homes, but fewer for rental properties. The data indicate that residential finance in the core and inner rings of central South Bend most resembles that in the outlying rural area of the county, but differs sharply from the pattern in the urban and suburban fringe.

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*See the discussion in Grigsby, Shanley, and White (1975), pp. 19-20.

**Although standard errors of estimate were not computed, the notes to each table give enough detail on sample size to enable the reader to judge sampling reliability.

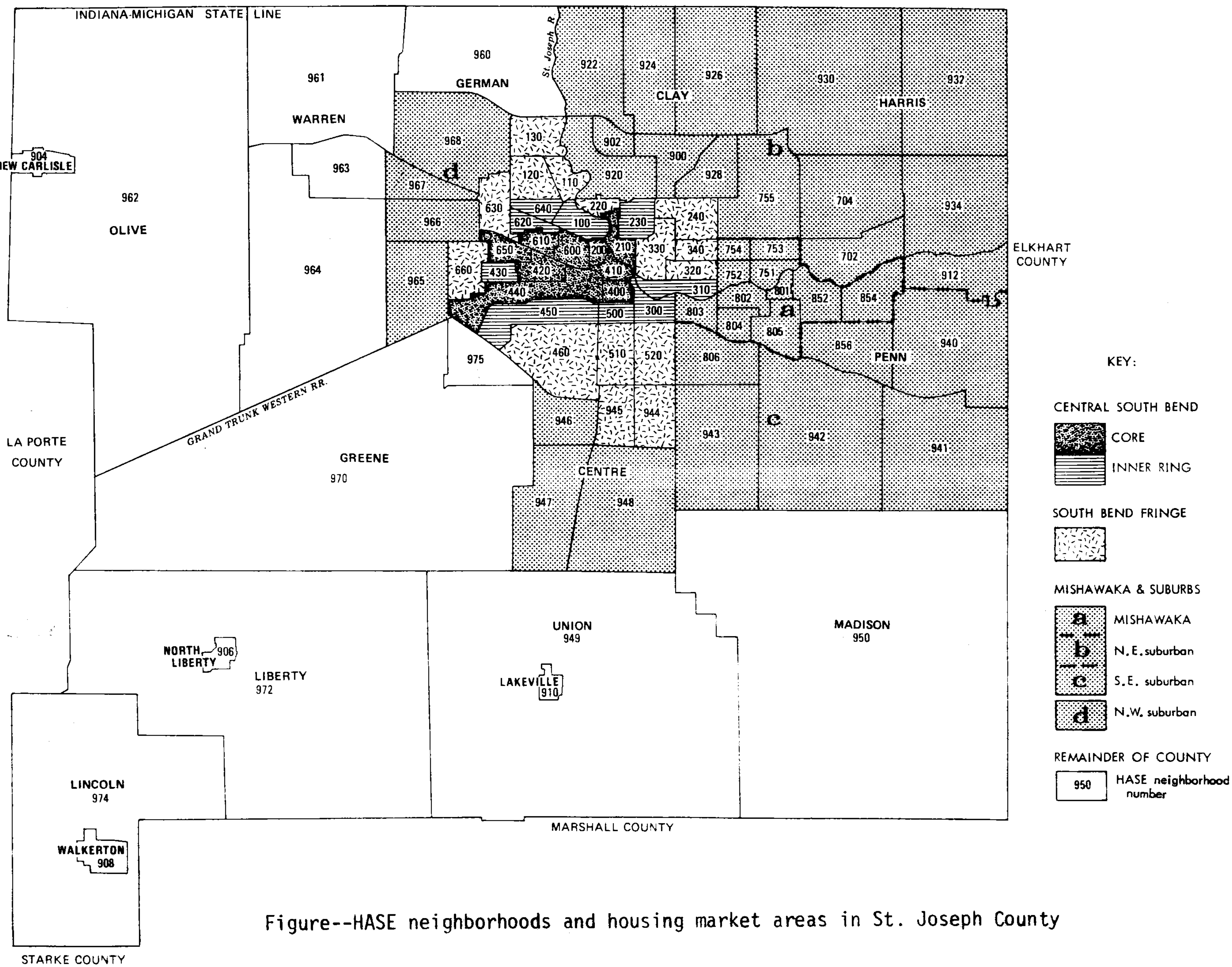

Figure--HASE neighborhoods and housing market areas in St. Joseph County

Source of Funds. Table 4.4 shows the debt status and source of funds for homeowner properties. Half of those in central South Bend are debt free, as compared with 29 percent in the fringe and suburban areas and over half in the rural remainder of the county. We think this pattern reflects the greater age of central and rural housing and the consequent amortization of the original purchase loans.

Among properties with outstanding liens, land contract financing is important only in the core area. FHA and VA loans account for 70 percent of the mortgages in central South Bend but for only 46 percent in the fringe urban and suburban areas and 12 percent in the rural remainder of the county. The heavy dependence in central South Bend on land contracts (usually held by private sellers), FHA and VA loans, and loans from friends or relatives indicates that conventional mortgage financing has been hard to get for properties there.

The debt status of rental properties varies much less by area (Table 4.5). Countywide, 58 percent of the rental properties are debt free; the proportion is lowest in the inner ring and fringe areas of South Bend, highest in the core of South Bend and the rural parts of the county. Land contracts are reported only slightly more often in central South Bend than elsewhere, and VA or FHA mortgages are dominant only in the South Bend fringe.

Tables 4.6 and 4.7 show the shifts in funding sources for debts incurred between 1960 and 1969 and between 1970 and 1974.* For homeowners in the core area, there were no significant changes; about half of all purchases in both periods were financed by land contracts and most of the rest by VA or FHA mortgage loans. However, homebuyers in the inner ring and fringe of South Bend shifted from VA and FHA loans to conventional loans and land contracts. Conventional financing also became more prominent elsewhere in the county.

Funding for investments in rental properties did not change much over the 15-year period. We note a possibly significant shift from land contracts to conventional loans in the core and from VA and FHA

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*Our data cover only debts on which some principal was still owed at the beginning of 1974. If some types of lenders specialized in short-term debt (under 15 years), the distributions by source of funds for 1960-69 could be biased. We think significant bias of that type is unlikely.

Table 4.4

OWNER-OCCUPIED HOMES BY DEBT STATUS AND SOURCE OF FUNDS:
AREAS OF ST. JOSEPH COUNTY, 1974

Debt Status or Type of Lender	Percentage Distribution of Properties					
	Central South Bend		South Bend Fringe	Mishawaka and Suburbs	Remainder of County	St. Joseph County
	Core	Inner Ring				
Debt Status of Property						
Owned free and clear	42.7	53.0	22.8	32.9	54.3	37.0
Mortgaged	30.3	38.7	74.2	59.1	36.8	54.8
Purchased on land contract	27.0	8.3	3.0	8.0	8.9	8.2
Total	100.0	100.0	100.0	100.0	100.0	100.0
Mortgaged Properties by Source of Funds						
Institutional, FHA or VA	66.9	72.7	48.3	43.7	12.5	47.3
Institutional, other[a]	19.5	23.5	47.8	53.0	79.9	48.5
Previous owner	7.1	--	.7	--	--	.5
Friend or relative	6.5	1.8	3.2	1.0	6.6	2.4
Not reported	--	2.0	--	2.3	1.0	1.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
Number of Properties						
All properties	3,595	9,280	12,602	22,290	5,849	53,616
Mortgaged properties	1,018	3,587	9,353	13,183	2,093	29,234

SOURCE: Tabulated by HASE staff from records of the baseline survey of homeowners in Site II.

NOTE: Areas within St. Joseph County are delineated on p. 46. Entries are based on sample data provided by 584 homeowners, including 251 whose properties were mortgaged.

[a]May include a few direct loans from federal agencies.

Table 4.5

RENTAL PROPERTIES BY DEBT STATUS AND SOURCE OF FUNDS:
AREAS OF ST. JOSEPH COUNTY, 1974

Debt Status or Type of Lender	Percentage Distribution of Properties					
	Central South Bend		South Bend Fringe	Mishawaka and Suburbs	Remainder of County	St. Joseph County
	Core	Inner Ring				
			Debt Status of Property			
Owned free and clear	64.9	52.5	48.0	59.8	69.9	58.4
Mortgaged	24.1	33.1	44.3	31.6	24.5	31.1
Purchased on land contract	10.4	13.7	6.0	8.2	5.6	9.9
Not reported	.6	.7	1.7	.4	--	.6
Total	100.0	100.0	100.0	100.0	100.0	100.0
			Mortgaged Properties by Source of Funds			
Institutional, FHA or VA	35.7	29.5	50.0	17.8	1.6	28.3
Institutional, other	61.5	64.7	46.6	78.7	90.4	67.3
Previous owner	1.4	4.0	1.7	2.8	--	2.6
Friend or relative	1.4	1.8	1.7	.7	6.4	1.7
Not reported	--	--	--	--	1.6	.1
Total	100.0	100.0	100.0	100.0	100.0	100.0
			Number of Properties			
All properties	2,059	2,814	934	2,678	804	9,289
Mortgaged properties	497	933	414	847	197	2,888

SOURCE: Tabulated by HASE staff from records of the baseline survey of landlords in Site II.

NOTE: Areas within St. Joseph County are delineated on p. 46. Entries are based on sample data provided by owners of 1,622 rental properties, including 526 whose properties were mortgaged.

Table 4.6

OWNER-OCCUPIED HOMES WITH INDEBTEDNESS BY TYPE OF DEBT AND SOURCE OF FUNDS: AREAS OF ST. JOSEPH COUNTY, 1974

Type of Debt and Source of Funds	Percentage Distribution of Properties					
	Central South Bend		South Bend Fringe	Mishawaka and Suburbs	Remainder of County	St. Joseph County
	Core	Inner Ring				
Debt Incurred 1960-69						
Mortgage:						
Institutional, FHA or VA	32.6	85.3	66.0	48.1	2.6	52.5
Institutional, other	12.8	5.0	31.9	44.1	53.8	34.8
Previous owner	--	--	2.1	--	--	.5
Friend or relative	6.4	--	--	1.0	15.4	2.0
Not reported	--	--	--	--	--	--
Land contract	48.2	9.7	--	6.8	28.2	10.2
Total	100.0	100.0	100.0	100.0	100.0	100.0
Debt Incurred 1970-74						
Mortgage:						
Institutional, FHA or VA	27.2	42.7	36.2	37.0	15.6	34.9
Institutional, other	8.8	28.9	56.2	56.7	65.2	51.3
Previous owner	.8	--	--	--	--	--
Friend or relative	--	3.0	--	1.0	--	.8
Not reported	9.5	--	--	--	--	.5
Land contract	53.7	25.4	7.6	5.3	19.2	12.5
Total	100.0	100.0	100.0	100.0	100.0	100.0
Number of Properties						
Debt incurred 1960-69	1,034	1,439	3,052	6,397	775	12,697
Debt incurred 1970-74	753	2,204	4,905	6,441	1,554	15,857

SOURCE: Tabulated by HASE staff from records of the baseline survey of homeowners in Site II.

NOTE: Areas within St. Joseph County are delineated on p. 46. Entries are based on sample data from owners of 113 homes with debt incurred between 1960 and 1969 and 149 homes with debt incurred between 1970 and 1974.

Table 4.7

RENTAL PROPERTIES WITH INDEBTEDNESS BY TYPE OF DEBT AND SOURCE OF FUNDS: AREAS OF ST. JOSEPH COUNTY, 1974

Type of Debt and Source of Funds	Percentage Distribution of Properties					
	Central South Bend		South Bend Fringe	Mishawaka and Suburbs	Remainder of County	St. Joseph County
	Core	Inner Ring				
	Debt Incurred 1960-69					
Mortgage:						
Institutional, FHA or VA	25.6	21.4	41.9	15.5	--	22.2
Institutional, other	32.8	44.3	38.6	56.6	78.3	47.0
Previous owner	2.9	6.4	3.3	3.5	--	4.2
Friend or relative	--	2.0	3.3	1.6	--	1.6
Not reported	--	--	--	--	3.3	.2
Land contract	38.7	25.9	12.9	22.8	18.4	24.8
Total	100.0	100.0	100.0	100.0	100.0	100.0
	Debt Incurred 1970-74					
Mortgage:						
Institutional, FHA or VA	23.2	17.7	43.4	10.2	2.5	18.2
Institutional, other	50.3	45.8	44.5	65.6	67.5	53.6
Previous owner	--	.7	--	1.0	--	.5
Friend or relative	1.8	1.0	--	--	6.7	1.1
Not reported	--	--	--	--	--	--
Land contract	24.7	34.8	12.1	23.2	23.3	26.6
Total	100.0	100.0	100.0	100.0	100.0	100.0
	Number of Properties					
Debt incurred 1960-69	238	501	210	369	92	1,410
Debt incurred 1970-74	380	718	198	581	120	1,997

SOURCE: Tabulated by HASE staff from records of the baseline survey of landlords in Site II.

NOTE: Areas within St. Joseph County are delineated on p. 46. Entries are based on sample data provided by owners of 210 rental properties with debt incurred between 1960 and 1969 and 291 properties with debt incurred between 1970 and 1974.

loans to land contracts in the inner ring. In suburban areas, investors shifted slightly from VA and FHA loans to conventional financing.

A land contract is usually the seller's last resort to complete a transaction when outside financing cannot be obtained. The frequent use of this device in central South Bend thus indicates that financial institutions have been reluctant to acquire mortgages there. By 1974 the institutions seemed to be avoiding the inner ring as well as the core.

Throughout the county, conventional loans seem to be replacing VA and FHA loans as the preferred institutional type. This shift is national in scope, the exceptions to which are usually risky loans on properties in decaying neighborhoods. But in the inner ring of South Bend, the share of all home purchases financed by conventional loans rose from 5 percent (1960-69) to 29 percent (1970-74) during the same time that the incidence of land contracts nearly tripled. A similar but less emphatic shift occurred in the South Bend fringe. The shift is best explained by the fact that by 1970 the interest rate ceiling on FHA loans was below the market rate for conventional mortgages. Except in the riskiest areas, lenders were willing to forego FHA insurance to gain a higher return.

Interest Rates. Except where usury laws prohibit, lenders may compensate for a greater perceived risk of lending in decaying neighborhoods by charging higher interest rates. In St. Joseph County such a practice is evident both in central South Bend and in rural areas for conventional loans to both homebuyers and investors in rental property (see Tables 4.8 and 4.9).

Interest rates have risen considerably over the past 15 years, so the distributional differences by area may partly reflect differences in when loans were written. But both in central South Bend and in the rural area, half the homeowner loans written between 1960 and 1974 carried interest rates of 8.0 percent or more. Only a tenth of those written on homeowner properties in the fringe of South Bend and a fifth of those on suburban homes had such high interest rates.

A weaker form of the same pattern prevailed for rental properties during the latter part of this period (1970-74). Fifty-six percent of

Table 4.8

CONVENTIONAL FIRST MORTGAGES ON OWNER-OCCUPIED HOMES BY INTEREST RATE: AREAS OF ST. JOSEPH COUNTY, 1974

Mortgage Interest Rate (%)	Percentage Distribution of Properties				
	Central South Bend	South Bend Fringe	Mishawaka and Suburbs	Remainder of County	St. Joseph County
Under 7.0	25.8	24.2	42.0	18.3	32.8
7.0 - 7.9	26.5	64.1	35.9	35.1	43.8
8.0 - 8.9	39.1	1.9	15.1	19.7	13.1
9.0 or more	8.6	9.8	7.0	26.9	10.3
Total	100.0	100.0	100.0	100.0	100.0
Number of properties	768	3,731	6,273	1,411	12,183

SOURCE: Tabulated by HASE staff from records of the baseline survey of homeowners in Site II.

NOTE: Areas within St. Joseph County are delineated on p. 46. Entries are based on sample data provided by 98 homeowners with conventional first mortgages written by institutional lenders between 1960 and 1974. Because of the small sample size, this table has less detail by area and period than others in the same series.

the conventional loans written on such properties in central South Bend and 84 percent in the rural areas carried interest rates of 8.0 percent or more. In the fringe and suburban areas, about half the loans had such high rates.

Amortization Periods. When lenders lack confidence in a neighborhood's future, they insist on short amortization periods, which in turn mean higher monthly payments for the borrower. Table 4.10 shows that financial institutions in St. Joseph County clearly distinguish between areas in these terms.

Of conventional loans to homeowners in central South Bend written between 1960 and 1974, 44 percent were to be amortized in less than 15 years--which could easily be an understatement.* In the fringe and suburban areas, few loans were of such short duration; even rural loans had longer amortization periods than those in central South Bend.

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*A 10-year loan written before 1964 would have matured by 1974 and thus would not have been counted as an outstanding lien.

Table 4.9

CONVENTIONAL FIRST MORTGAGES ON RENTAL PROPERTIES BY INTEREST RATE AND YEAR DEBT WAS INCURRED: AREAS OF ST. JOSEPH COUNTY, 1974

Mortgage Interest Rate (%)	Percentage Distribution of Properties					
	Central South Bend		South Bend Fringe	Mishawaka and Suburbs	Remainder of County	St. Joseph County
	Core	Inner Ring				
Debt Incurred 1960-69						
Under 7.0	48.1	57.4	46.9	35.6	23.9	44.4
7.0 - 7.9	23.4	28.9	29.6	34.7	40.9	31.5
8.0 - 8.9	19.5	13.7	14.8	29.7	31.0	21.5
9.0 or more	9.0	--	8.7	--	4.2	2.6
Total	100.0	100.0	100.0	100.0	100.0	100.0
Debt Incurred 1970-74						
Under 7.0	6.8	10.3	9.3	10.0	--	8.7
7.0 - 7.9	33.8	35.3	40.7	39.2	15.6	35.4
8.0 - 8.9	24.0	34.3	41.9	29.7	62.3	33.5
9.0 or more	35.4	20.1	8.1	21.1	22.1	22.4
Total	100.0	100.0	100.0	100.0	100.0	100.0
Number of Properties						
Debt incurred 1960-69	77	211	81	202	71	642
Debt incurred 1970-74	192	329	86	370	77	1,054

SOURCE: Tabulated by HASE staff from records of the baseline survey of landlords in Site II.

NOTE: Areas within St. Joseph County are delineated on p. 46. Entries are based on sample data provided by owners of 126 rental properties with conventional first mortgages written by institutional lenders between 1960 and 1969; and owners of 200 properties with similar mortgages written between 1970 and 1974.

Table 4.10

CONVENTIONAL MORTGAGES BY LOAN AMORTIZATION PERIOD AND TYPE OF PROPERTY: AREAS OF ST. JOSEPH COUNTY, 1974

Loan Amortization Period (years)	Percentage Distribution of Properties					
	Central South Bend		South Bend Fringe	Mishawaka and Suburbs	Remainder of County	St. Joseph County
	Core	Inner Ring				
Owner-occupied Homes						
Under 15	44.4		--	6.7	16.7	9.0
15 - 19	--		6.7	17.2	19.4	13.4
20 or more	55.6		83.7	68.3	63.9	70.8
Open	--		9.6	7.8	--	6.8
Total	100.0		100.0	100.0	100.0	100.0
Rental Properties						
Under 15	62.5	62.9	51.8	44.8	54.9	54.7
15 - 19	17.4	19.1	20.8	26.9	--	20.1
20 or more	14.6	15.3	27.4	20.6	15.3	18.3
Open	5.5	2.7	--	7.7	29.8	6.9
Total	100.0	100.0	100.0	100.0	100.0	100.0
Number of Properties						
Owner-occupied homes	908		3,131	6,451	1,432	11,922
Rental properties	253	529	168	583	144	1,677

SOURCE: Tabulated by HASE staff from records of the baseline surveys of homeowners and landlords in Site II.

NOTE: Areas within St. Joseph County are delineated on p. 46. Entries are based on sample data provided by 98 homeowners and owners of 323 rental properties with conventional first mortgages written by institutional lenders between 1960 and 1974. Because of small sample size, less area detail is shown for the homeowners than for the owners of rental properties.

The pattern is similar but less pronounced for conventional loans on rental properties, which typically have shorter amortization periods than homeowner loans.

Variation in Institutional Policies

Lending institutions in St. Joseph County do not follow a "party line" in their policies. As some withdraw from an area, others may move in because of different judgments about risks or because they have more loanable funds. Thus despite major geographical shifts in lending by individual institutions between 1971 and 1975, the overall distribution of conventional loans hardly changed.

Table 4.11 shows the distribution by area of conventional mortgage loans written by each of the seven largest commercial banks and savings and loan associations in the county, first in 1971, then in 1975. The data cover both homeowner loans and those on rental properties and may include a few nonresidential loans.

Two of the institutions were inactive in the core area both years, four apparently reduced loan placement there, and one doubled its lending on core area properties.

Over the same interval, three of the four institutions that reduced their lending in the core also did so in the inner ring of South Bend, but the fourth maintained activity there. One firm that avoided the core also reduced its lending in the inner ring, and one that maintained its lending level in the core cut back in the ring.

Despite the predominant pattern of reduced lending activity in the core and inner ring, the overall drop was slight. The reason is that one firm more than doubled its lending in the central area, offsetting the diminished activity of the others. But by 1975 only one of the seven institutions was very active in the core, limiting the area's sources for residential mortgages if not the availability of funds.

FHA-Insured Loans

The seven institutions discussed above do not write FHA-insured loans, leaving them to mortgage bankers. In 1971 about 600 such loans

Table 4.11

CONVENTIONAL FIRST MORTGAGES WRITTEN BY SEVEN MAJOR LENDERS, BY LOCATION OF PROPERTY: 1971 AND 1975

Lending Institution	Number of loans by Location of Property				
	Central South Bend		South Bend Fringe	Remainder of County	St. Joseph County
	Core	Inner Ring			
Loans Written in 1971					
A	2	27	145	298	472
B	18	45	34	92	189
C	9	16	31	64	120
D	12	34	67	77	190
E	1	12	65	92	170
F	7	23	28	83	141
G	8	10	5	38	61
Total	57	167	375	744	1,343
Loans Written in 1975					
A	3	20	126	238	387
B	41	78	90	168	377
C	2	3	61	147	213
D	8	35	68	82	193
E	--	8	45	103	156
F	2	12	30	81	125
G	5	6	16	37	64
Total	61	162	436	856	1,515

SOURCE: Tabulated by the Indiana Public Interest Research Group from mortgage records maintained by the St. Joseph County Recorder's Office.

NOTE: Areas of St. Joseph County are delineated on p. 46. Entries are based on all recorded mortgage loans made to individuals by each of four commercial banks and three savings and loan associations, excluding loans for more than $100,000. Some loans could be secured by nonresidential properties.

were written in St. Joseph County. During 1974 and the first half of 1975, about 700 were written; on an annual basis, the second figure is only 78 percent of the first.

Table 4.12 shows how the loans were distributed by area. The changes are too small to suggest any substantial shifts in the reliance on FHA insurance as a safeguard against risk.

Table 4.12

FHA-INSURED LOANS BY LOCATION OF PROPERTY: 1971 AND 1974-75

Year and Item	Distribution by Location of Property: Central South Bend: Core	Central South Bend: Inner Ring	South Bend Fringe	Remainder of County	St. Joseph County
1971					
Number of loans	39	125	190	229	583
Percent of total	6.7	21.4	32.6	39.3	100.0
1974-75					
Number of loans	26	188	256	209	679
Percent of total	3.8	27.7	37.7	30.8	100.0

SOURCE: Tabulated by the Indiana Public Interest Research Group from records maintained by the Federal Housing Administration (FHA), Indianapolis.

NOTE: Areas of St. Joseph County are delineated on p. 46. Entries are based on loans insured by the FHA during calendar 1971 and during January 1974 through June 1975. Only loans insured under Sec. 203 of the National Housing Act are included. About 3 percent of those on record could not be located with enough precision to include in this tabulation.

POLICIES TOWARD PROPERTIES

Even though institutional lenders seem to disfavor central South Bend, their reluctance to lend there may reflect the quality or condition of properties in older neighborhoods rather than neighborhood characteristics per se. In our interviews with lenders, we found them more concerned about a property's value than its underlying characteristics.

Six of the largest institutions acknowledged that they avoided lending on inexpensive homes. In 1974, five would not write a loan for less than $10,000 and the other had a minimum of $15,000. In two cases, the minimums were adopted during (and allegedly because of) the 1974 shortage of loanable funds; but in the spring of 1976, when funds were plentiful, none of the six institutions were considering reducing their minimums.

These policies do not necessarily reflect risk appraisal. Servicing costs are about the same for large and small loans; so unless a premium is charged for the latter, they are less profitable. When funds are in short supply, the lender would naturally prefer the larger loans.

Because of general price inflation, it is difficult to say whether policies with respect to loan minimums have changed actually or only nominally. Table 4.13 compares the sources of financing for residential properties purchased between 1969 and 1974 with corresponding data for those purchased earlier. An increasing proportion of the properties selling for less than $10,000 is clearly being financed by land contracts, but the proportion of all sales in that price range dropped from 60 to 31 percent of the total between the two periods. The absolute number of such sales financed by land contracts increased by a fourth.

However, even during the period 1969-74, three-fourths of the sales of homes valued at less than $10,000 were financed by mortgage loans, of which at least 60 percent were written by commercial banks

Table 4.13

RESIDENTIAL PROPERTIES BY PURCHASE PRICE AND TYPE OF DEBT: PROPERTIES PURCHASED PRE-1969 AND 1969-74

Purchase Price of Property ($)	Number of Properties by Type of Debt			Percentage Distribution by Type of Debt		
	Institutional First Mortgage	Land Contract	Total	Institutional First Mortgage	Land Contract	Total
			Purchased before 1969			
Under 10,000	15,221	1,364	16,585	91.8	8.2	100.0
10,000 - 14,999	6,617	97	6,714	98.6	1.4	100.0
15,000 - 19,999	2,319	17	2,336	99.3	.7	100.0
20,000 or more	2,000	30	2,030	98.5	1.5	100.0
Total	26,517	1,508	27,665	94.5	5.5	100.0
			Purchased 1969-74			
Under 10,000	5,165	1,723	6,888	75.0	25.0	100.0
10,000 - 14,999	3,800	345	4,145	91.7	8.3	100.0
15,000 - 19,999	3,591	104	3,695	97.2	2.8	100.0
20,000 or more	6,822	360	7,182	95.0	5.0	100.0
Total	19,378	2,532	21,910	88.4	11.6	100.0

SOURCE: Tabulated by HASE staff from records of the baseline surveys of homeowners and landlords in Site II.

NOTE: Entries are based on sample data provided by 138 homeowners and 235 landlords who bought their properties before 1969, and 102 homeowners and 271 landlords who bought their properties between 1969 and 1974. Properties that were debt free in 1974 and those with noninstitutional mortgage loans are excluded.

or savings and loan associations. The minimums imposed in 1974 will surely restrict the institutional share of this market.

POLICIES TOWARD LOW-INCOME HOUSEHOLDS

Because low-income households usually can afford only low-valued homes, it is difficult to judge whether property standards or income standards control lenders' decisions. Data from our 1975 survey of homeowners indicates that those with 1974 mortgage balances of under $10,000 were much more likely to have noninstitutional financing than those with larger mortgages, but we cannot link this fact directly to lenders' policies toward their incomes.

We do know from HAO records that mortgage banks have been willing to lend to persons with an income of less than $6,000 even though it consisted entirely of welfare benefits and housing allowances. These loans have been insured by the FHA, eliminating most of the lenders' risk. The commercial banks and savings and loan associations do not write FHA-insured loans; and their minimum mortgage amounts would eliminate some low-income applicants. They clearly do not participate in loans to HAO clients, but may accept some low-income applicants.

In their interviews nearly all lenders stressed the importance of a good credit rating, regardless of income. The FHA also checks credit histories very carefully and is apparently willing to insure loans to those with a good rating even if they have quite a low income, provided it is prospectively stable.

SUMMARY AND PROSPECTS

Financial institutions are the primary source of residential capital in St. Joseph County, but the use of land contracts and private mortgages seems to be increasing there, especially for inexpensive homes in central South Bend and rural areas. Mortgage banks are becoming increasingly important in residential finance, while savings and loan associations are losing ground. Commercial banks have been more inclined to finance rental properties than owner-occupied homes.

The shortage of mortgage money in late 1974 and early 1975 curtailed lending by the commercial banks and savings and loan associations, both of which were then losing savings deposits. Mortgage banks were the most active lenders during that period, importing loanable funds from other states. They were also the only institutions willing to write FHA-insured loans. Interest rates were in the range of 9.0 to 10.5 percent. Since then, loanable funds have become more plentiful, and lending activity has increased.

The shortage of mortgage money may have temporarily curtailed home purchases by HAO clients. Another adverse factor is the evident aversion of institutional lenders to properties in central South Bend, where inexpensive homes are most abundant. This aversion is reflected in fewer loans, shorter amortization periods, and higher interest rates there as compared with certain other parts of the county. In 1974, five of the largest lenders adopted loan minimums of $10,000 and a sixth adopted one of $15,000.

FHA-insured loans written by mortgage banks appear to be the only institutional financing consistently available to HAO clients and low-income households generally. The salient requirements for these loans are a good credit history, a prospectively stable income (even if from transfer payments), and a property that meets FHA standards of housing quality. Alternatively, HAO clients and other low-income households can sometimes finance a purchase by means of a land contract held by either the previous owner or a broker acting as intermediary.

During the second year of the allowance program, we do not expect many changes in these lending patterns, despite the increased supply of loan funds. Home purchase by program participants is not likely to become so common as to alter lenders' policies toward decaying neighborhoods, inexpensive properties, or low-income borrowers. On the other hand, so long as FHA policies favor HAO clients as they now do, home purchase will be a genuine option for renters in the allowance program.

V. INTERMEDIARIES' VIEW OF THE ALLOWANCE PROGRAM

Although few market intermediaries in St. Joseph County have had extensive contacts with the HAO or its clients, nearly all know about the allowance program and many have reached at least tentative judgments about its probable effects on their businesses and on the community. Whether or not these judgments are sound is probably less important for the future of the program than is the fact that a number of the intermediaries are influential in the community. It is therefore important to know about the views expressed in the course of our interviews with selected members of these groups.

The reader should keep two points in mind as he assesses the material presented below. First, the respondents do not constitute a probability sample of persons active in their respective industries, but were selected as those who were best informed because of their firm's prominence in the local market or in the special market for low-valued properties. Second, the views summarized below were elicited in the course of relatively unstructured interviews, not by obtaining responses to a carefully constructed attitude questionnaire.

Given the sample sizes and the topics covered, we doubt that a more scientific survey would have been more fruitful. Establishing rapport with the respondents so as to encourage frankness was the more important objective and one that was, we think, achieved. What we can report from this part of our survey is the variety of opinions and the logic used to support them. We cannot offer strong conclusions about the prevalence of given opinion within the population of interest.

VIEWS OF REAL ESTATE BROKERS

During our interviews with 14 real estate brokers, we encountered a variety of informed and uninformed opinions about the allowance program. Most of our respondents approved the basic structure of the program, comparing it favorably with public housing and the mortgage interest subsidies provided in recent years to homeowners and rental properties under Secs. 235 and 236 of the National Housing Act. They generally agreed that market effects, both good and bad, were confined to the rental market, home sales being essentially unaffected.

Program Design

Those who approve of the program especially favored the idea of direct subsidies to households, as well as the annual recertification of a household's eligibility and a dwelling's condition. They thought the money the program injects into the housing market might lead to improvements in substandard housing and help stabilize low-income neighborhoods.

Others expressed negative views. Two opposed the program because it gives away taxpayers' money. Three others favored the program but suggested changes in its design, including greater emphasis on housing maintenance and a stronger residency requirement.* Although most of the respondents were impressed by the efficiency of the HAO, one thought it was poorly run. Three brokers complained about misplaced emphasis in the housing evaluation standards, one saying the HAO's obsession with handrails is ludicrous.

Market Effects

According to our respondents, the program had mainly affected the rental market, even though about half the participants are homeowners. Only two of those interviewed specialized in rentals, but others also had opinions about the program's effects on the rental market. Those opinions diverged sharply.

One respondent thought the program was improving rental properties. He argued that most landlords have small holdings and do not seek large returns. Those with allowance-assisted tenants have been able to fix up their units and raise rents just enough to cover the added costs. Both the tenants and the housing stock have benefited.

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*Since September 1975, households moving into St. Joseph County after the start of the program have been enrolled on the same basis as prior residents. There is no evidence of inmigration motivated by the availability of allowance benefits.

Another conceded that the program may have marginally improved the housing stock, but did not think it had increased the regularity of rent payments or otherwise improved tenant behavior.

Two brokers specializing in the rental of single-family houses saw no benefits from the program. They reported negative experiences with allowance recipients, involving nonpayment of rent, poor housekeeping, hostility, and vandalism. Neither plans to rent to HAO clients in the future. Both thought the allowance program, by enabling poor families to compete for well-kept dwellings formerly beyond their means, might cause as much damage as improvement to the county's housing stock. Further, they claimed that many landlords had also reached this conclusion.*

None of the brokers thought the program had prompted real estate speculation. Prior to the program, there were occasional speculative purchases of older homes for improvement and resale, but these activities have not noticeably increased since the program began. No one expected the program to generate a large volume of home purchases (and in fact it has not done so).

Neither did the brokers associate any recent changes in home prices or rents with the allowance program, even in central South Bend where participation is relatively high. Some brokers thought property values in the near west side had stabilized after a long period of decline; home values in a few smaller areas of central South Bend (e.g., Belleville and the Portage-Cleveland neighborhood) were even thought to be increasing. However, the brokers associated these market changes with general price inflation, greater acceptance of racially different neighbors, and general market conditions--not with the allowance program.

VIEWS OF MORTGAGE LENDERS

We interviewed 18 representatives of mortgage lending institutions. Six viewed the allowance program favorably, five disapproved of it, and seven had no opinions. The lenders also diverged widely in how they

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*This claim should be verifiable from analysis of data from the survey of landlords, Wave 2 and subsequently.

would count allowance payments when appraising a loan application. So far as we can tell, neither lenders' attitudes nor their lending criteria changed much during the first program year.

Program Design

The six lenders who approved of the allowance program were attracted by its emphasis on housing improvements, the aid it offers to elderly persons, and its potential role in stabilizing the community's housing stock and neighborhoods. They hoped the program's administrators would be able to prevent its abuse by the undeserving.

The five negative opinions varied from qualified to total disapproval. One critic stressed the tax burden of such transfer programs, and another stressed the attempted frauds he had uncovered in his efforts to make mortgage loans to allowance recipients.* Several accepted the program as a worthwhile experiment in St. Joseph County, but had reservations about the cost of a national program. Suggestions for program improvement included teaching participants how to maintain their homes and guaranteeing participants' obligations to mortgage lenders.

Allowances and Mortgage Credit

The housing allowance formula increases entitlement as other income decreases and the reverse, although the change in allowance entitlement amounts to only a fourth of the change in income. However, lenders differed in how they would treat allowance entitlement in calculating a recipient's ability to repay a loan.

One lender said he would not count the allowance at all. Nine would count it as equivalent to nonallowance income and assume that 20 to 25 percent of all income (including the allowance) would be available for housing expenses. Three follow the FHA's treatment of the allowance, subtracting it from housing expenses; this rule gives allowances greater leverage than nonallowance income in establishing creditworthiness. Two

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*This lender, who has a good working knowledge of the program rules, reported three cases in which HAO clients reported higher incomes to him, in an attempt to obtain home purchase financing, than would allow them to be allowance recipients.

others said they had no ideas on the subject inasmuch as they had never dealt with a loan applicant who was in the program.

SUMMARY AND PROSPECTS

A number of the 14 real estate brokers and 18 mortgage lenders we interviewed in April and May of 1976 reported little or no contact with the HAO or its clients and consequently had few strong opinions about the allowance program. Those with greater involvement were brokers specializing in rentals and sales of low-valued properties, and mortgage bankers who made FHA-insured loans to a few program participants. Their views ranged from mild enthusiasm to adamant opposition, sometimes on ideological grounds but more often because of their experiences with the program during its first year.

Over time, we expect that more of the market intermediaries will learn about the program through their ordinary business transactions, but we see few reasons to expect their views to differ from those we elicited in 1976. One factor that may lead to more positive views is that an increasing share of program participants are whites with slightly higher incomes than the blacks who enrolled so heavily during the program's first year. It is also possible that the increased number of participants will make their activities in the market more conspicuous, so that market trends, whether good or bad, will more often be attributed to the program. Finally, it seems likely to us that lenders' treatment of allowance payments will converge if loanable funds become superabundant.

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