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THE ROLE OF MARKET INTERMEDIARIES IN A HOUSING ALLOWANCE PROGRAM

MICHAEL G. SHANLEY AND CHARLES M. HOTCHKISS

R-2659-HUD

DECEMBER 1980

A FINAL REPORT OF THE

HOUSING ASSISTANCE SUPPLY EXPERIMENT

Sponsored by

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

Rand
SANTA MONICA, CA. 90406

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PREFACE

This report was prepared for the Office of Policy Development and Research, U.S. Department of Housing and Urban Development (HUD). It describes the role of housing market intermediaries, including home repair contractors, home improvement lenders, real estate brokers, mortgage lenders, and others in HUD's experimental housing allowance program in St. Joseph County, Indiana, and Brown County, Wisconsin. The analysis presented here is the final report of the Housing Assistance Supply Experiment on these topics.

The authors wish to thank Ira S. Lowry, C. Lance Barnett, James P. Stucker, and Robert H. Edelstein, who provided valuable reviews of this report. Paul Ernst, Wim Wiewel, and Lynette Howell helped gather information from public records and the program's administrative records. James L. McDowell provided much of the data on home improvements by allowance participants, and both he and Lawrence Helbers gave valuable advice on home improvement statistics. Grace M. Carter advised on the program's participation statistics. Robert Young, Antonio Corona, Ernest Kuncel, and Helen Wagner provided computer programming support. Gwen Shepherdson and Karen Stewart converted the typewritten draft into machine-readable form. Jean Houston, Sheila Byrne, Nora Wolverton, and Dolores Davis were responsible for the preparation of final copy. Judy Rasmussen edited the report and supervised its production.

This report was prepared under HUD Contract H-1789, Task 2.16.1.

SUMMARY

Housing allowance programs enable low-income families to afford safe, decent, and sanitary housing, which they must seek on the private market. The success of such a program depends partly on the policies and practices of market intermediaries and indirect suppliers of housing services. Market intermediaries include real estate brokers, property management firms, rental agents, mortgage lenders, insurance underwriters, and home improvement lenders. Indirect suppliers are home repair and improvement contractors and firms offering maintenance services. This report uses data from the Housing Assistance Supply Experiment to show that these intermediaries and suppliers were little affected by the allowance program and influenced the decisions of only a few of its participants.

We quickly established that several intermediaries and indirect suppliers were unimportant in both Brown and St. Joseph counties. Nearly all landlords in both sites managed, maintained, and rented their properties without the aid of property management firms, maintenance firms, or rental agents. Moreover, owners of residential property could obtain insurance at a reasonable cost in any area of either county; thus, insurance brokers did not affect housing allowance participants' efforts to buy homes.

However, the four remaining intermediaries—home repair and improvement contractors, home improvement lenders, real estate brokers, and mortgage lenders—could potentially affect or be affected by program-related housing transactions. Enrollees seeking to repair substandard dwellings and thus qualify for payments might have difficulty in obtaining acceptable repair services at reasonable prices from home repair contractors, especially if the industry were overloaded by program-generated demand. A homeowner whose dwelling needed expensive repairs might lack the capital to finance them and be unable to secure a home improvement loan; hence, he would be unable to qualify for payments. Renters seeking to apply their allowances to home purchases might be screened out of the market, steered according to their race to specific neighborhoods, or refused credit on reasonable terms. Key findings about interactions between intermediaries and allowance recipients are summarized below.

The Intermediary Role in Home Improvement

Repair expenditures by program participants constitute only a small portion of all repair expenditures in either Brown or St. Joseph County. The cash costs of required repairs rarely exceed $100 and are usually financed out-of-pocket. Most program-related repairs are completed by owners, tenants, or their friends, rather than by contractors. Contracted repairs, annually totaling about $236,000 in Brown County and $758,000 in St. Joseph County, amount to at most 3 percent of the industry's volume in either site. Further, only a portion of those amounts were program-induced. Thus, suppliers of home improvement services have handled allowance program business without strain. In addition, home repair contractors appear to provide acceptable work at reasonable prices for program participants.

Not all households eligible for the allowance program have their homes evaluated or make required housing improvements. At any given time, less than half of the households currently eligible for allowances are enrolled, and about a fifth of those who do enroll drop out before receiving payments. However, nonapplicants rarely mention repair or other housing-related

problems when explaining their failure to apply or commenting on the allowance program; most apparently make their decisions without knowledge or consideration of housing standards. In contrast, about half of those who drop out of the program cite some problems meeting its housing requirements, but the evidence strongly suggests that easier access to credit at market interest rates would have enabled only a few of the terminees to qualify for payments.

A well-publicized offer of interest-free loans for home improvement could have a larger effect on program participation. Some observers have suggested that the HAOs should offer enrollees an advance on their allowance payments to help them finance program-required repairs (the HAOs already offer such advances to cover initial deposits required by landlords and utility companies). Based on the responses of eligible nonapplicants and terminees of the program, interest-free cash advances could have increased participation by at most 9 percent in Brown County and 17 percent in St. Joseph County. More conservative assumptions halve these figures.

Interest-free lending is clearly beyond the scope of policies to be urged on private market intermediaries. However, the participation estimates for that extreme case set an upper bound on the participation gains that might be achieved by improving access to private credit. Surely offering home improvement credit to eligibles at market interest rates, subject to minimally prudent standards of creditworthiness, would have had substantially less effect on participation.

The Intermediary Role in Home Purchase

Few allowance recipients purchased homes while in the program. Two hundred and eighty-six renter enrollees, 101 in Brown County and 185 in St. Joseph County, purchased homes during the first four years of the allowance program. Those buyers represent only 2.0 percent of all renter enrollees in Brown County and 2.6 percent in St. Joseph County.

Restrictive policies and practices of real estate brokers or home purchase lenders do not explain the small amount of homebuying by program recipients; the home financing market in both sites was flexible enough to accommodate eligible applicants. Rather, market conditions and household characteristics (e.g., income, life-cycle stage) made homebuying inadvisable for most eligible households. We estimate that even a significant relaxing of conventional lenders' criteria for loan qualification would have increased the percentage of homebuyers to no more than 5 percent of enrolled renters.

The success of enrollees who purchased homes is surprising. Client characteristics and the condition of the housing market made homebuying appear either infeasible or undesirable for many of them. Among those clients who did buy, only a few had the income and assets needed to meet requirements of conventional lenders. Nonetheless, some were able to obtain conventional loans, often with help from friends or relatives. In St. Joseph County, others took advantage of the favorable policies of mortgage banks and the FHA to secure government-insured mortgages. Finally, a number of clients in both sites financed home purchases with consumer loans or land contracts.

Although the policies of lenders and brokers did not prevent enrollees from buying, in St. Joseph County they did affect homeowners' choices of financing and may also have affected their choices of location. In St. Joseph County, the favorable policies of mortgage banks and the FHA toward program participants allowed most buyers to obtain mortgages, even though most commercial banks and savings and loans were uninterested in financing the inexpensive homes that allowance recipients could afford. Without FHA-insured loans from mortgage banks, the number of homebuyers would have been reduced by at least a fifth. Finally, the geographical distribution of home purchases by program participants in St. Joseph County suggests racial steering by real estate brokers, though there may be other explanations.

Conclusions and Recommendations

We found that market intermediaries had little effect on outcomes of the experimental housing allowance program, and expect that the same would hold true in most other housing markets. Participants rarely used the services of home repair and home purchase intermediaries, and only significant changes in allowance payments or program housing standards would change that outcome. If the same housing standards were applied in other markets, we expect that most required repairs would be too simple to require professional labor; so participants would be little affected by policies of the home repair industry. Moreover, if participants in those markets were similar to those in the experimental sites, few renters among them would find homebuying feasible or desirable.

For the few participants who would need home repair services, intermediaries in other housing markets ought to respond adequately. Home repair and home repair financing industries in most areas are large and flexible enough to easily handle the small increase in demand brought about by an allowance program, and decentralized and competitive enough to provide acceptable services at reasonable prices. However, in any program, a small percentage of eligible participants would be unable to obtain credit from the private market to finance repairs. Supplementary repair assistance programs would be required to help them qualify for payments.

The few qualified participants who would seek to purchase homes in other housing markets would probably show the same resourcefulness as buyers in the experimental sites and have similar success. However, participants in deteriorating urban areas, especially in large cities, might have less success with intermediary services than participants in the experimental sites. In those areas, property insurance and mortgage financing with reasonable terms may be less accessible, and the possibility of racial steering may be greater. Preventing such an outcome would require governmental action to alter the relationship between market intermediaries and low-income households.

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I. INTRODUCTION

The Housing Assistance Supply Experiment (HASE) is designed to evaluate the effects of a full-scale housing allowance program on participants and local housing markets in Brown County, Wisconsin, and St. Joseph County, Indiana. The actions of landlords, tenants, and homeowners most directly determine program outcomes, but housing market intermediaries and indirect suppliers of housing services can affect those actions. Market intermediaries include real estate brokers, property management firms, rental agents, mortgage lenders, insurance underwriters, and home improvement lenders. The indirect suppliers of housing services are home repair and improvement contractors and firms offering maintenance services.

The policies of those intermediaries and suppliers and their responses to program-generated demands for additional services could affect the outcome of the allowance program. Conversely, experience with the program could alter intermediaries' policies. This report examines program participants' dealings with the intermediary and supplier industries and assesses the consequences for both the program and those industries.

ALLOWANCE PROGRAM

The allowance program is open to all families and single persons in each county who cannot afford the standard cost of adequate housing on the local market without spending more than a fourth of their adjusted gross incomes. 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.

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

ISSUES STUDIED

Many enrollees' homes are initially below standard and some subsequently deteriorate. To qualify for allowance payments, an enrollee in a substandard dwelling must either make repairs or move to an acceptable dwelling. If a dwelling requires the services of a repair contractor, the property owner may finance the repairs with credit from a bank or other lender. If an enrollee moves to another dwelling, the assistance of a rental agent or a real estate broker may be required. A renter seeking to become a homeowner with the aid of his allowance will almost certainly require property insurance and mortgage financing. Less directly, the tenant-selection policies of landlords may be influenced by their use of management firms or rental agents, their maintenance policies by the availability and cost of contract services.

Early in the experiment, it became clear that neither property management firms, maintenance firms, nor rental agents were important components of the housing markets we chose for study. Nearly all landlords managed, maintained, and rented their properties without the aid of such intermediaries.

However, other intermediaries were active in transactions with program participants and their landlords in Brown and St. Joseph counties and might influence program outcomes. For example, enrollees seeking to repair substandard dwellings and thus qualify for payments might be unable to obtain competent or prompt service from home repair contractors if the industry were overloaded by program-generated demand. A homeowner whose dwelling needed expensive repairs might lack the capital to finance them, be unable to secure a home improvement loan, and hence be unable to qualify for payments. Renters seeking to apply their allowances to home purchases might be screened out of the market by brokers, refused coverage by insurance firms or credit from mortgage lenders, or encouraged to pursue ill-advised home purchases. The market intermediary study was designed to test these and other hypotheses (see Grigsby, Shanley, and White, 1974, 1975).

Although intermediaries' policies could in principle affect the outcomes of a wide variety of program-related housing transactions, we concluded that only four intermediary industries were marginally influential in only two classes of such transactions: major home improvement (contractors and institutional lenders) and home purchase (brokers and mortgage lenders). This report therefore focuses on those transactions and the role of the intermediaries in them.

ANALYTICAL METHODS AND DATA SOURCES

Because we were uncertain which interactions between program and industry would prove empirically important, we chose informal and eclectic study methods. We began by gathering data on the size, organization, and policies of each of the intermediary industries. Then we identified transactions between specific intermediary firms and program participants. When it became clear that the industries could not provide the data on housing transactions that our study required, we shifted the focus of the study to participants and their actions with regard to housing, for which the data were more nearly comprehensive. After identifying classes of housing actions that involved the use of market intermediaries, we gathered data from allowance program records and household surveys on participants' use of those services. To supplement our information, we used data from public records and conducted a special survey of program clients who dropped out of the program before receiving payments. Periodic interviews with a sample of intermediary firms helped us interpret our findings.

Housing Allowance Office Records

The housing allowance office record system, designed for administrative and research purposes, contains a history of all transactions with each client from the time he applies for allowances until he leaves the program. Those records include periodically updated information on the client's household characteristics, financial circumstances, and housing expenses; detailed reports on the client's housing, including lists of the dwelling's deficiencies and any repairs and improvements the client made; and a complete record of changes in program status, allowance entitlements, and payments received. For the market intermediary study, HAO records were used to identify homebuyers and their characteristics and to compare those buyers with other program enrollees. From purchase documentation submitted by the buyers to the HAO, we obtained details on the property and financing arrangements that helped us understand the circumstances surrounding the purchase. Finally, HAO records were used to enumerate housing defects, calculate average repair expenditures and total repair volume, and classify repairs according to who did the work and how it was financed.

Household and Landlord Surveys

Annual field surveys addressed to a marketwide sample of residential properties in each site were conducted, once before the program began (the baseline surveys) and for three years thereafter. The surveys include interviews with owners and occupants of the sampled properties. From homeowners and landlords the interviewers sought a detailed account of each property's financing, expenses, and repairs and improvements. Renters were similarly asked about their housing, its costs, and repairs they had undertaken. Homeowners, renters, and landlords were all asked for their views on the allowance program. For this report, parts of the first three annual surveys in each site were used, covering the year preceding the allowance program and the first two years of the program's operation. We concentrate on survey data concerning home purchases, home repairs, and on eligible households' views of the allowance program.

Intermediary Interviews

Before the allowance program began in each site, we conducted informal interviews with various market intermediaries to identify the main research questions in our sites and to develop an analysis plan. We sought information on market conditions, the size and nature of intermediary operations, and policies and views that could affect allowance recipients. To gauge intermediary interaction with and reaction to the program and its participants, we repeated those interviews a year after the allowance program began. Two more rounds of interviews were conducted during the experimental period, the last in July 1979. Altogether, we conducted 91 interviews involving 26 organizations in Brown County and 104 interviews involving 47 organizations in St. Joseph County. The organizations are classified by type below:

	Brown County	St. Joseph County
Lender	12	14
Real estate broker	8	14
Public agency	3	6
Home improvement contractor or tradesman	3	13
Total	26	47

When possible, successive interviews with the same individual were used to gauge changes over time.

Public Records

Various public records, including property records, deeds, and mortgages were used for our study of home purchase. For renter enrollees who purchased homes, those records provided a cross-check on names, dates, and other HAO enrollee information; filled in missing details on loan terms and property ownership; and allowed tracking of property ownership when a client terminated from the program. For our study of mortgage lender policies, we used the records to investigate neighborhood lending patterns.

Survey of Terminees

Enrollees who terminate without receiving payments often drop out without telling the HAO why. Therefore, a special survey of households who enrolled but never received payments was conducted in the summer of 1979 to elicit their reasons for terminating. Respondents were program enrollees who had enrolled after June 1, 1976, and terminated without payments by the end of December 1978. The survey provides important information on enrollees' problems with financing home improvements and completing necessary repairs. The survey also allows us to assess whether participation in the allowance program would increase if the HAO advanced allowance payments to clients for required repairs.

ORGANIZATION OF THE REPORT

Section II provides the background for our analysis. It describes the organization and policies of each intermediary industry in our two sites when the experiment began. An important conclusion is that although individual firms may pursue policies favorable or unfavorable to program participants, none of the industries is so tightly organized that an industrywide policy controls access to the industry's services.

Section III describes the program-induced demand for home repairs and improvements, and explains how the work was done and how it was financed. We show that neither the home repair industry nor conventional home improvement lenders were significantly affected by program-related business. Then we consider whether the failure of some enrollees to qualify for payments reflected real or perceived constraints on home repair resources, and how the problems of those enrollees could be alleviated.

Section IV describes the renter enrollees who purchased homes and how those purchases were concluded. Although few enrolled renters actively tried to buy homes, we were surprised by the characteristics of those who succeeded, and were impressed by the variety of methods they used to overcome conventional barriers to homebuying. The remainder of the section considers three issues: the extent to which lender and broker practices inhibited purchases by participants; whether more enrollees should be encouraged to buy homes; and if so, what allowance program or intermediary changes would be appropriate to this end.

Section V offers the conclusions of our study. We assess the extent to which our findings would apply in other housing markets. We discuss measures that could increase enrollees' housing improvements and home purchases in an allowance program. Then we address the issue of how intermediaries in other markets would adapt to an allowance program. Finally, we make recommendations for public policy regarding market intermediaries in general and in the context of the allowance program, and mention issues worthy of further study.

In the Appendix, we examine the characteristics of renter enrollees to determine their

potential as home purchasers. We find that few clients have both the resources and interest necessary for buying a home.

II. INTERMEDIARY INDUSTRIES IN THE EXPERIMENTAL SITES

Effects of the allowance program on the supply and price of housing depend on how quickly and efficiently supply responds to allowance-induced demand shifts, which in turn depend partly on the performance of the intermediary industries. In this section, we examine the organization and applicable policies of the principal intermediaries.

Certain intermediaries we study are scarce in the experimental sites; others are common but have little effect on clients' dealings in the housing market. Only repair contractors, home repair lenders, real estate brokers, and home purchase lenders could potentially affect or be affected by program participants. However, no small group of firms among any of those intermediaries could control the industries' response to the allowance program, since each industry has a large number of firms whose policies vary widely.

Both the intermediaries and the allowance program operate in the larger context of the housing market. Thus, we begin by describing the housing markets in Brown and St. Joseph counties and examining the intermediary industries individually.

HOUSING MARKET CHARACTERISTICS

Our experimental sites differ in three important respects: market tightness (vacancy rates), market structure (division into noncompeting submarkets), and quality of the housing stock. The first difference can be attributed to historically differing growth patterns. Brown County's population grew rapidly during the 1960s; growth continued, but at a slower pace in the 1970s (see Table 2.1). During the same time in St. Joseph County, central South Bend's population decreased and growth was slow in the rest of the county. The consequence of such different

Table 2.1

POPULATION CONTRASTS AT BASELINE: BROWN COUNTY (1974) AND ST. JOSEPH COUNTY (1975)

Area	Number of Persons	Average Annual Growth (%)		Households	
		1960–70	After 1970	Number	Percent Black or Latin
Brown County					
Green Bay	88,500	3.3	.2	28,100	1.9
Rest of county	81,900	1.2	3.0	19,800	.6
Total	170,400	2.4	1.5	47,900	1.4
St. Joseph County					
South Bend	112,500	-.5	-2.2	39,300	18.6
Rest of county	123,000	1.2	.6	36,300	1.3
Total	235,500	.3	-.8	75,600	10.4

SOURCE: U.S. Bureau of the Census, *Census of Population and Housing: 1970*; and estimates by HASE staff from records of the baseline surveys of households in each site.

growth patterns is that Brown County's housing market is much tighter than St. Joseph County's (see Table 2.2). The vacancy rate for regular residential housing in Brown County in 1973 was 4.2 percent, nearly two full percentage points lower than the then current national rate of 6.1 percent. The 1974 vacancy rate in St. Joseph County as a whole was 9.7 percent; in central South Bend, the rate was 13.2 percent.

Another consequence of the differing growth patterns is seen in Fig. 2.1. Although homes in Brown County have provided a solid hedge against inflation (real values have been relatively constant), those in St. Joseph County fell in real terms in the ten years preceding the baseline survey. That trend has produced a surplus of structurally sound older homes in South Bend that low-income families can afford to own. Twenty-five percent of the owner-occupied homes in central South Bend were valued at less than $12,800 in 1974. (The median value of owner-occupied homes is also correspondingly low. See the Appendix.)

Brown County's housing market divides into submarkets only by tenure (status of homeowner or renter in the allowance program). Extensive studies of its rental housing market have revealed no evidence that the market divides into noncompeting submarkets either by dwelling size or type, or by location (see Barnett, 1979; Rydell and Friedman, 1979). Further, as shown in Table 2.1, Brown County has almost no minority households, so residential segregation cannot be an issue.

On the other hand, there is strong evidence that St. Joseph County's housing market consists of at least two geographical submarkets: central South Bend and the rest of St. Joseph County. Even though vacancy rates are generally high in St. Joseph County, the vacancy rate for the central city is more than double that for the remainder of the county (see Table 2.2). Although that difference barely affects rents, it greatly affects values. Dwellings in central

Table 2.2

HOUSING VACANCIES AND TURNOVER AT BASELINE: BROWN COUNTY (1973) AND ST. JOSEPH COUNTY (1974)

Area	Number of Habitable Units	Average Vacancy Rate (%)	Annual Turnover per 100 Units	Average Vacancy Duration (weeks)
Regular Rental Housing[a]				
Brown County	14,700	4.2	65.6	4.0
St. Joseph County	16,400	9.7	57.4	9.6
Central South Bend	8,000	13.2	59.5	10.7
Rest of county	8,400	6.1	55.3	8.4
Homeowner Housing[b]				
Brown County	31,700	.8	7.4	5.6
St. Joseph County	57,000	2.4	9.9	12.6
Central South Bend	13,600	4.2	8.5	25.7
Rest of county	43,400	1.9	10.2	9.7

SOURCE: Estimated by HASE staff from records of the baseline surveys of landlords and homeowners in each site.

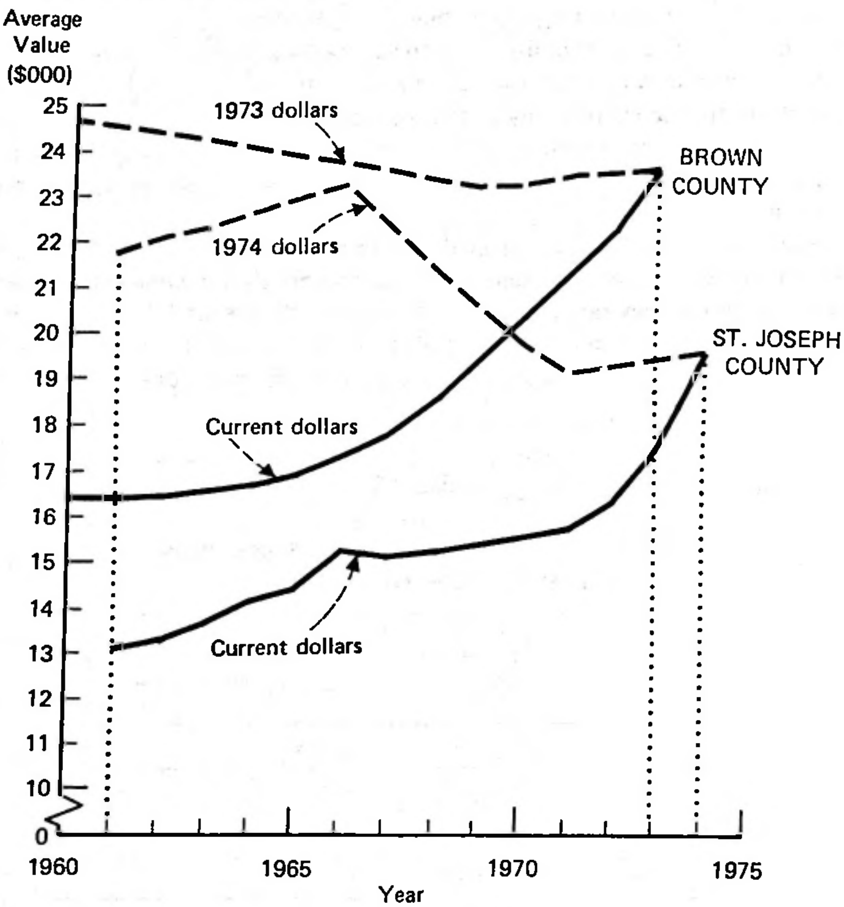
[a]Excludes mobile home parks, rooming houses, farmhouses, and federally subsidized dwellings.

[b]Excludes mobile homes.

South Bend are worth 26 percent less than comparable dwellings in the rest of the county. (For a theoretical explanation of the relationship between vacancy rates, rents, and values, see Rydell, 1977, 1979a.)

The two submarkets in St. Joseph County differ in racial composition. Unlike Brown County, St. Joseph County has a substantial minority population. One household in ten is headed by a minority. However, in central South Bend the proportion is one in every five households, whereas in the rest of the county it is one in fifty. Thus, the housing market in St. Joseph County is racially segregated.

Our experimental sites also differ with respect to housing quality. Figure 2.2 shows the age distribution of dwellings in both sites.[1] Brown County has a relatively young housing stock;



SOURCE: Baseline surveys of homeowners.

Fig. 2.1—Recent trends in homeowner property value: Brown and St. Joseph counties

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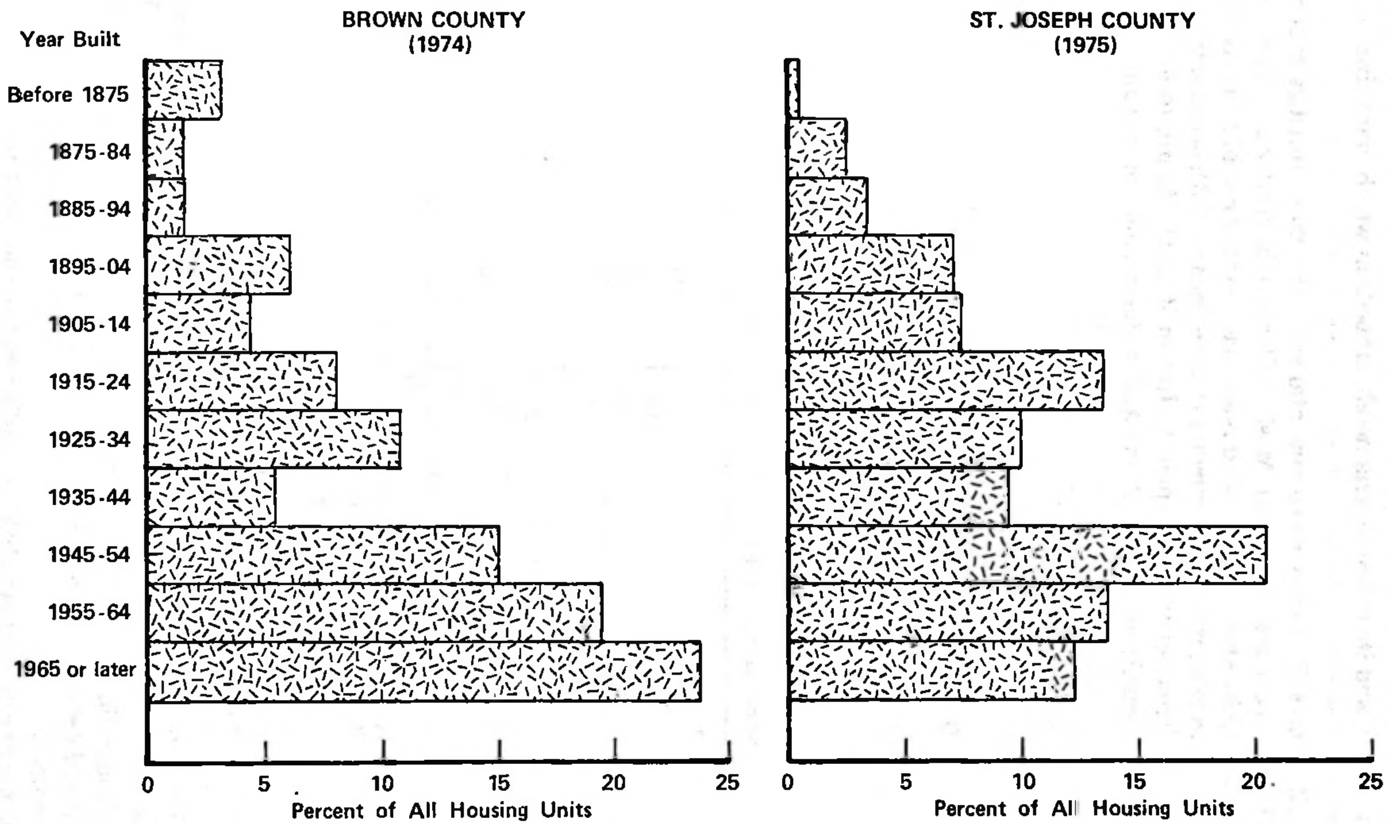
[1]The age of a building is a good measure of housing quality because buildings deteriorate over time. Evidence of such deterioration is provided by the strong relationship between age and required maintenance (Eisenstadt, 1972; Rydell, 1979b). Building age has also been used as a measure of housing quality in several hedonic indexes (Gillingham, 1975).



SOURCE: Tax records and baseline surveys of landlords in each site.

Fig. 2.2—Distribution of housing units by year built: Brown and St. Joseph counties

more than half the dwellings were built after World War II. Although Brown County contains some badly deteriorated housing, it is scattered rather than concentrated in specific neighborhoods. St. Joseph County's housing stock is much older. Most of its dwellings were built before World War II, and there are several neighborhoods in which many dwellings are badly deteriorated.

Despite their differences, in both our experimental sites, the characteristics of suppliers and demanders of housing services are similar. Most landlords in both sites own only a single, small property (see Table 2.3), and express similar reasons for owning rental properties. About a fifth own such properties to augment their current income, another fifth because they either use the property as a current residence or plan to live in it in the future (see Table 2.4). Approximately half of all rental properties in Brown and St. Joseph counties are unencumbered by mortgage debt.

Table 2.3

DISTRIBUTION OF LANDLORDS BY NUMBER OF PROPERTIES AND DWELLINGS OWNED

Size of Holdings	Distribution of Landlords (%) Brown County	St. Joseph County
Properties:		
1	82	79
2-9	18	21
10+	(a)	(a)
Total	100	100
Dwelling units:		
1	24	52
2-4	66	39
5+	10	9
Total	100	100

SOURCE: Estimated by HASE staff from baseline landlord surveys in Brown and St. Joseph counties.

[a] Less than 1 percent.

The demographic characteristics of households in both counties are similar to one another as well as to those of the nation (see Table 2.5). It should be noted, however, that Brown County's households are slightly less likely to be eligible for allowance payments than those in St. Joseph County (18 versus 21 percent, respectively). That difference is explained by Brown County's higher incomes.

What emerges is that our sites are strikingly different from one another in market structure and conditions, but similar in their demander and supplier characteristics. In the rest of this report, we will look more closely at the characteristics of intermediaries and their interaction with a special class of demanders—HAO enrollees.

Table 2.4

DISTRIBUTION OF LANDLORDS' REASONS FOR HOLDING PROPERTY

Landlords' Main Reason for Holding Rental Property	Distribution of Landlords (%)	
	Brown County	St. Joseph County
Current income	22	19
Capital gains	10	4
Retirement incomes	5	3
Present or future residence	21	20
Other reasons[a]	19	20
Plans to sell	23	34
Total	100	100

SOURCE: Estimated by HASE staff from baseline landlord surveys for Brown and St. Joseph counties.

[a]Includes reasons such as tax shelter, building an estate, starting a business, as well as other unspecified reasons.

Table 2.5

SELECTED HOUSEHOLD CHARACTERISTICS FOR BROWN AND ST. JOSEPH COUNTIES AND THE UNITED STATES

Location	Household Characteristics[a]			
	Average Age of Household Head (yrs)	Percent Headed by Married Couples	Average Number of Persons	Median Income ($/yr)
Brown County	43	75	3.4	12,000
St. Joseph County	45	63	3.0	11,000
United States	47	66	2.9	11,100

SOURCE: For Brown and St. Joseph county data: estimated by HASE staff from records of the baseline surveys of households in each site. For United States data: U.S. Bureau of the Census, "Household and Family Characteristics: March 1975," *Current Population Reports*, Series P-20, No. 291, 1976; and "Household Money Income in 1974 and Selected Social and Economic Characteristics of Households," *Current Population Reports*, Series P-60, No. 100, 1975.

[a]For all variables except median income, Brown County entries are for 1974, all others for 1975; for median income, entries are for one calendar year earlier.

RESIDENTIAL REPAIR SERVICES

In 1975, property owners completed an estimated $21.3 million of repairs and improvements in Brown County and $38.9 million in St. Joseph County. (These estimates are based on records of the household and landlord surveys in each site.) Those owners either performed the work themselves or used the services of repair contractors. Table 2.6 shows the extent to which homeowners and landlords used paid labor for jobs involving a cash expense of $100 or more. About two-thirds of those large repair jobs involved paid labor. In 1975, the total volume of contracted repair jobs costing $100 or more was $13.8 million in Brown County and $22.8 million in St. Joseph County.

For our purposes, the repair industry included not only contractors but also remodelers, firms specializing in particular trades, independent tradesmen, and nonprofit agencies. A rough idea of the number and type of firms involved in contracted repairs is shown below.[2]

	Brown County	St. Joseph County
General contractors and remodelers	25	40
Specialized contractors:		
Electric	27	55
Plumbing or heating	64	93
Roofing, siding, or masonry	47	72
Painting and decorating	22	23

The average size of repair firms in our sites is quite small. In Brown County, the largest firm employed no more than 8 carpenters at a time; in St. Joseph County, the largest firm employed about 30 carpenters but used them for new construction as well as repair and remodeling work.

The number of repair firms offering services in our sites can vary considerably over time. Many firms in the construction industry also offer repair services only as local market circumstances warrant. Additionally, many individuals move in and out of the industry as demand fluctuates; they supplement their primary incomes by doing small repair jobs in their spare time. Thus, the repair industry is amorphous, changing in size and composition as the demand for services and new construction changes. Because of its flexibility, the industry should quickly respond to a change in demand, such as one brought about by the allowance program.

Small firms and independent tradesmen are likely to be important to allowance recipients. They have fewer resources but lower overhead than their larger competitors. Thus, they usually can offer services at lower prices and will undertake smaller jobs. Table 2.6 shows that the larger remodelers and contractors undertake fewer but more expensive repair jobs than small firms and independent tradesmen.

Poor quality repair work did not seem to be a serious problem in either site. In 1975, repair firms completed 19,000 and 34,000 jobs costing more than $100 for owner occupants in Brown and St. Joseph counties, respectively. Homeowners complained about roughly 11 percent of those jobs: In 5 percent of the cases, they accused contractors of poor workmanship, but charged

[2]Compiled from the yellow pages of the 1976 telephone directory in each site.

Table 2.6

DISTRIBUTION OF LARGE REPAIRS BY LABOR SOURCE:
BROWN AND ST. JOSEPH COUNTIES, 1975

Labor Source	Percentage Distribution of Repair Activity[a]			
	Brown County		St. Joseph County	
	Number of Jobs	Cash Cost ($)	Number of Jobs	Cash Cost ($)
Homeowners				
Remodelers	2.0	6.9	2.0	1.7
Building contractors	11.5	17.0	14.4	29.2
Other paid labor	50.2	50.3	44.2	35.8
No paid labor involved	33.4	22.7	34.5	25.3
Unknown	2.9	3.1	4.9	8.0
Total[c]	100.0	100.0	100.0	100.0
Landlords				
Remodelers	(*b*)	3.7	(*b*)	1.6
Building contractors	13.0	22.2	15.1	27.9
Other firms	48.1	48.2	44.2	29.5
Employee	5.6	7.4	12.8	18.0
No paid labor involved	29.6	18.5	24.4	11.5
Unknown	3.7	(*b*)	3.5	11.5
Total[c]	100.0	100.0	100.0	100.0

SOURCE: Household and landlord surveys, wave 3 in Brown County and wave 2 in St. Joseph County. These surveys were administered in the beginning of 1976.

[a]Includes only repairs whose cash cost exceeded $100 for labor and materials combined.

[b]Currently unavailable.

[c]May not total due to rounding.

them with misrepresentation or cheating in less than 1 percent. (These estimates are based on records of the household and landlord surveys in each site.)

Besides the typical suppliers of repair services, several nonprofit agencies provided repair services for needy householders. Though total volume of repairs was small, their services were important because these agencies often served allowance recipients. Most nonprofit programs operated in St. Joseph County. There, an agency called REAL Services employed six handymen to help the elderly complete basic repairs. Repairs were made at no charge, although clients provided all materials. From October 1976 through August 1977, the handymen completed jobs for 221 households. Action, Incorporated ran a complementary program for nonelderly clients. To qualify, an applicant had to meet the poverty guidelines of the agency. In Mishawaka (the city adjoining South Bend), the Family and Children's Center employed one handyman who, by October 1977, had completed jobs for about 70 people. In Brown County, two inner city neighborhood groups, Co-Care and the Northeast Neighborhood Association, also sponsored repair programs for elderly homeowners with low incomes.

Table 2.9

RESIDENTIAL MORTGAGES INITIATED BY MAJOR INSTITUTIONAL LENDERS

Institution	Percent of Dollar Volume Initiated		
	Brown County[a] (1969-1973)	St. Joseph County[a] (1970-1974)	United States[b] (1972-1975)
Savings and loan associations	63.5	23.5	54.5
Commercial banks	30.3	30.3	25.1
Mortgage banks	6.2	46.2	20.4
Total	100.0	100.0	100.0
Total ($ million)	115	217	66,200

SOURCE: Records of the baseline household survey in each site; U.S. data from the *1975 HUD Statistical Handbook*.

[a]Includes single-unit owner-occupied dwellings only.

[b]Includes 1-4 unit owner-occupied dwellings.

mortgage insurance has become common, providing liquidity for many conventional mortgages. Although savings and loans and commercial banks have traditionally not used mortgage insurance to secure their investments (they have relied instead on down payment requirements and a thorough knowledge of the local housing market), the practice has become much more common in recent years. Finally, government-backed mortgages typically take longer to process than conventional ones. The savings and loans and commercial banks in our sites objected to what they called the unnecessary red tape involved with FHA-insured and VA-guaranteed loans.

Mortgage banks and government-backed mortgages play a large and important role in the inner-city mortgage market in St. Joseph County. First, most savings and loans and commercial banks discourage the applications for loans on inexpensive properties in South Bend's center. Mortgage banks, on the other hand, willingly make FHA or VA loans, regardless of loan size or property location. Thus, they provide most conventional financing for inner-city properties. Second, government-backed mortgages offer loans with very small or no down payments, thereby removing one important obstacle to home purchase by low-income households.

The absence of mortgage banks in Brown County made FHA and VA loans virtually unavailable there. However, a special state-sponsored program made direct government loans available to the county's veterans. Qualified veterans received low-interest (6 to 8 percent) first mortgages with no down payment and no prepaid interest charges. Second mortgages of up to $5,000 at 3 percent interest were also available.

Down payments are only one demand mortgage lenders make of prospective borrowers. Lenders also require that buyers have an adequate income and an acceptable credit history. In addition, they assess the future of the property in question to judge the likelihood of capital recovery in the event of foreclosure. Such requirements can affect the availability of institutional mortgage financing, especially to the low-income population.

Even if institutional financing is withheld, a prospective buyer may be able to obtain credit. He may find private investors, friends or relatives, or the seller of the property willing to extend

Table 2.10

SOURCES OF CREDIT USED IN PURCHASES OF SINGLE-FAMILY, OWNER-OCCUPIED HOMES: BROWN AND ST. JOSEPH COUNTIES

Source of Financing	Percent of All Purchases: Brown County (1969-1973)	Percent of All Purchases: St. Joseph County (1970-1974)
Institutional:		
Savings and loan association	55.3	14.5
Commercial bank	28.8	18.2
Mortgage bank	6.7	39.8
Other[a]	1.2	6.5
Noninstitutional:		
Previous owner	2.8	20.0
Friend or relative	5.1	1.0
Total	100.0	100.0
Number of purchases	7,889	18,212

SOURCE: Records of the baseline survey of homeowners in each site.

NOTE: Figures are based on data provided by 278 and 182 homeowners in Brown County and St. Joseph County, respectively, who financed the purchase of a single-family home in the indicated period.

[a]Includes credit unions, finance companies, real estate firms, and other institutions.

him credit. None of these credit sources was particularly important in Brown County, but in St. Joseph County, previous owners financed 20 percent of all single-family purchases (see Table 2.10). That large percentage was probably due to low home values and a weak housing market in St. Joseph County. Many owners there, willing to extend credit when institutional lenders would not, did so because their properties were difficult to sell. Some owners may also have sought the tax benefits of installment sales.

Sometimes the seller writes a mortgage loan, but most transactions take the form of land contracts. A land contract differs from a mortgage in that the seller retains title to the property during the contract period. The land contract lacks the formality and sophistication of a conventional mortgage, whose terms are governed by various regulatory bodies. A buyer and seller alone often can arrange a land contract, whereas a mortgage usually involves a realtor, appraiser, title company, lender, and at times a mortgage insurer.

The informality of land contracts, however, can leave an unsophisticated buyer at the mercy of an unscrupulous seller. Since land contract sales rarely involve formal appraisals, buyers must judge for themselves the fairness of prices. Also, contract terms may leave the buyer with an unreasonable or unmanageable debt, making default likely. Finally, since land contracts are seldom publicly recorded and since the laws of many states do not adequately cover them,[6] buyers have little recourse in contract disputes. In fact, if a buyer defaults on a land contract, he may lose not only his home but any equity he has in it.

Prospective low-income buyers in St. Joseph County have another option. A nonprofit organization called RENEW buys, rehabilitates, and resells homes to low-income families. The homes are inexpensive, usually selling for about $7,000, and the terms of the organization's land contracts are favorable to the buyer. Prospective buyers receive counseling and training before they buy, and special assistance as needed over the course of the contract.

REAL PROPERTY INSURANCE

Successful home purchase requires not only locating and financing a dwelling, but insuring it as well. In our sites, however, insurance was not an obstacle for clients. Over 95 percent of all dwellings were insured, and insurance was available anywhere in either county. Table 2.11 shows that the cost of that coverage was reasonable even in older central city areas.

Table 2.11

Residential Property Insurance Premiums

Area	Median Premium per Dwelling ($/yr)	
	Owner-Occupied	Rental
Brown County (1973)		
Central city	55	50
Rest of county	71	70
Entire county	60	55
St. Joseph County (1974)		
Central city	70	70
Rest of county	90	70
Entire county	89	70

SOURCE: Records of the baseline survey of households (owner-occupied dwellings) and landlords (rental dwellings) in each site.

PROPERTY MANAGEMENT AND MAINTENANCE SERVICES

Other market intermediaries that can affect allowance recipients are property management and maintenance firms. Landlords sometimes hire management firms to screen prospective tenants, collect rents, pay bills, arrange for minor repairs, and handle tenant complaints. Most management firms in each site are realtors whose primary business is selling property. Maintenance firms are hired by landlords to provide periodic cleanup and upkeep of rental properties. About five firms in each site specialize in rental property maintenance. Neither maintenance service nor property management firms, however, are important intermediaries

[6]States are only beginning to recognize the traditional pro-seller bias of land contracts. Recent corrective legislation and court interpretations in various states are surveyed in Nelson and Whitman (1977), pp. 541-576.

in our sites because they are so infrequently used. In Brown County, 6 percent of landlords use maintenance firms and only 2 percent use property management firms. In St. Joseph County, only 2 percent of landlords use either type of firm.

III. THE INTERMEDIARY ROLE IN HOME IMPROVEMENT

If an enrollee's dwelling fails the housing allowance office's evaluation, the enrollee must either arrange for its repair or move to an acceptable dwelling to qualify for payments. A homeowner in the allowance program is solely responsible for completing and paying for needed repairs. He may handle the job himself, receive help from friends, or hire a contractor. Repairs can be paid for out-of-pocket or, if necessary, the enrollee may arrange a loan or other credit. Like the homeowner, a renter may complete and pay for minor repairs; but he is more likely to ask his landlord to make repairs that involve substantial work or expense.

Once a dwelling passes an initial evaluation and the enrollee is receiving payments, the enrollee or his landlord may make additional, voluntary improvements to the unit. The HAO then reevaluates the dwelling annually to make sure it continues to meet program standards. If the unit fails an annual evaluation, the client must again arrange for repairs if he is to continue receiving allowance payments; recipients have 75 days to repair deficiencies before payments are stopped.

If the repairs required to qualify a dwelling are beyond their means, enrollees may need home repair and improvement contractors to make the repairs, or home improvement lenders to finance the work. Enrollees may encounter difficulties, however, in dealing with either intermediary. With contractors, program-generated demands for home repairs might strain the capacity of the industry, drive up the price of repair services and supplies, or encourage shoddy work. With home improvement lenders, loan requirements may exclude eligible households in need of home improvement financing.

This section analyzes the relation between housing market intermediary services and the home improvement requirements of the allowance program. We found that program-induced demands for home improvements were too small to strain the resources of suppliers or contractors; they easily handled the demand and performed acceptable work at reasonable prices. Further, the average cost of required repairs was usually small enough so that enrollees could readily manage without home improvement credit. We also investigated whether eligibles who had not applied and enrollees who drop out before receiving payments were deterred by anticipated repair costs or lack of credit. We conclude that few unenrolled eligibles had thought much about whether their dwellings would qualify, but that repair costs and credit problems did contribute to drop-outs' decisions. However, our calculations indicate that even interest-free financing of home repairs would have increased the recipient population by no more than 9 percent in Brown County and 17 percent in St. Joseph County.

HOW DID THE PROGRAM AFFECT SUPPLIERS OF HOME IMPROVEMENT SERVICES?

Program-Related Demand for Home Improvements

About half of those who enroll in the program live in dwellings that fail an initial evaluation. Roughly two-thirds of those failed dwellings are subsequently repaired by enrollees who then qualify for payments. About 10 percent of all enrollees move to other dwellings, some of which also fail initially; the remaining 20 to 25 percent leave the program without ever receiving allowances. Of those clients receiving payments, about two-fifths in both counties fail their annual evaluations; most of those households repair their dwellings in order to continue receiving payments. Finally, about two-fifths of the renters in each site and close to three-fourths of the homeowners undertake voluntary repairs between yearly evaluations (McDowell, 1979).

In January 1976, the HAOs began collecting detailed information on how such repairs were made and how much they cost. Those data were obtained from clients during reevaluations of failed dwellings and annual evaluations of previously certified dwellings. We used information collected between January 1976 and June 1977 to estimate the type and cost of repairs made during the first four program years in each site.

Deficiency repairs (those required for initial or continued participation) usually corrected simple defects, such as the absence of handrails or windows that were broken or inoperable. Voluntary repairs (made between the annual HAO evaluations) concentrated on structural problems, such as defective interior walls or cracked foundations. Table 3.1 shows the distribution of repairs by type. Over half of all deficiency repairs were for handrails, steps, windows, and doors or partitions; less than 15 percent were for structural components such as walls, floors, ceilings, roofs, foundations, and porches. For voluntary repairs, the percentages are reversed; over half of those repairs were made to structural components and only about 15 percent were made for simpler defects.

Because voluntary repairs involve more substantial items than do deficiency repairs, they cost more. Table 3.2 compares median and average repair expenses for deficiency and voluntary repairs made to participants' dwellings. For initial repairs, both the median and average are higher in both sites for homeowner than for renter dwellings, and higher for dwellings in St. Joseph County than in Brown County; but those repairs are less than $100 for any combination of site and tenure. Many clients were able to repair simple defects in their homes at little or no cash expense. For those who made voluntary repairs, cash costs were much higher—five to seven times more on average. Homeowners spent the most, averaging nearly $500 per year in both sites. (However, figures on renter dwellings may be underestimated, since renter enrollees may lack information on costs paid by their landlords. A special survey of landlords has been conducted from which better data will be produced.)

Overall, in the year beginning July 1977, program participants spent almost $500,000 in Brown County and $1.3 million in St. Joseph County repairing their dwellings (see Table 3.3). To estimate repair volume, we multiplied the number of evaluations made during the year beginning July 1977 by the average repair expenditure per evaluation. Voluntary repairs account for over 85 percent of total expenditures.

However, those repair expenditures constitute only a small percentage of total county repair volume. In Brown County, cash outlays for repairs and improvements totaled $21.7 million in 1975. Repair outlays by participants are only 2 percent of that total. Similarly, in St. Joseph County, cash outlays and improvements totaled $39.5 million in 1975. In the year following July 1977, repair outlays by participants were only 3 percent of that total. Because HAO participants would have completed some repairs in the absence of the allowance program, the incremental increase in demand due to the program is even smaller.[1]

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[1]Figures in this paragraph come from estimates based on records of the household and landlord surveys. The $21.7 million in Brown County and the $39.5 million in St. Joseph County are slightly higher figures than those given in Sec. II because they include repairs completed by tenants of rented dwellings; in the previous section, only repairs by property owners (homeowners and landlords) were totaled.

Table 3.1

DEFICIENCY AND VOLUNTARY REPAIRS BY PROGRAM ENROLLEES: JANUARY 1976 - JUNE 1977

Item Repaired	Percent of All Repairs			
	Homeowners		Renters	
	Deficiency	Voluntary	Deficiency	Voluntary
Brown County				
Handrail or steps	32	3	19	3
Window, door, or partition	29	10	35	9
Plumbing, heating, or electrical	20	20	21	19
Structural component[a]	13	54	15	58
Other	6	13	10	11
Total	100	100	100	100
St. Joseph County				
Handrail or steps	33	3	20	3
Window, door, or partition	30	10	35	13
Plumbing, heating, or electrical	19	28	23	28
Structural component[a]	13	49	13	50
Other	5	10	9	6
Total	100	100	100	100

SOURCE: HAO records covering 3,028 evaluations in Brown County and 3,423 in St. Joseph County conducted between January 1976 and June 1977.

NOTE: Deficiency repairs are those repairs made to correct housing defects noted on initial or annual evaluations of enrollees' dwellings. Voluntary repairs are all repairs and improvements made between initial and annual evaluations.

[a]Wall, floor, ceiling, roof, foundation, porch. Includes painting.

Effects on Home Repair Contractors

The total dollar cost for repairs is low partly because owners and tenants or their friends, rather than contractors, most often did the work. Fig. 3.1 shows who made the repairs to dwellings occupied by program participants. Contractors were more often hired for voluntary than for deficiency repairs, for owner-occupied rather than renter-occupied dwellings, and by St. Joseph County participants rather than Brown County participants. Contractors were most often used for homeowners' voluntary repairs in St. Joseph County, where contract repairs were 50 percent of the total volume. Contractors did the smallest proportion of the work, only 8 percent, in completing deficiency repairs for renters in Brown County.

Because repairs by contractors involved paid labor and more substantial improvements than repairs completed by owners, tenants, or their friends, they cost considerably more. Thus, contracted repair volume made up nearly 50 percent of the total volume generated by the program in Brown County and nearly 60 percent in St. Joseph County (see Table 3.4). To

Table 3.2

MEDIAN AND AVERAGE CASH EXPENSES FOR DEFICIENCY AND VOLUNTARY REPAIRS: JANUARY 1976 - JUNE 1977

Site and Measure	Cash Expense ($) per Dwelling Repaired			
	Homeowners		Renters	
	Deficiency	Voluntary	Deficiency	Voluntary
Brown County				
Median	10	210	8	65
Average	55	437	39	202
St. Joseph County				
Median	11	250	10	75
Average	81	467	37	269

SOURCE: Tabulated by HASE staff from HAO records from January 1976 through June 1977.

NOTE: Records include 1,592 and 3,502 deficiency reevaluations in Brown and St. Joseph counties, respectively; and 1,647 and 2,110 annual evaluations in Brown and St. Joseph counties, respectively. Costs were estimated by enrollee and do not include unpaid labor. Renter enrollees may lack information on costs paid by their landlords; thus, figures for renters may underestimate the true cash expense.

estimate contracted volume, we multiplied the number of deficiency and annual reevaluations made during the year beginning July 1977 by the average expense of contract repairs for the appropriate evaluation type. Contracted expenses were $236,000 in Brown County and $757,000 in St. Joseph County.

Even if we treat all program-induced repairs by contractors as a net addition to their workload (which it certainly is not), contractors would hardly notice the added demand. In Brown County, we previously estimated the volume of contracted repairs at $13.8 million in 1975 (see Sec. II), a low figure, since only jobs costing more than $100 were considered. Even so, the total cost of contracted repairs to enrollees' dwellings in the year beginning July 1977 was $236,000, only 2 percent of that estimated total. Similarly, we estimated the contracted repair volume in St. Joseph County at $22.8 million. Repairs made by contractors to enrollees' dwellings, however, totaled $757,000, only 3 percent of our estimated total.

Effects on Home Improvement Lenders

Since most repairs were inexpensive, we expected enrollees to pay cash or use retail credit for materials. Interviews with representatives of installment loan departments in commercial banks at the sites confirmed our expectations. In Brown County, lenders had so little contact with allowance recipients that few could remember even one application. In St. Joseph County, lenders reported slightly more activity. At the end of the first allowance program year, three

Table 3.3

ESTIMATE OF TOTAL REPAIR VOLUME:
JULY 1977 - JUNE 1978

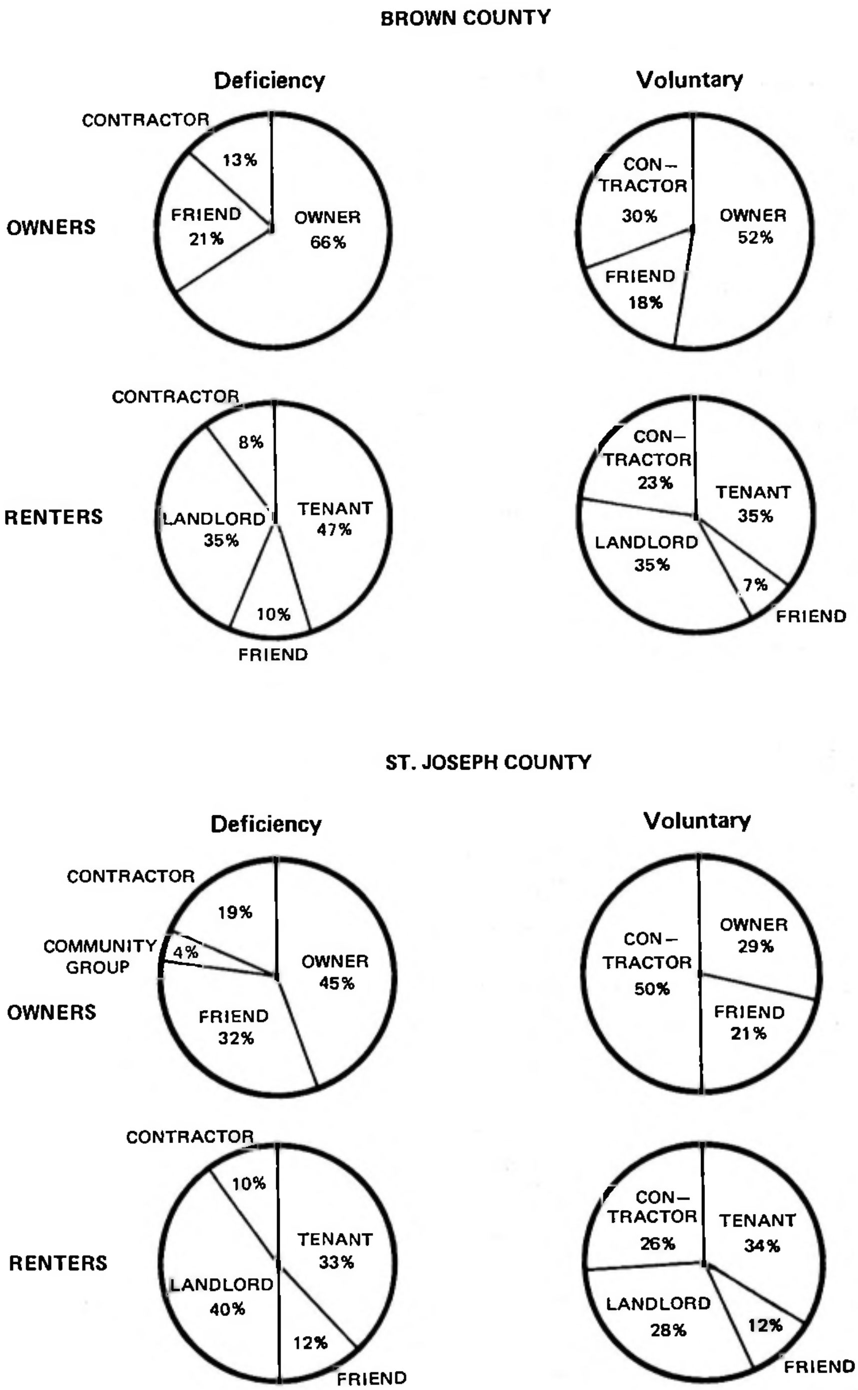
Tenure and Type of Repair	Number of Repair Reports	Cash Expense: Average per Report ($)	Cash Expense: Total ($000)
Brown County			
Deficiency:			
Owner	289	55	16
Renter	857	39	33
Voluntary:			
Owner	968	324	314
Renter	1,449	88	128
Total	3,563	138	491
St. Joseph County			
Deficiency:			
Owner	1,241	81	101
Renter	1,763	37	65
Voluntary:			
Owner	2,696	347	936
Renter	1,512	116	175
Total	7,212	177	1,277

SOURCE: Tabulated by HASE staff from HAO records. The number of repair reports, one for each evaluation, came from management information reports covering the indicated period. Average repair expenses came from evaluation reports from January 1976 through June 1977.

commercial banks and one mortgage bank that also made home improvement loans estimated that they had jointly granted 40 to 50 loans to HAO clients. After the first program year, however, lenders reported a decline in activity.

INDUSTRY RESPONSE TO INCREMENTAL DEMAND

The small increase in demand from allowance recipients for home improvement services suggests that suppliers of those services would conduct business as usual when dealing with allowance recipients. The industries were large enough so that supply shortages could not have been caused by program-related demand for home improvement, and firms were numerous enough so that clients could easily avoid overpriced services. Thus, we conclude that suppliers



SOURCE: HAO Records from January 1976
through June 1977.

Fig. 3.1—Sources of labor for deficiency and voluntary repairs

Table 3.4

ESTIMATE OF CONTRACTED REPAIR VOLUME:
JULY 1977 - JUNE 1978

Site and Type of Repair	Number of Repair Reports	Contracted Expense: Average ($) per Repair Report	Contracted Expense: Total ($000)
Brown County:			
Deficiency	1,146	10	11
Voluntary	2,417	93	225
Total	3,563	66	236
St. Joseph County:			
Deficiency	3,004	24	72
Voluntary	4,208	163	686
Total	7,212	105	757

SOURCE: HAO records. The number of repair reports, one for each evaluation, came from management information reports covering the indicated period. Estimates of contracted repair expenses came from evaluation reports from January 1976 through June 1977.

easily handled HAO-related business without an adverse effect on either participants or nonparticipants.

With neither supply shortages nor price gouging, only poor workmanship could have been a problem for enrollees; however, our data suggest that it was not. In St. Joseph County between June 1976 and December 1977, 774 dwellings were repaired by contractors after failing an HAO evaluation; all but 27 passed the deficiency reevaluation. In Brown County, the proportion was similar. Poor workmanship may have caused some of those failures, but clients' misunderstanding of required repairs may have caused others.

Public and Nonprofit Response to Enrollee Demand

Various nonprofit and public groups offered help to some of those whose homes needed repairing (see Sec. II for a description of those groups). However, because those programs usually did not match recipients' needs, only a small percentage of allowance recipients were helped. Assistance came either through handyman programs or loan and grant programs, most of which were located in St. Joseph County. During the first four years of the program there, public and nonprofit groups helped finance an estimated $5 million in improvements to approximately 1,350 units.[2] In addition, those groups sponsored handymen who made minor repairs to an additional 1,000 to 1,500 units.

The city of South Bend sponsored most of its repair financing programs through the Housing and Community Development Act (HCDA) of 1974 (see Table 2.8). One of the programs, HAO Referral Grants, was designed by the city for elderly homeowners whose dwellings

[2]During the same period in Brown County, public and nonprofit groups helped finance less than $500,000 in improvements to a little more than 100 units.

failed the HAO evaluation. Another program, Emergency Repairs, was ideally suited to HAO recipients who failed their deficiency evaluation. However, in June 1976, HUD ruled that HCDA funds should not support those programs because they were citywide rather than restricted to a designated renewal area.

The cancellation of those programs limited the city's ability to help HAO enrollees qualify for assistance. Grant programs that replaced those designed for HAO recipients were confined to specific neighborhoods and aimed at good-as-new rehabilitation (more than the HAO requires) on a few units. HAO records confirm that deficiency repairs were seldom paid for by the city. From January 1976 to June 1977, only 37 participants (less than 1 percent of those who repaired units to meet HAO standards) claimed that the government paid for the repairs.

Although government agencies in St. Joseph County helped a few HAO enrollees complete large repairs, nonprofit agencies helped a greater number complete small repairs. Between January 1976 and June 1977, enrollees reported 189 instances of community groups paying for or helping complete some of the repairs. Many of those repairs were minor, such as putting up a handrail, fixing a broken window, or hanging storm windows. However, such tasks appear formidable to some householders, especially elderly persons.

Unlike other government financing programs, most handyman programs sponsored by nonprofit groups gave priority to HAO clients. However, those programs were not large enough to help all enrollees; they helped only some with minor repairs. Moreover, some handyman programs had eligibility qualifications that excluded HAO enrollees with higher incomes.

THE ROLE OF HOME IMPROVEMENT FINANCING IN PROGRAM PARTICIPATION

We have seen that enrollees who qualified for housing allowances had little difficulty arranging and paying for repairs because the repairs were mostly simple and inexpensive. One might expect to find more serious problems among eligibles who never applied or who enrolled but never qualified for payments. Some of the nonapplicants may have believed, correctly or not, that the HAO would require them to make difficult or expensive repairs, and some of the dropouts may have faced just such requirements. Would more flexible home repair contracting or easier access to credit have enabled or persuaded these nonparticipants to enroll and qualify for payments?

Below we argue that intermediary policy had at most only a small effect on program participation. That conclusion is not reached by focusing on intermediary policy directly—the intermediaries are too numerous and their policies too diverse to make such a strategy practical. Instead that conclusion is inferred from data on eligibles' characteristics, circumstances, and attitudes. Two classes of nonparticipating eligibles are distinguished: those who do not apply and those who enroll but drop out before receiving payments. We found that the former rarely mention housing problems as a reason for their nonparticipation, and in fact seem to know little about program specifics when making their decisions. About half of the latter do mention housing problems as a reason for terminating their enrollments. Most of the dropouts are renters whose landlords were apparently unwilling to make repairs. Others are homeowners who seem to have made little effort to remedy their housing defects even though they could have recouped expenses from a few allowance payments.

Do Expected Repair Expenses Deter Enrollment?

Although the allowance programs enrolled over 25,000 households during the first five program years, at any given time enrollment ranges between 9,000 and 10,000, about 40 percent of those currently eligible. It is tempting to suppose that the poorest households with the worst housing failed to apply because they expected their dwellings to fail; believing that their chances of obtaining a repair loan are slim, and unable to complete the repairs without a contractor's help, they decide the program's benefits are inaccessible to them. However, the evidence does not support this supposition.

First, the participation rate measured at a point in time is deceptive. Because individual households frequently change their eligibility status (Carter and Balch, forthcoming) and once eligible do not always immediately apply, one would expect considerably less than 100 percent participation even if all eligibles eventually applied. In fact, the participation rate is not far below other government transfer programs that have no housing requirements. For example, the comparable participation rate for public assistance (welfare) programs in New York City is 56 percent (see Rydell, Mulford, and Kozimor, 1978).

Direct evidence on why eligible households do not apply for the allowance program comes from the annual household surveys. In those surveys we found that despite widespread publicity, some eligible households were unfamiliar with the allowance program. Those who knew of the program were specifically asked why they did not apply. We also sought their views on the allowance program and asked what aspects of it they would like changed. Thus, eligible households who knew of the program had several opportunities to state their concerns about repair requirements and other housing issues.

However, their responses suggest that housing standards, repairs required to meet those standards, and other program features rarely explain their reluctance to apply. Instead, that decision is most often based on general notions about the program and its purpose, notions that may reflect preexisting attitudes toward similar programs. Some decide not to apply because they distrust government programs, fail to see the program's relevance to them, will not accept "giveaways," believe the wrong people are being helped, or because someone they trust recommends against it; but they are unlikely to know what the program requires of them (beyond a vague notion of income qualifications) until they have an interview at the HAO.[3] Therefore, it is quite implausible that their decisions were influenced by intermediaries' actual or perceived policies.

The frequency and nature of housing-related comments by eligible nonapplicant survey respondents appear in Table 3.5. In the second wave of household surveys, about a year after the beginning of open enrollment in each site, roughly 60 percent of such households in each site had no knowledge of the program and therefore were not asked specific questions about the program.[4] Of those asked, only 3 percent in Brown County and 2 percent in St. Joseph County mentioned housing standards or repair requirements. Some voiced a dislike for housing evaluations in general or HAO standards in particular, or mentioned problems they would have repairing their units. Less than 1 percent of the total in either site mentioned repair financing as a problem.

As a barrier to application, housing problems increased in importance only slightly over time, even though by the second program year (survey wave 3) enrollment had reached several

[3]For a full discussion of public attitutes toward the allowance program, see Ellickson and Kanouse (1978, 1979).

[4]About 85 percent of all eligible households had by then heard of the program and 60 percent were able to describe some of its features (Ellickson, forthcoming). The nonapplicants, of course, include all those who were unaware of the program.

Table 3.5

COMMENTS ON HOUSING PROBLEMS BY ELIGIBLES WHO DID NOT APPLY

Program Status and Type of Comments[a]	Percentage of Eligibles			
	Brown County		St. Joseph County	
	Wave 2	Wave 3	Wave 2	Wave 3
All eligible nonapplicant households[b]	100.0	100.0	100.0	100.0
Unfamiliar with program	58.4	48.1	60.8	44.9
Familiar with program:				
Did not comment on housing problems	38.5	47.6	37.0	49.7
Commented on housing problems	3.1	4.3	2.2	5.4
All households commenting on housing problems[c]	100.0	100.0	100.0	100.0
Mentioned repair financing	20.0	22.2	14.3	6.3
Mentioned other housing problems	80.0	77.8	85.7	93.7
Percent of eligible nonapplicants mentioning repair financing	.6	1.0	.3	.3
Number of surveyed eligible nonapplicant households	322	206	319	296

SOURCE: Records of survey waves 2 and 3 of households in each site.

NOTE: Entries are unweighted responses to surveys conducted near the end of the first and second years of program operations in each site.

[a]Entries are based on responses to several questions in the household survey, each soliciting an answer as to why respondent had not applied, what he thought of the allowance program, or what he would like to see changed in the allowance program. The questions were asked only after the respondent demonstrated familiarity with the allowance program.

[b]Includes eligible households who had not attended an enrollment interview.

[c]Respondents commenting on housing problems (1) objected to housing standards, home evaluations, or repair requirements in general, (2) thought their units would fail the evaluation, (3) felt their landlords would not fix their units to HAO standards, or (4) felt that the HAO should provide money or financing directly for repairs.

thousand in each site and the program had become well known by a majority of the population in each community. Only 4 percent of those eligible who had not applied in Brown County and 5 percent in St. Joseph County mentioned housing standards or repair requirements as a problem when asked about the program. The percentage mentioning repair financing rose to 1 percent in Brown County but did not change in St. Joseph County.

Do Repair Requirements Cause Terminations?

After applying for the allowance program and completing a housing enrollment interview, households learn the specifics of the program as it affects them—their monthly allowance entitlement and the housing standards they must comply with. After their dwelling is evaluated, they know exactly what repairs are required to begin receiving the allowance. As we have seen, most enrollees who do not occupy acceptable dwellings at enrollment move or make repairs, most of which are inexpensive. However, about a fifth of the households who enroll terminate from the program without receiving an allowance payment. Could these households have been thwarted in their attempts to repair by intermediaries or their policies? For the majority of these terminees, the answer is no. In general, housing problems were not frequent enough or housing deficiencies severe enough to force households to seek intermediaries' help.[5]

Table 3.6 counts enrolled households who had not received payments through December 1978 and distributes them by tenure and program status. The number is higher (both absolutely and relatively) for renters than for owners, and for St. Joseph County enrollees than for Brown County enrollees. In particular, in St. Joseph County, 23 percent of all enrollees and 31 percent of renter enrollees had not received an allowance payment as of December 1978. Most of those unauthorized for payments had terminated by that time, and about half of those remaining would eventually terminate. Thus, about 21 percent (18 percent plus half of 5 percent) of all enrollees in St. Joseph County, and 15 percent in Brown County terminate without receiving payments.

Most terminations for nonrecipients are voluntary in the sense that the enrollment is terminated because the enrollee does not respond to a semiannual or annual recertification notice,[6] or simply tells the HAO to end his enrollment. To learn why these households dropped out of the program, we surveyed a sample of nonrecipient terminees (see Sec. I); Table 3.7 reports the reasons they gave.

About a third said they terminated primarily because of some problem connected with a housing evaluation; mostly, their dwellings failed and they were unwilling or unable to arrange repairs. The others reported loss of eligibility, problems with moving, or dissatisfaction with either HAO procedures or their allowance entitlements. However, a respondent's "main" reason for terminating is sometimes phrased in a way that conceals the contributing role of home repair problems in enrollee terminations. Further questioning elicited contributing reasons for termination, with the results shown below.

	Percent Citing Housing Problems	
	Brown County	St. Joseph County
Main reason	35	31
Contributing reason	14	18
Total	49	49

Thus, at most, half of the nonrecipient terminees implicated housing problems in their decisions. Their views are confirmed by examining their circumstances at the time of termination, as reported in Table 3.8. About half in each site knew they had failed their last housing evaluations but had not repaired the dwellings. However, most of the others had failed to arrange for a housing evaluation, or had passed the last such evaluation.

A few of those who avoided an evaluation anticipated failing it (they are reflected in the percent that cited housing problems, discussed above), but the majority decided against program participation on other grounds (see Table 3.7). Those whose dwellings failed but were not repaired gave a variety of reasons for not repairing (Table 3.9). Homeowners usually cited

[5]For a comprehensive treatment of the decision to terminate, see Coleman, forthcoming.

[6]The semiannual recertification is normally conducted by mail; the annual requires an office visit. Provided he stays eligible, an enrollee can continue in the program indefinitely despite not qualifying for payments.

Table 3.6

PAYMENT AUTHORIZATION STATISTICS FOR HOUSING ALLOWANCE PROGRAMS

Item	Owners		Renters		Total	
	Number of Cases	Percent of Total	Number of Cases	Percent of Total	Number of Cases	Percent of Total
St. Joseph County						
All enrollees	6,196	100	6,985	100	13,181	100
Authorized for payments	5,294	85	4,809	69	10,103	77
Never authorized for payments	902	15	2,176	31	3,078	23
Authorization pending	144	3	490	7	634	5
Enrollment terminated	758	12	1,686	24	2,444	18
Brown County						
All enrollees	2,755	100	5,685	100	8,440	100
Authorized for payments	2,395	87	4,681	82	7,076	84
Never authorized for payments	360	13	1,004	18	1,364	16
Authorization pending	25	1	169	3	194	2
Enrollment terminated	335	12	835	15	1,170	14

SOURCE: HAO management information reports for December 1978.

NOTE: Payments are not authorized until the housing unit chosen by an enrollee has been evaluated by the HAO and certified for occupancy; for a rental unit, not until an executed copy of an acceptable lease agreement has been filed with the HAO.

Table 3.7

ENROLLEES' MAIN REASONS FOR TERMINATING WITHOUT QUALIFYING FOR PAYMENTS

Reason for Termination	Percent of Terminees by Main Reason for Termination[a]					
	Brown County			St. Joseph County		
	Owners	Renters	Total	Owners	Renters	Total
Problem with housing evaluation[b]	50	31	35	38	28	31
Loss of eligibility[c]	26	34	32	20	24	23
Problem with moving[d]	5	17	14	5	25	20
Problem with HAO procedure[e]	10	14	13	21	16	17
Allowance too small	12	11	11	12	10	10
Other[f]	5	3	3	6	5	5
Number of cases	84	314	398	373	1,050	1,423

SOURCE: Records of the survey of terminees and the housing allowance offices.

NOTE: Entries are based on a sample of 804 households. These households were chosen from a total of 1,821 households who enrolled in the allowance program before June 1978 and terminated before 1 January 1979 without having qualified for payments. For 1,669 of these households, HAO records could not conclusively determine the clients' reason for termination. Of those, 652 were sampled and successfully interviewed in the survey of terminees; their reasons for terminating were taken from this survey. The remaining 152 in the sample were all households for whom HAO records conclusively indicated that termination resulted from loss of eligibility; their reasons for terminating were inferred from HAO records documenting their loss of eligibility.

[a]Columns do not add to 100 percent because some enrollees offered more than one "main" reason for termination.

[b]Includes problems in passing the evaluation and in completing repairs and objections to HAO housing standards.

[c]Loss of eligibility due to increased income or change in family composition.

[d]Respondent may have specified that he moved out of the county or into subsidized housing or may have just said that he moved. He may also have stated that he did not move from an unacceptable dwelling either because he could not find a suitable alternative or because he preferred to stay in his current dwelling.

[e]Includes all problems with HAO procedures or personnel, and general complaints that the HAO did not provide enough help.

[f]Includes rejection of allowance as welfare or charity, death of household head, fraud, and "no reason."

Table 3.8

ENROLLEE HOUSING EVALUATION AND REPAIR STATUS AT TERMINATION: CLIENTS WHO NEVER RECEIVED PAYMENTS

	Percent of Indicated Group					
	Brown County			St. Joseph County		
Status	Owners	Renters	Total	Owners	Renters	Total
Incomplete evaluation[a]	16	30	27	19	46	39
Complete evaluation:[a]						
Passed	0	13	10	0	7	5
Failed:						
Unaware of defects[b]	4	5	5	5	5	5
Aware of defects:						
Made all repairs[c]	15	4	6	8	6	6
Did not make all repairs[c]	65	48	52	68	36	45
Total	100	100	100	100	100	100
Number of cases	84	314	398	373	1,050	1,423

SOURCE: Records of the survey of terminees and the housing allowance offices.
NOTE: See Table 3.7 for sample description.

[a]Evaluation status was based on HAO records.

[b]HAO records show evaluation failure, but survey respondent does not recall receiving failure report. Calculations assume that those who failed and were not interviewed (see note above; of the 152 not interviewed, 75 failed their evaluation) were as aware of defects to their unit as those who failed and were interviewed.

[c]Calculations assume that those who failed and were not interviewed (see note above) made repairs at the same rate as those who failed and were interviewed.

repair costs; renters often cited repair costs, together with some indication that the landlord would not bear those costs. Some owners and renters thought the repairs were unnecessary, but few specifically indicated that they lacked the skills needed to do the work.

If cost was the principal reason for not making repairs, the terminees were easily discouraged. A study of 443 dwellings that failed their initial evaluations between September and December 1978 estimated the repair costs for each dwelling.[7] The dwellings were then grouped by what action the occupants had taken by the end of June 1979. Nearly all had either repaired the failed dwelling (thus qualifying for payments), moved to another dwelling, or terminated their enrollments. Table 3.10 reports the average estimated repair costs for both repaired and unrepaired dwellings.

[7]The estimates were constructed as follows. Based on their field experience, the HAO evaluators in each site estimated typical repair costs for each of over 120 specific housing defects. We applied these typical costs to the defects indicated in each sampled dwelling's evaluation report, then summed the costs for each dwelling. The estimates of typical costs for most repairs assumed that paid labor was used and the needed materials were purchased. As shown in Fig. 3.1, paid labor was rarely used to remedy HAO-specified defects, so these estimates generally are larger than actual cash outlays. For owner-occupied homes that were repaired, the estimated costs averaged 2.8 times larger than the cash outlays reported by the owners; in St. Joseph County, 1.6 times larger.

Table 3.9

TERMINEES' REASONS FOR NOT REPAIRING FAILED DWELLINGS

Why a Failed Dwelling Was Not Repaired	Percent of All Respondents[a]					
	Brown County			St. Joseph County		
	Owner	Renter	Total	Owner	Renter	Total
Couldn't pay repair cost	71	23	34	82	52	62
Rejected repair responsibility[b]	--	36	28	--	23	15
Landlord would not repair	--	31	24	--	20	13
Thought repairs were unnecessary	27	16	18	16	8	11
Lacked necessary skills	8	11	10	5	5	5
Planned to move	--	8	6	2	8	6
Allowance too small	12	3	5	5	5	5
Loss of eligibility	6	--	1	2	7	5
Too much trouble	2	3	2	6	4	4
Other	--	8	6	4	4	4
Sample size	37	97	134	139	92	231

SOURCE: Records of the survey of terminees.

NOTE: See Table 3.7 for sample description. Entries are based on responses to a single question addressed to terminees whose dwellings failed their initial evaluations, who were aware of that failure, and who reported they did not make all repairs.

[a]Columns do not add to 100 percent because some enrollees offered more than one reason for repairing.

[b]Respondent stated that since he was a renter, making repairs was not his responsibility.

Owners who terminated faced repair bills averaging $106 in Brown County, $151 in St. Joseph County. For renters, the corresponding figures are $358 and $330. These are total costs, assuming that paid labor was used for most repairs; on repaired dwellings where comparisons are possible, we know that the estimates of total costs are about twice actual cash outlays. Even accepting the larger figures, owners who terminated could have recouped costs from allowance payments within two months on average; renters, whether they paid in full for the repairs or persuaded their landlords to repair in return for a rent increase, could have recouped in three to six months (see Table 3.11).

Although from a different sample, the cost figures cited above should apply to the nonrecipient terminees that we surveyed directly. Clearly, few would have needed large sums to repair their dwellings and qualify for payments; so it is not surprising that few sought home improvement loans. In response to inquiries directed to those who needed repairs to qualify for payments, 8 out of 100 in Brown County and 54 out of 453 in St. Joseph County reported an active search for credit.[8] As shown below, most were homeowners.

[8]Experience with lenders was solicited from interviewed terminees whose dwellings failed their initial evaluations, who were aware of that failure, and who reported they did not make all repairs. Numbers are weighted to reflect the entire population of those terminees during the study period.

Table 3.10

ESTMATED AVERAGE REPAIR COSTS FOR FAILED DWELLINGS, BY CLIENT ACTION AFTER FAILURE

Action After Failure	Estimated Average Repair Cost ($)[a]			
	Brown County		St. Joseph County	
	Owners	Renters	Owners	Renters
Repair	76	214	56	124
Move	592[b]	538	331	286
Terminate	106	358	151	330
Stay[d]	(c)	184	100[c]	95

SOURCE: HAO records for all failed initial evaluations between 1 September 1978 and 31 December 1978. Includes 190 cases in Brown County and 253 in St. Joseph County.

[a]Estimated total cost, assuming paid labor was used for most repairs. Where comparisons can be made, actual cash outlays are much lower.

[b]Based on only 7 cases.

[c]All Brown County homeowners in the sample moved, repaired, or terminated.

[d]Client was still enrolled at close of file, but had neither repaired the failed dwelling nor moved; based on only 4 cases.

Table 3.11

RATIO OF ESTIMATED REPAIR COST TO ALLOWANCE ENTITLEMENT: OCCUPANTS OF FAILED DWELLINGS

Action After Failure	Estimated Repair Cost/ Monthly Allowance Entitlement[a]			
	Brown County		St. Joseph County	
	Owners	Renters	Owners	Renters
Repair	.8	1.6	.8	1.3
Move	4.5[b]	7.1	3.2	3.1
Terminate	1.4	6.1	2.0	3.2
Stay[e]	(c)	3.5	.9[d]	.7

SOURCE: HAO records for all failed initial evaluations between 1 September 1978 and 31 December 1978. Includes 190 cases in Brown County and 253 in St. Joseph County.

[a]Average of ratios calculated for individual cases.

[b]Based on only 7 cases.

[c]All Brown County homeowners in the sample moved, repaired, or terminated.

[d]Based on only 4 cases.

[e]Client was still enrolled at close of file, but had neither repaired the failed dwelling nor moved; based on only 4 cases.

	Brown County		St. Joseph County	
	Owners	Renters	Owners	Renters
Did not search	32	60	160	239
Contacted a lender	4	4	37	17
Total	36	64	197	256

The figures below show that only about half of the contacts resulted in a loan refusal and, in fact, that about a third of the potential lenders were friends or relatives rather than market intermediaries.

	Brown County		St. Joseph County	
	Enrollee Contacts	Loan Refusals	Enrollee Contacts	Loan Refusals
Bank or other lending institution	4	1	30	13
Credit or installment plan	—	—	10	2
Friend or relative	2	—	19	11
Other source	—	—	6	5
Total contacts[a]	6	1	65	31

[a]Some enrollees made more than one contact.

Terminees dealt with contractors even less than with lenders. Only 12 of the 804 households sampled in both sites hired someone to complete some or all of the work the HAOs required. Of those, none thought the work completed by the hired labor would have failed the HAO evaluation.

To summarize, about half of those enrollees who terminated before receiving payments cite housing problems as a reason for their action. We find it highly unlikely that the policies of housing market intermediaries can explain the majority of even those terminations, for the following reasons: (a) repair costs of those who terminate are not high enough to generate much demand for intermediaries' services or to prevent most enrollees from repairing, (b) most of the terminees are renters who generally do not use the services of intermediaries, and (c) enrollees rarely attempted to obtain loans, even from friends.

WOULD EASIER FRONT-END FINANCING INCREASE PARTICIPATION?

We have seen that private lenders do not play a substantial role in financing program-required repairs, that few newly enrolled households face repair problems that seem to require credit, and that fewer still have sought such credit unsuccessfully. Nonetheless, observers on site report instances in which a needy and willing household seems to be prevented from qualifying for allowance payments by lack of capital to finance repairs; some have suggested that the HAO itself could remedy such situations by offering interest-free cash advances for dwelling repairs, to be repaid from subsequent monthly allowances.

Interest-free lending is clearly beyond the scope of policies to be urged on private market intermediaries, but has been used by some public programs to compensate for the difficulty that poor families have in assembling even modest amounts of capital. Designing standards for dispensing such advances is difficult if the dispensing agency hopes to limit the advances to the most needy cases and hopes to recover the full amount of the loan.[9] But there is little question that some who have enrolled in the experimental housing allowance program would have found it easier to qualify for payments if repair advances had been available, and others who did not apply would have been attracted by the offer of cash now rather than cash later.

Below, we try to estimate the number of eligibles for whom the availability of interest-free repair advances would have made the difference between participation and nonparticipation. (We are willing to suppose that such an offer would be taken up by others who did not regard it as a prerequisite but as an extra benefit.) We conclude that such front-end financing would not have increased participation by more than 17 percent, the main uncertainty being the number of eligible nonapplicants for whom the additional program feature would have been decisive.

Table 3.12 reports obstacles that repairs present to enrollment among those who were eligible at the midpoint of program history, and to recipiency among those who enrolled during a 2.5 year period midway through the experiment. The upper portion of the table applies percentages presented earlier in Table 3.5 to estimates of the total number of eligibles not enrolled in each site. The lower portion of the table also summarizes data presented earlier, but in addition gives an estimate of the proportion of terminees who would have remained in the program with the aid of a repair advance. The table shows that about a quarter of the terminees in St. Joseph County and an eighth in Brown County would have been helped with front-end financing. That group consists of all terminees with housing problems who (a) agreed that a repair advance would have prevented their termination (b) thought they were still eligible for assistance when they terminated and (c) estimated repair costs at no more than $1,000 (too much for an HAO repair advance to cover).

To calculate joint effects of the obstacles both before and after enrollment, and to generalize over program history, we need consistent denominators. In Table 3.13, we apply the incidence measures from Table 3.12 to five-year cumulative counts of program-status episodes.

A program-status episode is a period during which a household occupies a specified program status (e.g., is eligible to enroll, is enrolled, or is receiving payments). For most households, these statuses are impermanent, and for some they are recurrent. Thus, the total number of recipiency episodes during the first five years of the program is much larger than the number of households who were receiving payments on any specified date during those five years, and is also somewhat larger than the number of different households who received payments at any time during those five years.

If we assume that all eligible nonapplicants who mentioned housing problems would have become recipients if offered interest-free repair advances, and combine that number with the estimate for enrollees described above, the number of recipiency episodes would have increased by 8.6 percent in Brown County and 16.7 percent in St. Joseph County. This, we think, is the maximum plausible increment to participation that might have been achieved by guaranteeing access to interest-free home repair credit.

If we assume that repair financing was an obstacle only to eligible nonapplicants who, in the course of interview probes, specifically mentioned repair financing as a problem, we obtain

[9]Both HAOs offer enrollees advances to cover initial rent and utility deposits. Experience has shown that losses from these advances tend to be high if more than a six-month prepayment of allowance is authorized.

Table 3.12

INCIDENCE OF HOUSING REPAIR OBSTACLES TO PROGRAM PARTICIPATION: ANALYSIS OF SAMPLE DATA

Program Status	Households in Study Population			
	Brown County		St. Joseph County	
	Number	Percent	Number	Percent
Eligible at survey wave 3	7,940	100.0	15,400	100.0
Not enrolled at survey wave 3	4,916	61.9	9,386	60.9
Commented on housing problems[a]	211	2.7	507	3.3
Mentioned repair financing[b]	47	.6	32	.2
Households enrolling June 1976-December 1978	3,544	100.0	7,885	100.0
Terminated without receiving payments	532	15.0	1,616	20.5
Problem with housing evaluation[c]	261	7.4	792	10.0
Repair advance might help[d]	65	1.8	388	4.9

SOURCE: Tabulated by HASE staff from records of the wave 3 survey of households and the 1979 survey of terminees in each site, and from HAO records.

NOTE: Entries for eligibles are weighted population estimates based on sample survey data for the midpoint of the first five years of the allowance program. Entries for enrollees between June 1976 and December 1978 are counts from HAO records; termination and housing problem status are estimates from sample data.

[a] Maximum for whom a repair advance would help. See Table 3.13.

[b] Minimum for whom a repair advance would help. See Table 3.13.

[c] Includes all terminees who indicated any problems with housing evaluations as a main or contributing reason for their termination.

[d] Estimate of the number for whom a repair advance would help. See Table 3.14. Includes terminees with housing problems who (a) agreed a repair advance would have prevented their termination, (b) thought they were still eligible when they terminated and (c) estimated repair cost at no more than $1,000.

Table 3.13

POTENTIAL EFFECT OF REPAIR ADVANCES ON PROGRAM PARTICIPATION: FIRST FIVE PROGRAM YEARS

Item	Number of Episodes			
	Brown County		St. Joseph County	
	Maximum	Minimum	Maximum	Minimum
Eligibility and Enrollment Episodes				
Total eligibility episodes	20,300	19,200	37,300	37,300
Actual enrollment episodes[a]	9,390	9,390	16,720	16,720
Potential increment with repair advance	470	110	1,110	60
Potential enrollment episodes	9,860	9,500	17,830	16,780
Enrollment and Recipiency Episodes				
Potential enrollment episodes	9,860	9,500	17,830	16,780
Actual recipiency episodes	7,740	7,740	12,600	12,600
Potential increment with repair advance[b]	670	310	2,100	1,050
Potential recipiency episodes	8,410	8,050	14,700	13,650
Participation Increment with Repair Advances				
Potential increase in recipiency episodes (%)	8.6	4.0	16.7	8.3

SOURCE: Estimated by HASE staff from entries in Table 3.12, household survey records, and HAO records for both sites.

NOTE: An episode is a period during which a household occupies a specified program status (e.g., is eligible to enroll in the allowance program, is actually enrolled, or is receiving payments). A given household may have had more than one episode in a specific status during the first five program years.

Maximum and minimum entries reflect alternative estimates of the incidence of repair obstacles to enrollment and participation; see Table 3.12, notes *a*, *b* and *d*.

[a]Includes reinstatements.

[b]Potential enrollment increment plus recipiency increment for actual recipients. For enrollment increment, no allowance is made for causes of termination other than repair obstacles.

minimum estimates of the increment to participation that might have been achieved by front-end financing: 4.0 percent in Brown County and 8.3 percent in St. Joseph County.

Although some households' circumstances and interview responses may imply errors of classification in the account given above, we think that our calculations yield approximate upper and lower bounds for the effects of interest-free home-repair financing on participation.

From a programmatic point of view, the upper bounds are large enough to warrant serious consideration of such financing as a program element, though technical and operational complexities might still rule it out. From the perspective of this study's concern with market intermediaries, a different message emerges: No plausible change in the lending standards of banks, savings and loans, or other financial institutions would significantly alter the obstacles to participation in the allowance program's housing standards. If interest-free home improvement financing available to all eligibles regardless of credit history or other obligations would at most increase participation by 17 percent, then surely offering such credit to eligibles at market interest rates, subject to minimally prudent standards of creditworthiness, would have substantially less effect on participation.

IV. THE INTERMEDIARY ROLE IN HOME PURCHASE

Participants in the housing allowance program are free to purchase homes; however, aside from the monthly allowance payment, the program offers no special incentives or assistance. The prospective buyer is responsible for finding an affordable home that meets HAO standards and making arrangements to finance the home.

Like homebuyers in the general population, housing allowance participants often require the services of real estate brokers and mortgage lenders. As prospective buyers with low incomes, they may encounter difficulties with those intermediaries. Lenders' criteria for granting loans may screen participants, the homes they can afford to purchase, or the neighborhoods in which they wish to live. Alternatively, some lenders may encourage participants to purchase homes they can't afford. Brokers may refuse to deal with or restrict the housing choices of buyers because of their race.

This section examines the role of real estate brokers and mortgage lenders in allowance recipients' home purchases. First we discuss how brokers and lenders screened HAO clients. Next we examine the characteristics of the 286 renter enrollees who purchased homes and the circumstances surrounding their purchases. We then turn to a discussion of possible redlining by lenders and racial steering by brokers, and assess their impact on home purchases. Finally we ask whether the government should intervene to encourage more low-income households to buy homes.

Few enrollees purchased homes while enrolled in the allowance program (less than 3 percent in either site). The characteristics of enrollees, rather than the policies of intermediaries, explain that outcome; most enrollees either did not have the resources to make home purchase affordable or did not find the prospect of homeownership attractive. However, for many of those who did buy in St. Joseph County, the policies of intermediaries affected their choice of financing and may have affected the location of their purchases. Of particular importance were the policies of mortgage lenders toward small loans and those of the FHA toward allowance income. Finally, of the enrollees who bought homes, many appear unqualified for conventional mortgages; help from friends and relatives and use of alternative financing made homeownership possible for them.

HOW BROKERS AND LENDERS SCREENED HAO CLIENTS

Real estate brokers and conventional mortgage lenders in the two counties screened HAO clients with the same criteria used for other potential homebuyers. Brokers first determined the housing needs and financial resources of the client. If a purchase appeared financially feasible, the broker asked about specific requirements, such as house size and neighborhood preference, and then helped the client choose a suitable home and negotiate its purchase. The mortgage lender, consulted after a particular home had been chosen, examined the income, assets, and credit history of the prospective buyer, as well as the house under consideration.

The policies of brokers and lenders in both sites gave qualified allowance recipients an opportunity to purchase on reasonable or, in the case of FHA-insured loans, generous terms. Despite the reluctance of some lenders in St. Joseph County to make small loans, mortgage loans were available to enrollees in both sites. However, few HAO clients approached conventional lenders or real estate brokers regarding home purchases, and most who did either had insufficient incomes or unacceptable credit histories to qualify for mortgages. Further, the evidence suggests that marginally more favorable lending requirements would not have substantially increased inquiries or purchases.

Real Estate Brokers

Allowance recipients' interest in homebuying is best gauged by their interaction with real estate brokers. Brokers receive initial inquiries from buyers, screen out those unlikely to qualify for mortgage loans, and direct others to lending institutions likely to grant them credit.

In Brown County, brokers reported few contacts with HAO clients. After the first year of the allowance program, only four out of eight brokers interviewed reported any contact with households interested in buying with the help of housing allowances. By July 1979, after five years of program operation, brokers were still reporting almost no contact. They attributed that lack of interest to an increasing shortage of low-valued homes. In St. Joseph County, however, brokers initially reported much more contact with allowance recipients. In 1976, after one year of program operation, the 12 sales agents we interviewed estimated that they received a total of 200 inquiries from HAO clients interested in buying homes. By July 1979, however, those agents were receiving less than 100 inquiries per year—only half of the first year's level.

Few of those who inquired in either site bought homes. Of the 200 inquiries in St. Joseph County during that first year, brokers estimate that less than 10 percent resulted in sales. Brokers in both sites report that most HAO clients who inquired either had incomes too small to carry mortgage loans or unacceptable credit histories.

Institutional Mortgage Lenders

Financial institutions screen prospective borrowers according to policies that minimize their risk of losses. First, they examine the prospective buyer's income, savings, and credit history to determine the likelihood of his successfully carrying the loan. If a borrower defaults on a loan or misses payments, service costs can escalate quickly. Next, lenders assess the property to judge the possibility of capital recovery in the event of foreclosure. They are naturally reluctant to lend on potentially unsalable properties or on those with decreasing market values.

Conventional lending institutions' requirements for income and credit history were similar in the two sites. As a general rule, housing costs, including principal, interest, taxes, and insurance, could equal no more than one-fourth of a borrower's total income, including the allowance. A buyer's total obligations could not exceed one-third of his total income. By the end of the fourth program year, however, a few institutions in each site had adopted more flexible rules for housing costs and total obligations. Finally, all lenders required that a borrower have a sound credit history.

Down payment requirements were different among conventional lending institutions. Mortgage banks, active only in St. Joseph County, offered FHA-insured loans that required a down payment of only 3 percent. Savings and loan associations and commercial banks specialized in uninsured mortgages with a 20 percent down payment requirement. Most of those institutions also offered privately insured loans for which they usually required 10 percent, or occasionally, 5 percent down.

Most commercial banks and savings and loan associations in St. Joseph County discourage loan applications on inexpensive properties. Low-valued properties are considered risky because of their uncertain market value; indeed, residential property values in central South Bend fell substantially in real terms during the decade preceding the allowance program. Moreover, because servicing a small loan costs the lender as much as servicing a large one, small loans yield lower net returns to lenders. Accordingly, in 1974, five of the largest lending institutions in St. Joseph County set mortgage loan minimums at $10,000, and a sixth set its minimum at $15,000.

By July 1979, only three of those loan minimums remained, but other policies continued to limit lending by commercial banks and savings and loans on inexpensive properties. Some institutions compensated for the risk of small loans by offering them on less favorable terms than borrowers could obtain elsewhere. For example, some mortgage departments of commercial banks referred those seeking loans on low-valued properties to their consumer loan departments. Consumer loans generally have higher interest rates and shorter terms than mortgages.[1] In addition, although the minimum down payment policies of many commercial banks and savings and loan associations were not enacted to limit loans on inexpensive properties, they had that effect, since potential buyers of such properties usually had limited assets.

Policies of mortgage banks and the FHA concerning small loans were much more favorable to low-income households seeking inexpensive properties. Mortgage banks generally accepted brokers' referrals of applicants for small loans even though the banks did not find such loans profitable. Because mortgage banks do not have depositors as a ready source of borrowers, they compete more keenly for brokers' referrals than do savings and loans and commercial banks. The FHA was also willing to insure small loans despite their riskiness; they offered mortgage loans with as little as 3 percent down to any qualified borrower. For enrollees, the most important FHA policy was its generous treatment of allowance income. In judging an allowance recipient's ability to carry a loan, the FHA subtracts the allowance from the housing payment rather than adding it to the total income. This policy makes the housing allowance worth about four times as much as an equal increase in income.[2]

Institutional lenders had little interaction with HAO clients in either site because most unqualified applicants were screened out by real estate brokers. In Brown County, commercial banks and savings and loans reported about 100 inquiries from enrollees over the first four program years, and granted loans to about half of those who applied. In St. Joseph County, the three mortgage banks reported at least 250 inquiries from allowance recipients over the same period, although there were very few inquiries in the fourth program year. A third to a half of those recipients were granted loans. In contrast, savings and loans and commercial banks in St. Joseph County reported almost no contact with allowance recipients. We estimate that the seven largest such firms collectively received no more than 50 inquiries.

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[1]The less favorable terms of consumer loans reflect the greater costs and risks lenders undertake with such loans. Service costs for consumer loans and mortgages are roughly equal; but because consumer loans are for smaller amounts, they cost more to service in percentage terms. Consumer loans offer less security than mortgages because their collateral is more portable and less durable than real estate.

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

Were Intermediary Requirements Critical?

Suppose conventional lenders had been willing to set up a special mortgage loan program for allowance recipients. Perhaps they would have allowed a greater percentage of income than the current one-quarter rule allows to apply to housing expenses, or perhaps they would require smaller down payments.[3] Would easier lending requirements substantially increase loan applicants and the incidence of homebuying among enrollees? We think not.

First, loans insured by the FHA in St. Joseph County contained the easier lending requirements mentioned above; yet the number of inquiries was not significantly larger than that of Brown County. Second, no reasonable adjustment in lending requirements could make most renter enrollees eligible for mortgage loans. Suppose housing costs were allowed to go as high as a third of total income. That change in requirements would triple the number of enrollees with sufficient income to purchase in Brown County and nearly double the number in St. Joseph County; but even if the number of buyers increased proportionately (an unlikely prospect), that number would only comprise about 5 percent of the enrolled renters in either site. (See Table 4.1 for a comparison of the number of buyers to all enrollees.) Third, whether or not credit is easily accessible, many enrollees' plans or financial prospects are inconsistent with the long-term responsibilities of homeownership. Thus, we conclude that a change in lending requirements would little affect the number of purchases; only a substantial increase in the allowance entitlement could make homeownership attractive to a large number of enrollees.

NUMBER AND CHARACTERISTICS OF ENROLLED HOMEBUYERS

Successful home purchases were reported among the contacts between HAO clients and brokers and lenders. In fact, 431 enrollees—159 in Brown County and 272 in St. Joseph County—purchased homes during the first four years of the allowance program. Table 4.1 shows, however, that for each site and tenure category, only a small percentage of enrollees bought homes. We expected this result for owner enrollees, since homeowners move infrequently. However, for renter enrollees, the 2 percent in Brown County who bought homes and the 2.6 percent in St. Joseph County seemed high: We expected almost no buying by renter enrollees, since few had the family characteristics, income, and financial resources that characterize most first-time buyers.[4] Consequently, we investigated the circumstances of home purchases by renter enrollees.

As expected, the homes bought by renter enrollees were inexpensive. In Brown County, the median price was $18,000 (see Table 4.2), which almost equals the lower quartile of single-family home values there ($17,400 in 1973). In St. Joseph County, the median price of enrollee homes was $11,500, considerably less than the lower quartile of single-family home values ($12,800 in 1974). In both sites, some enrollees bought mobile homes; the median price for those homes in Brown County was $5,400, and in St. Joseph County, $7,600.

The characteristics of renter enrollees who purchased homes were not those of prime homebuying candidates (see Table 4.3). In Brown County, half the buyers had incomes of less

[3]It is extremely unlikely that lenders would reduce their requirements without protection for the added risk. Loan turnover among renter enrollees who did buy homes tends to support lenders' fears (see discussion of lending criteria, financial risk, and social policy objectives, p. 61).

[4]The Appendix shows how we determined the income and financial resources needed by first-time buyers and which life-cycle stages produce those buyers.

Table 4.1

HOMEBUYING BY ENROLLEES

Site and Tenure at Enrollment	Enrollees		Buyers as Percent of Enrollees
	Total	Home-buyers	
Renter enrollees:			
Brown County	5,129	101	2.0
St. Joseph County	6,985	185	2.6
Owner enrollees:			
Brown County	2,625	58	2.2
St. Joseph County	6,196	87	1.4

SOURCE: HAO records for first four program years in each site; through June 1977 in Brown County, and December 1977 in St. Joseph County.

Table 4.2

SALES PRICES OF HOMES BOUGHT BY RENTER ENROLLEES

Sales Price[a]	Percent Distribution by Sales Price			
	Brown County		St. Joseph County	
	Regular	Mobile Home	Regular	Mobile Home
Under 5,000	--	44.4	4.7	16.7
5,000-9,999	8.5	50.0	31.4	66.7
10,000-14,999	25.6	5.6	37.8	16.7
15,000-19,999	24.4	--	17.4	--
20,000-24,999	19.5	--	4.7	--
25,000 and over	22.0	--	4.1	--
Total	100.0	100.0	100.0	100.0
Number of homes	83	18	173	12
Median sales price ($)	18,000	5,400	11,500	7,600

SOURCE: Public records and HAO records through June 1978 in Brown County and December 1978 in St. Joseph County.

NOTE: Homes identified in this table were bought by enrolled renters during the first four program years. Percentage distributions may not add to 100 due to rounding.

[a]In 8 percent of the cases in Brown County and 50 percent in St. Joseph County, sales price was estimated using equalized assessed value, mortgage amount, and a knowledge of the lending institutions' down payment policies.

Table 4.3

SELECTED CHARACTERISTICS OF ENROLLED RENTERS WHO BOUGHT HOMES

Annual Gross Income Plus Allowance ($000)	Number Buying Homes	Average Household Size (Persons)	Percent Single Parents	Percent With No Earned Income	Percent With Liquid Assets[a] Under $500	Average Mortgage Amount[b] ($000)
Brown County						
Under 3.0	4	3.3	25	50	75	21.0
3.0-3.9	--	--	--	--	--	--
4.0-4.9	12	2.1	50	50	75	15.3
5.0-5.9	16	2.9	38	50	75	10.8
6.0-6.9	15	3.2	20	60	67	10.5
7.0-7.9	15	3.5	27	7	73	16.9
8.0-8.9	20	4.1	25	5	80	17.9
9.0 and over	19	5.4	32	11	63	15.7
All cases	101	3.7	31	29	72	15.0
St. Joseph County						
Under 3.0	15	2.4	47	87	100	10.9
3.0-3.9	29	2.6	62	90	93	9.9
4.0-4.9	37	3.8	73	73	97	10.9
5.0-5.9	30	3.5	63	50	93	11.7
6.0-6.9	35	3.8	74	37	91	11.1
7.0-7.9	19	4.6	47	21	90	11.6
8.0-8.9	15	5.1	73	7	100	12.2
9.0 and over	5	4.8	60	--	80	13.6
All cases	185	3.7	67	54	94	11.2

SOURCE: HAO records through June 1978 in Brown County and December 1978 in St. Joseph County.

NOTE: All households identified in this table were enrolled renters who bought homes during the first four program years. Entries refer to clients' circumstances at time of purchase.

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

[b]Includes both first and second mortgages.

than $7,200, a small amount for an $18,000 home.[5] In addition, 72 percent of the buyers had assets of $500 or less, not enough for down payment and closing costs. Over a fourth had no earned income, but relied instead on government transfer payments. Nearly a third were single parents, most of whom were women whose income came largely from Aid to Families with Dependent Children.

In St. Joseph County, incomes are lower (the median is about $5,500) but more in line with home prices and loan amounts. However, other characteristics of purchasers in that county were not those of prime homebuying candidates. Few buyers had even $500 in assets to cover down payment and closing costs; over half had no earned income, and two-thirds were single parents.

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[5]Lender requirements limited home purchases to prices approximating twice a family's annual income. A sample calculation appears in the footnote on p. 54.

Although they appear to be unlikely candidates for home purchase, renter enrollees who purchased homes were better off than those who did not (see Table 4.4). The median income of buyers was $2,400 higher in Brown County and $1,500 higher in St. Joseph County than the median income of all renter enrollees; homebuyers were more likely than other renters to have earned income and assets of more than $500.

Table 4.4

SELECTED CHARACTERISTICS OF ENROLLED HOMEBUYERS COMPARED WITH CHARACTERISTICS OF ALL RENTERS ENROLLEES

Characteristics	Enrolled Renters with Selected Characteristics			
	Brown County		St. Joseph County	
	Total	Homebuyers	Total	Homebuyers
Median gross income plus allowance	4,813	7,195	3,987	5,498
Average household size	2.7	3.7	2.7	3.7
Percent single parents	34	31	49	67
Percent with:				
No earned income	67	29	70	54
Liquid assets < $500[a]	97	72	99	94

SOURCE: HAO records through June 1978 in Brown County and December 1978 in St. Joseph County.

NOTE: All households identified in this table were enrolled renters who bought homes during the first four program years. Entries refer to clients' circumstances at time of purchase.

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

HOW UNQUALIFIED BUYERS SUCCEEDED

Some HAO clients obtained regular mortgages by sidestepping barriers to qualification or sharing the cost with friends or relatives. Others took advantage of the FHA's favorable treatment of allowance income in securing government-backed mortgages. However, some buyers did not seek mortgages. Instead, they financed their purchases by entering into land contracts with the previous owner, or obtained consumer loans on low-valued homes or mobile homes. Land contracts and consumer loans often carried less favorable terms than did financing with mortgages, but nonetheless allowed some renters to become homebuyers.

Use of Financing Options

Table 4.5 shows the frequency with which renter enrollees used various financing options and compares it with the frequency of use for the general population in each site. Surprisingly, 44 percent of enrolled buyers from Brown County and 14 percent from St. Joseph County obtained mortgages without government insurance. As detailed later in this section, enrollee resourcefulness, not flexible lender policies, explains this outcome.

Table 4.5

TYPE OF FINANCING FOR HOME PURCHASES BY RENTERS: ENROLLEES VS. GENERAL POPULATION

Type of Financing	Brown County: Enrollees 1973-1978 (%)	Brown County: General Population 1969-1973 (%)	St. Joseph County: Enrollees 1974-1978 (%)	St. Joseph County: General Population 1970-1974 (%)
Mortgage:				
Conventional[a]	43.9	71.9	13.5	42.0
Government-backed[b]	11.2	16.8	44.4	33.9
Consumer loan:[c]				
Low-value house	2.0	--	4.5	.6
Mobile home	15.3	7.7	5.6	5.7
Land contract	27.6	3.5	32.0	17.7
Total[d]	100.0	100.0	100.0	100.0
Number of purchases[d]	98	8,542	178	19,493

SOURCE: Data on HAO clients came from HAO records (through June 1978 in Brown County and December 1978 in St. Joseph County) and from public records in each site. Data on the general population came from records of the baseline surveys of homeowners in each site.

NOTE: Estimates for general population are based on sample data provided by 182 and 278 homeowners in Brown County and St. Joseph counties, respectively, who financed a purchase within four years before the baseline survey.

[a]Composed mainly of mortgages from commercial banks and savings and loan associations. Other mortgages came from other institutions, the previous owner of the property, or friends or relatives of the purchaser.

[b]Includes FHA-insured loans, VA-guaranteed loans, and loans made directly by state or federal VA agencies. For data on the general population, a few direct VA loans may be included under conventional mortgages.

[c]Loans came from consumer loan departments of commercial banks and consumer finance companies.

[d]Excludes 10 purchases by renter enrollees where home was bought outright or the financing source is unknown.

Instead of obtaining conventional mortgages, some enrolled buyers with good credit histories acquired government-backed mortgages. In Brown County, all but three of those loans were made directly by the Wisconsin State Department of Veteran Affairs to enrolled veterans. In St. Joseph County, 44 percent of all enrolled buyers used FHA-insured (or, occasionally, VA-guaranteed) loans from mortgage banks. The high frequency of those loans among buyers is partially due to the FHA's generous treatment of allowance income; for over half the buyers using government-backed mortgages, the FHA's policy made the critical difference in qualifying for a mortgage. For those buyers, treating the allowance as ordinary income would have resulted in their housing expenses exceeding one-quarter of their total income, making them ineligible for the loan.

Enrolled buyers used land contracts in 28 percent of all purchases in Brown County and 32 percent in St. Joseph County. Five of the purchases in St. Joseph County were made possible by the private, nonprofit organization called RENEW, which buys, rehabilitates, and then resells homes to low-income families.

Finally, 15 percent of the enrolled buyers in Brown County bought mobile homes, and avoided capital costs associated with land. In St. Joseph County, only 6 percent bought mobile homes; as an alternative, 5 percent of the buyers there used consumer loans to buy low-valued homes.

Enrolled buyers' financing methods differed from those of the general population. As expected, enrolled buyers obtained mortgages less frequently than other buyers except in the case of government-insured mortgages in St. Joseph County. Enrollees used consumer loans and land contracts more often than the general population to avoid conventional lenders' requirements.

The use of alternative financing methods by enrolled buyers is related to their household characteristics. Table 4.6 shows the range of median incomes and other characteristics across different types of financing. In Brown County, those who bought homes by means of conventional financing had higher incomes and more assets than other groups. They were less likely to live entirely on transfer payments or to be single parents than were those who bought with consumer loans or land contracts. In St. Joseph County, where government-insured mortgages were the major financing method, the situation was different. Those who bought with government-backed mortgages did have substantially higher incomes than those who bought with consumer loans or land contracts, but in other ways the groups were similar. All three groups had very few assets, a high dependence on transfer income, and a high proportion of single parents. This uniformity stems from the FHA's low down payment requirement and its treatment of allowance income.

The type of financing households chose influenced the credit terms they obtained. Table 4.7 shows the advantages and disadvantages of different financing methods. The usual conventional mortgage offers 80 to 90 percent of the purchase price at 9 percent interest, to be repaid over a 25-year term. The term of only 16 years in St. Joseph County reflects the policies of private investment firms there. Government-insured mortgages, available primarily in St. Joseph County, have terms similar to those of conventional mortgages, with the important difference that down payments are lower. In Brown County, the interest rates are also substantially lower due to the state-sponsored mortgage loan program for qualified veterans. In St. Joseph County, the median loan-to-value ratio for insured loans was 96 percent, requiring only a 4 percent down payment.

Consumer loans provide financing for mobile homes and low-value houses, but with less favorable terms than mortgage loan financing. As Table 4.7 shows, consumer loan amounts are substantially smaller than those for mortgages; the median amount in both counties is well

Table 4.6

Selected Characteristics of Enrolled Renters Who Bought Homes, by Type of Financing

Type of Financing[a]	Number of Cases[b]	Median Property Value ($)	Median Income[c] ($)	Median Value/ Income Ratio	Avg. House-hold Size	Assets Less than $500[d] (%)	No Earned Income (%)	Singles with Children (%)
Brown County								
Conventional mortgage	43	18,900	7,900	2.5	3.5	70	21	21
Government-insured mortgage	11	18,500	7,800	2.4	3.8	73	27	9
Consumer loan[e]	17	5,500	6,100	.8	2.5	77	29	47
Land contract	27	17,500	7,100	2.3	4.6	74	41	41
All cases	98	16,500	7,200	2.2	3.7	72	29	30
St. Joseph County								
Conventional mortgage	24	16,000	4,800	3.6	3.4	88	63	63
Government-insured mortgage	79	11,300	6,100	2.0	3.7	95	48	70
Consumer loan[e]	18	8,100	4,600	1.2	3.3	100	44	67
Land contract	57	10,500	5,100	2.0	4.1	98	56	65
All cases	178	11,400	5,500	2.1	3.7	96	52	67

SOURCE: HAO records through June 1978 in Brown County and December 1978 in St. Joseph County.

NOTE: All households identified in this table were enrolled renters who bought homes during the first four program years. Entries refer to client's circumstances at time of purchase.

[a] See Table 4.5 for full explanation of financing type.

[b] Excludes 10 purchases where the homes were bought outright or the financing sources are unknown.

[c] Gross income plus allowance entitlement.

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

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

Table 4.7

CREDIT TERMS BY TYPE OF FINANCING: RENTER ENROLLEES WHO BOUGHT HOMES

Type of Financing[a]	Median Property Value ($)		Median Loan/Value Ratio (%)		Median Interest Rate (%)		Median Term of Loan (Years)	
	Brown County	St. Joseph County	Brown County	St. Joseph County	Brown County	St. Joseph County	Brown County	St. Joseph County
Conventional mortgage	18,900	16,000	86	87	9.0	9.1	25	16
Government-insured mortgage	18,500	11,300	95	96	7.0[b]	(c)	26	(c)
Consumer loan[d]	5,500	8,100	94	86	12.0	13.0	6	7
Land contract	17,500	10,500	96	95	9.0	8.9	3	8
All cases	16,500	11,400	90	96	9.0	(c)	16	(c)

SOURCE: HAO records through June 1978 in Brown County and December 1978 in St. Joseph County, and public records in each site.

NOTE: Households whose purchases are represented in this table were enrolled renters who bought homes during the first four program years. Entries refer to client's first mortgage. Further, this table excludes 10 purchases where the homes were bought outright or the financing sources are unknown; see Table 4.6 for sample sizes.

[a] See Table 4.5 for full explanation of financing type.

[b] Reflects low-interest first mortgages offered by the Wisconsin State Department of Veteran Affairs to qualified veterans.

[c] Data not available.

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

under $10,000. On the other hand, interest rates for consumer loans are much higher than those for mortgages. The median rates were 12 and 13 percent in Brown and St. Joseph counties, respectively; the median terms were 6 and 7 years.

Land contracts offer the same low down payment as government-insured mortgages; and although land contracts have more variable interest rates (some loans have rates as high as 12 percent), the median is similar to that for mortgages. However, land contracts have much shorter amortization periods than mortgages; the median was eight years in St. Joseph County and only three years in Brown County.[6] Thus, buyers financing with land contracts have higher monthly payments than those financing similar homes with mortgages.[7] Those higher payments often reflect the preferences of both the seller (who is anxious to recover his investment) and the buyer (who is anxious to gain full title to the property), but can leave a naive buyer overextended.

Land contract financing is often seen as a method that speculators use to exploit low-income households in inner-city neighborhoods. The speculators allegedly buy at market value, then resell at substantial markups to households who have few alternatives. We examined land contract financing in central South Bend and found only two investors who regularly sold homes to allowance recipients. One was the nonprofit organization RENEW, which represents the antithesis of land contract exploitation; the organization buys older inexpensive homes, rehabilitates them at low cost by using volunteer labor, and sells them at cost to low-income households. The other large investor with allowance recipient contacts did buy and sell older homes for a profit, and the markups on most of the nine inner-city homes the firm sold to allowance recipients did appear excessive.

On average, enrollees who bought with land contracts paid more for their homes in central South Bend than did enrollees who obtained conventional mortgages. Table 4.8 shows the ratio of sales prices to adjusted assessed value for enrollee homes bought with the two types of financing. The median ratio for conventional mortgages is 0.91; for land contracts, 1.13. For a home with an adjusted assessed value of $10,000, that difference can affect a sales price by more than $2,000.

Obtaining Conventional Mortgages

How 43 enrollee buyers in Brown County and 24 in St. Joseph County obtained conventional mortgages remains unexplained. Data show that many did not qualify by conventional standards even with the allowance included as income.

In both counties, enrollee incomes and assets were very low for the median purchase prices of homes. In Brown County, the median income (including the allowance) of those who qualified for conventional mortgages is $7,900, a low figure for the median purchase price of $18,900 (see Table 4.6). Savings and loans and commercial banks required an income of over $9,000 to purchase a home of that price.[8] Besides lacking income, over two-thirds of the buyers in Brown

[6]Land contracts in Brown County often ended with a "balloon" (large lump-sum) payment after one to three years. This suggests the use of land contracts for interim financing, during which time a buyer can build up equity to qualify for a conventional mortgage, and a seller can gain certain tax advantages by spreading out his return on the sale.

[7]On a $10,000 mortgage with 9 percent interest, the difference in monthly payments for a loan with a 9-year and a 25-year term is $50.

[8]An $18,900 home would require about an $18,000 loan (with a 5 percent down payment). A loan of that size financed at 9 percent over 25 years requires a $151 monthly payment, and assuming another 25 percent for taxes and insurance, $189 monthly for principal, interest, taxes, and insurance (PITI). Under lenders' rules, PITI cannot exceed 25 percent of gross income, so a buyer would need an annual income of about $9,100 to afford the home.

Table 4.8

RATIO OF SALES PRICE TO ASSESSED VALUE FOR HOMES BOUGHT BY RENTER ENROLLEES IN CENTRAL SOUTH BEND

Ratio of Sales Price to Equalized Assessed Value[a]	Percentage Distribution, by Type of Loan: Conventional Mortgage[b]	Percentage Distribution, by Type of Loan: Land Contract
Less than .8	28.6	24.2
.8 to 1.19	47.6	30.3
1.20 to 1.59	19.0	30.3
1.60 or greater	4.8	15.2
Total	100.0	100.0
Median ratio	.91	1.13
Number in sample	21	33

SOURCE: HAO records through December 1978 and records of the multiple listing service of St. Joseph County.

NOTE: Homes identified in this table are those for which both sale price and assessed value information were available.

[a]Assessed value as recorded by the city was adjusted to reflect market value in 1974 using data from the baseline household and landlord surveys.

[b]Includes regular and government-backed mortgages made by savings and loan associations, commercial banks, or mortgage banks.

County lacked assets required for a normal down payment. Those who obtained conventional mortgages in St. Joseph County appeared even less qualified: Their median income was only \$4,800, whereas the median purchase price of a home was over \$16,000. Eighty-eight percent of those buyers lacked the assets needed for a down payment (see Table 4.6).

HAO records do not always explain how these apparently unqualified borrowers obtained conventional mortgages. In most cases we were able to deduce that one or more of the following tactics were used.

	Number of Instances[a]: Brown County	Number of Instances[a]: St. Joseph County
Found less demanding lenders	0	9
Purchased jointly with another household	5	4
Increased their incomes	5	0
Bought income-producing properties	7	0
Chose low-valued properties	6	1
Made large down payments	4	0
Obtained second mortgages or help from friends	10+	7+

[a]Among 43 buyers in Brown County and 24 in St. Joseph County.

Buyers in St. Joseph County found investment firms less demanding than commercial banks and savings and loans; purchases made through those firms were possible with considerably less income and assets. Nine buyers in St. Joseph County obtained mortgages from investment firms. However, the sales price of those purchases was often higher and the terms less favorable than those offered by commercial banks and savings and loans.

Buyers obtained both low-cost housing and advantageous financing terms when they purchased jointly with another household. In Brown County, five enrollees obtained conventional financing to buy duplexes jointly with other households; another client shared ownership of a single-family house. In St. Joseph County, four buyers with conventional mortgages officially shared the ownership of their homes with outside parties. However, the co-buyers apparently did not live on the property; presumably, they were close friends or relatives of the buyers.[9]

A few buyers who obtained conventional mortgages in Brown County qualified for loans because their incomes were about to increase. In fact, five enrollees increased their incomes beyond HAO limits shortly after they purchased. Other buyers did not increase their incomes enough to make them ineligible for housing allowances, but helped pay for their homes by purchasing income-producing properties. Six households bought properties with units to rent or land to farm, and at least one ran a business at his place of residence. (Seven other households in Brown County and three in St. Joseph County purchased income-producing properties but did not obtain conventional mortgage financing.) Such increased income schemes may explain how households who appeared unqualified for conventional loans obtained them nonetheless: Expected income may have been included by lenders when calculating loan eligibility, but not by the HAO when calculating allowance eligibility.

At both sites, buyers found unusual bargains in the housing market. A few clients bought homes for less than their market values. For example, two households bought homes from churches at what appear to be considerable discounts. Good shoppers succeeded in finding homes that met allowance program standards, yet sold for less than 95 percent of all homes in the county. In Brown County, six households bought homes that met HAO standards for less than $11,000; in St. Joseph County, one household bought such a home for less than $7,000. (Other enrolled buyers in St. Joseph County obtained low-valued homes, but not with conventional mortgages; four received government-insured loans and 24 obtained land contracts or consumer loans.)

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

Purchasers who lacked savings to cover the down payment and closing costs of a conventional first mortgage sometimes obtained a second loan. Three buyers in Brown County received second mortgages from Wisconsin's Department of Veteran Affairs. Seven buyers in Brown County and seven in St. Joseph County financed down payments of between $1,200 and $11,000 on conventional mortgages. The sources of all second loans are not known; but for at least half the buyers, friends, relatives, or previous owners provided the money.

About a third of the buyers raised down payments of $500 or more, although the source

[9]More buyers than those with conventional mortgages obtained help with the purchase price of a home. In St. Joseph County, ten buyers with government-insured financing shared the title with another household. In another case, it appears that a relative shared the ownership in a land contract deal. In seven cases, five in St. Joseph County and two in Brown County, buyers received the entire purchase price of their homes as gifts from friends or relatives. In two of the cases, children bought homes for their elderly parents.

of the money and the terms on which it was obtained remain unclear. In one unusual case, a state agency made a $5,000 grant to a Brown County purchaser. The remainder of the down payments were probably gifts from friends, relatives, or governmental agencies. However, buyers may have obtained second loans or used assets they did not report to the housing allowance office.

RACIAL STEERING AND REDLINING

When the experiment began, many observers felt that certain discriminatory practices of brokers and lenders would either prevent or alter the pattern of buying by HAO enrollees. Specifically, it was feared that brokers, either acting independently or in response to lender policies, would steer white and black buyers in St. Joseph County to neighborhoods whose residents are of the buyer's race. Further, it was feared that lenders in both sites would practice redlining—discrimination against certain clients who wished to purchase homes in specific neighborhoods.

In the following section, we explore racial steering and redlining practices in our sites and how they might have affected home purchases by allowance recipients. Examining purchase outcomes after four program years, we find that neither practice prevented homebuying by HAO enrollees. The geographical pattern of purchases in St. Joseph County suggests racial steering, though there may be other explanations.

Real Estate Brokers

Real estate brokers provide services to buyers, sellers, and lenders. They find homes for qualified buyers and match those same buyers with mortgage lenders most likely to extend them credit. The practices of real estate brokers, therefore, reflect the needs of prospective buyers and sellers and the policies of mortgage lenders. For example, if mortgage lenders tend to grant loans based on the racial composition of a neighborhood, brokers will reinforce the practice. If an owner wants to sell his home to a buyer of a particular race or if a buyer prefers to live in a neighborhood whose residents are of his race, brokers will accommodate him.

However, it is possible that brokers either misperceive the desires of buyers and sellers and the policies of lenders, or seek to implement a social policy of their own. For example, some brokers may assume that buyers prefer segregated neighborhoods and steer the client accordingly. Others may associate integration with a neighborhood's decline, and as a "service" to both the neighborhood residents and the community at large, try to preserve a pattern of racial segregation.

In St. Joseph County, anecdotes about racial steering by individual brokers are often heard, but reliable evidence on the extent of the practice is lacking. A number of civic groups have long sought a systematic audit of brokers and lenders practices; but as of this writing, funding for such an audit has not been granted.

The racial pattern of purchases by renter enrollees is consistent with the steering hypothesis (see Table 4.9 and Figure 4.1). Eighty-six percent of black homebuyers in St. Joseph County bought within central South Bend, where 82 percent[10] of the black population in the county live.

[10]Data from baseline survey of households in St. Joseph County.

Table 4.9

LOCATION OF HOMES BOUGHT BY RENTER ENROLLEES BY RACE OF BUYER: ST. JOSEPH COUNTY

Location of New Residence	Percentage Distributions, by Race of Buyer		
	White	Nonwhite[a]	Total
Central South Bend:			
Core	10.5	43.4	28.1
Inner ring	29.1	42.4	36.2
South Bend fringe	25.6	13.1	18.9
Mishawaka and suburbs	32.6	--	15.1
Remainder of county	2.3	1.0	1.6
Total	100.0	100.0	100.0
Number of buyers	86	99	185

SOURCE: HAO records through December 1978 in St. Joseph County.

NOTE: Homes identified in this table were bought by enrolled renters during the first four program years.

[a]Includes five Spanish-American households, one Oriental household, and one household of another race.

In contrast, only 40 percent of the white homebuyers bought in central South Bend. The remaining white enrollees bought in the fringe areas of South Bend, in Mishawaka, or other suburban areas.

However, the pattern of buying is also consistent with a theory of consumer preference and household mobility that does not involve steering. Homebuyers, like renters who move, may often limit their housing search to nearby and similar neighborhoods. Table 4.10 shows a percentage distribution of buyers who moved from one area to another. Over three-quarters moved within the area of their former residence. Thus, the pattern of purchases by HAO enrollees may reflect the existing pattern of racial segregation rather than brokers' steering.

In any event, home purchases by renter enrollees had little effect on the existing pattern of racial segregation in South Bend. The few buyers that crossed the central South Bend boundary were distributed as follows:

	White Buyers	Black Buyers
Moved into central South Bend	6	6
Moved out of central South Bend	14	8
Net change	-8	-2

Both blacks and whites moved out of central South Bend, but the net change consisted of only 10 households.

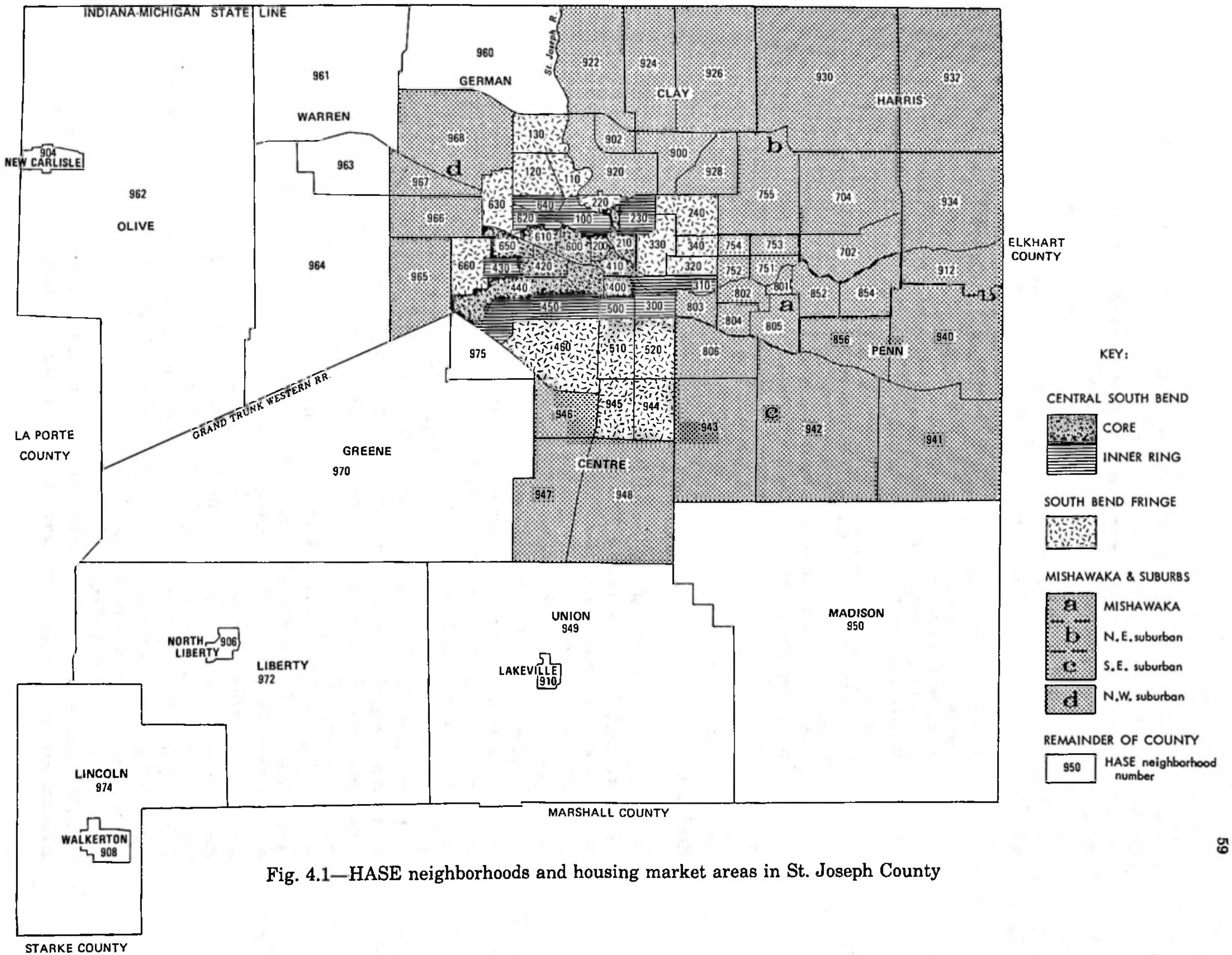

Fig. 4.1—HASE neighborhoods and housing market areas in St. Joseph County

Table 4.10

GEOGRAPHICAL REDISTRIBUTION OF ENROLLEES WHO BOUGHT HOMES IN ST. JOSEPH COUNTY

Location of Former Residence	Percent of All Homeowners, by Location of New Residence				
	Central S.B.	S.B. Fringe	Mish & Suburbs	Remainder	Total
Central South Bend	57	9	3	1	70
South Bend fringe	5	9	2	—	16
Mishawaka & suburbs	2	1	10	—	13
Remainder of county	1	—	—	—	1
Total	65	19	15	1	100

SOURCE: HAO records through December 1978 in St. Joseph County.

NOTE: Homes identified in this table were bought by enrolled renters during the first four program years. Percentage distribution may not add to 100 due to rounding.

Redlining

Like steering, the practice of redlining was primarily a question in St. Joseph County. (For a detailed analysis of lending patterns in Brown County, see White, 1979.) Residential property values in central South Bend fell in real terms during the decade preceding the allowance program. Much of the housing is badly deteriorated; many dwellings have been demolished; and the shrinking population of the area has shifted from white to black.

Financial institutions are often accused of contributing to this familiar pattern of neighborhood decay by their reluctance to finance real estate transactions in unstable markets. Such reluctance is understandable, since neighborhood decay diminishes the value of loan collateral even when the borrower and the property itself are above reproach. When practiced routinely, however, redlining can easily become a self-fulfilling prophecy.

Discrimination of lenders against certain clients who wished to purchase homes in specific neighborhoods can take several forms. It may consist of refusing to lend, lending for shorter periods or at higher interest rates than those available locally, or applying more stringent tests of a buyer's income adequacy or creditworthiness.

Initial interviews with lenders and brokers in St. Joseph County indicated that commercial banks and savings and loans were reluctant to lend on properties in the core of central South Bend. Loans were available in adjoining central city neighborhoods, but on less favorable terms than elsewhere in the city. After those initial interviews, we found that some institutions had initiated minimum loan policies. At one time, six of the largest institutions were unwilling to lend on properties valued at less than $10,000. A few commercial banks offered consumer loans on low-valued homes, but those had higher interest rates and shorter terms than typical mortgages. Although not directly related to location of purchase, those policies excluded loans in neighborhoods with inexpensive homes.

To determine the effect of lender policies on the pattern of lending, we used the baseline household and landlord survey from HASE, public records, and records maintained by the FHA in Indianapolis. We found that institutional lenders (primarily savings and loans and commercial banks) made fewer loans in central South Bend than in other parts of the county. Moreover, the loans they made had higher interest rates and shorter amortization periods than loans they made elsewhere. The difference in the number of mortgages by area could not be explained by the variation in demand. Rather, we found that the three mortgage banks and two other institutional lenders were active in central South Bend, whereas the remaining lenders were not. (For a detailed analysis of lending patterns in St. Joseph County, see White, 1979.) The mortgage banks even provided FHA-insured loans to qualified allowance recipients on terms favorable to low-income buyers. Those lenders that remained active ensured the availability of financing for home purchases.

LENDING CRITERIA, FINANCIAL RISK, AND SOCIAL POLICY OBJECTIVES

Home purchase lenders offer low-income buyers less favorable purchase arrangements than those with higher incomes. Some conventional lenders avoid lending to low-income buyers altogether, or lend only if the loan is government insured. Other lenders offer low-income buyers credit at a higher interest rate or for a shorter term than the usual mortgage. Previous owners often grant credit to low-income buyers, but some inflate the purchase price. Further, most previous owners grant credit only in the form of land contracts, which protect the buyers' equity less than do conventional mortgages.

Low-income buyers are offered less favorable financing because their loans are more expensive to service and are riskier. Low-income buyers tend to have less stable incomes and family circumstances than those with higher incomes. Because low-income buyers have little money saved and use most of their income for necessities, they are less able to manage indebtedness; even a temporary layoff or illness may leave them unable to meet house payments. In addition, the inexpensive properties they can afford tend to have insecure futures. Finally, the lender's service fee and interest receipts systematically vary with loan size, whereas their service costs do not; so the profit on low-valued loans is smaller.

Although it is arguable whether lenders exaggerate the risks posed by low-income buyers, the turnover in loans to allowance recipients tends to support their views. By July 1979, lenders in St. Joseph County had foreclosed on 5 of 103 mortgages granted to allowance recipients between January 1974 and December 1978. There were no foreclosures on Brown County mortgages; however, 16 of the 54 buyers who obtained mortgages had sold their homes. Information on land contract buyers was more difficult to obtain, but we know that 8 of 20 buyers in Brown County and 7 of 29 in St. Joseph County had moved by July 1979.

Even if statistically justified, lenders' reservations about the risks involved in transactions with low-income buyers make homeownership less accessible and more expensive for all such buyers. Lenders simply do not look into the family history and circumstances of low-income buyers to identify the few who could successfully carry a loan.

Government policy could help make ordinary mortgage credit more available to qualified low-income buyers; however, any such program must address the inherent risk and extra expense of servicing low-income buyers. FHA-insured and VA-guaranteed loan programs are examples of governmental risk-sharing with lenders, but no program compensates for the low profit margin on small loans or addresses the needs of borrowers. For example, a support program designed to help borrowers through periods of interrupted income (as housing allowances do) could reduce the risks of missed payments or foreclosure, a boon to both lenders and borrowers.

The government already uses tax laws, lending regulations, and in some cases, direct subsidies to encourage homeownership.[11] However, encouraging more low-income households to buy homes may be a desirable public policy. Current governmental programs and policies favor middle- and upper-income households; yet buying homes on credit is one of the few means of capital formation available to low-income households. Further, neighborhood stability could result from more homeownership in low-income housing areas.

On the other hand, when government encourages buying by low-income households, the result could prove expensive. Default risks and servicing costs are higher for that group and may become excessive in a general economic downturn. Moreover, the benefits of any such program depend on the stability of home values in neighborhoods where low-income households buy, a stability that is not guaranteed.

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[11]For a review of public sector involvement in the residential mortgage market, see Grebler (1975).

V. CONCLUSIONS AND RECOMMENDATIONS

We have shown that market intermediaries were little affected by the allowance program and influenced the decisions of only a small number of its participants. This section asks how portable those findings are and discusses their implications for the design of future allowance programs.

CAN WE GENERALIZE FROM BROWN AND ST. JOSEPH COUNTIES' EXPERIENCE?

Although Brown and St. Joseph counties were chosen for their different market conditions, no two sites could encompass the full range of market conditions nationwide. In particular, limited funding and analytic capacity led us to choose sites from among the smaller metropolitan areas, whose market structures may not adequately test how an allowance program would function in the largest metropolitan areas of the nation.

Despite such limitations, we think that our findings on repair intermediaries would hold for other U.S. housing markets.[1] We base that conclusion on the typically inexpensive repairs enrollees must undertake to begin receiving allowance payments. If enrollees in a full-scale program occupied housing of similar quality (and we believe they would),[2] and if allowance recipients everywhere demonstrated the same high self-reliance and low dependence on paid labor (and we expect that they would),[3] then suppliers of repair services would have little effect on recipients' efforts to repair their dwellings. Specifically, we think that the home repair and home repair financing industries are sufficiently large and flexible to handle the small increase in demand, and sufficiently decentralized and competitive to provide acceptable services at reasonable prices. We further expect that only a small percentage of enrollees in a larger program would need but be unable to obtain credit to finance repairs.

We also think that some of our findings on home purchase intermediaries will generalize to other housing markets. Specifically, the incidence of homebuying among clients in our sites was infrequent more because of client characteristics and market conditions than intermediary policies. The life-cycle stages of most renter enrollees and their incomes both impeded home purchases; even low home prices (relative to rents) in St. Joseph County could not overcome those forces. We believe that wherever a full-scale program operates, only infrequently will client characteristics and market conditions combine to make homebuying both feasible and desirable for the client.

However, in larger cities, program clients who find conditions right for purchase may have less success with intermediaries than clients in the experimental sites. Reasonably priced property insurance may not be as readily available in larger cities as in our experimental sites (for example, see Squires, DeWolfe, and DeWolfe, 1979). Moreover, although at least noninsti-

[1]Because the experimental sites did not have property management firms, maintenance firms, or rental agents, our conclusions do not pertain to those intermediaries.

[2]From census data, it appears that our two sites bracket the national average with respect to housing quality.

[3]This might not hold true in densely settled central city neighborhoods where repairs may require technical skills and resources beyond those of most residents; but in most American communities, including major metropolitan areas, most repairs can be done by residents, with minimal assistance and cash expense.

tutional financing will be available in deteriorating neighborhoods, clients may have to pay excessively high sales prices to obtain it.[4] Finally, clients in larger cities may be more susceptible to racial steering by real estate brokers than were clients in the experimental sites.[5]

POLICY OPTIONS TO INCREASE HOME IMPROVEMENT AND HOMEBUYING

Both the dollar volume of home improvements and the number of homebuyers in the experimental allowance programs were small. This section considers changes in program design that could increase the volume of repair expenditures and the number of homebuyers without basic changes in the program's character or budget.

Measures That Would Facilitate Home Improvement

Three policy measures might increase the volume of program-generated repairs without greatly increasing the program's budget: (a) financing repairs, (b) supplying repair services directly, and (c) requiring more repairs. The first concept underlies the front-end financing issue in the allowance program; the second is the basis for the handyman programs in our sites; and the third embodies a variety of alternatives—for example, combining the allowance program with code enforcement. All the measures would increase repairs, but only the latter could have a substantial impact.

The probable effects of an HAO-sponsored front-end financing program were discussed earlier. That program involves a lump-sum prepayment of the first several months' allowances to be used for required repairs. However, since repair financing is not a major deterrent to participation, a financing program by itself could produce only a modest increase in program participation.

The HAO could overcome clients' lack of technical skills as well as their lack of funds by providing repair services directly. The cost of the repairs could be financed by future allowance payments, thus avoiding a large increase in the program budget and also retaining incentives for clients to handle repairs independently. By combining a front-end financing and handyman program, the HAO could increase the number of units repaired under the present allowance program.

Such repair assistance need not be administered as part of the allowance program. Companion repair assistance programs could prove equally successful. In fact, local government agencies and nonprofit groups provided repair services to some of those in need when the allowance program did not.

However, we have seen that repair assistance, whether financial or technical, would not have greatly increased either program participation or the amount of repairs made pursuant to program standards. The basic reason is that few enrollees' dwellings fail those standards because of defects that require expensive remedies. Some observers have suggested that more stringent standards are needed if the program is to have a substantial effect on housing quality;

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[4]In other studies (for example, in a study of Baltimore by Stegman, 1972), speculators in inner-city real estate charged excessive prices for land contract financing. Our data for central South Bend also show higher prices in land contract transactions, though the implied markups were not as large as those reported by Stegman.

[5]In a recently published HUD study of racial discrimination (Wienk et al., 1979), definitive evidence is presented that blacks are discriminated against in the sale and rental of housing, a practice more common in larger metropolitan areas. If real estate agents and brokers discriminate against blacks, it is also likely that they steer them.

but it is not clear what additional requirements should be applied to dwellings that meet the present standards for structural safety, domestic equipment, and maintenance. The most plausible step would be to require cosmetic rehabilitation of unsightly dwellings or old-fashioned interiors, a change that seems hard to justify for a tax-supported transfer program. We think that housing improvements of that kind are best left to voluntary action facilitated by allowance payments.[6]

One way of increasing the number of dwellings subject to repair requirements would be to combine a community-wide allowance program with systematic enforcement of a local housing code. Code enforcement could identify and require repairs on all dwellings below minimum standards, whether their occupants qualify for allowances or not. The allowance program would help those who could not otherwise afford repairs and provide the means for continued upkeep. Finally, the combination would allow direct dealings with landlords on repair issues while keeping allowance participation as a transaction between the HAO and the eligible household. However, such a scheme departs from the voluntary nature of the current allowance program and would diminish its acceptability in some communities.

Measures That Would Facilitate Home Purchase

Allowance programs are unlikely to produce a significant increase in homebuying because they do little to alter households' incentives to buy or lenders' willingness to finance home purchases. Although allowances make the continuing costs of homeownership more affordable, most eligible households lack not only the income for home purchase but also the assets for a down payment and an acceptable credit history. In addition, many eligible households are in stages of life cycle when homebuying is not appealing. Supplements to income alone, especially modest ones like those provided by the program, are unlikely to make a critical difference to many households.[7]

Lenders judge loans according to the risk involved, and an allowance entitlement is seldom sufficient inducement for a lender to accept a high-risk loan.[8] Lenders still want risk protection, and allowances cannot change the unsound credit history of many potential low-income buyers or the uncertain future of some inner-city properties.[9]

Making mortgage money available to more low-income households would require government action to reduce the risks of lending. Mortgage insurance, such as that provided by the FHA, is one way to reduce those risks. FHA policies that are favorable to allowance recipients were crucial to many buyers in St. Joseph County. By making those policies more favorable to allowance recipients, the government could increase the number of households eligible for insured loans. Alternatively, the government could directly finance home purchases by low-income households, as certain programs already do. Eligibility for such programs could be tied to participation in the allowance program, although there is no real need to do so.

The merits of expanding FHA insurance or of any comparable governmental program are

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[6]A study of voluntary repairs and improvements made by recipient homeowners indicates that they spend 22 to 29 percent more than similar homeowners not in the program, and undertake twice as much unpaid labor (Mulford, Weiner, and McDowell, 1980, pp. 20-21). See also Tables 3.1 and 3.2 of the present report.

[7]The homebuying potential of enrolled households is discussed in the Appendix.

[8]Analysts of the New Jersey income maintenance experiment suggested that a guaranteed permanent income (such as that provided by the allowance program) would in itself be viewed as a form of risk protection by lenders (see Watts and Rees, 1977). However, none of the lenders in Brown or St. Joseph counties viewed the allowance in this way.

[9]Even when the potential buyer and the property are beyond reproach, the method of charging servicing fees (fixed percentages of the loan amounts) gives lenders an incentive to avoid inexpensive properties. Changing the method could help remove the incentive.

tied to the issue of whether and for whom the government should encourage homeownership. The government already uses tax laws, lending regulations, and direct subsidies to encourage homeownership, the benefits of which (neighborhood stability and capital formation) are of special concern to those with low incomes. For low-income households, homeownership is about the only available hedge against inflation, and may deserve government support for that reason. On the other hand, additional government incentives to buy homes could be expensive, particularly if those incentives are aimed at low-income households with larger default risks. Moreover, the benefits of such incentives depend on continued homeownership, which is not yet a certainty for many homebuyers in the experiment.

PROSPECTS FOR INTERMEDIARY ADAPTATION TO A FULL-SCALE ALLOWANCE PROGRAM

We expect that a full-scale housing allowance program would have the same modest effect on the demand for intermediary services as that experienced in the experimental sites. Demand would be limited to that induced by program participants, with few spillover effects to neighboring properties. Further, we expect that the intermediary industries are flexible enough to easily respond to the small increase in demand.

A full-scale housing allowance program could reduce cyclical shifts in intermediary activity, particularly in the repair industry: It would establish constant, though small, demand for repair services because of annual reevaluations that would be conducted as part of the program. Particularly in large urban areas, that steady demand could help strengthen and stabilize the repair industry.

To increase homebuying in the allowance program, the FHA might begin insuring higher-risk mortgages. In that role, the FHA would risk increased paperwork and rising default rates, especially in the event of an economic downturn. However, by devising procedures and programs to support low-income buyers and minimize losses, the FHA could provide a significant new direction for the agency. For example, potential buyers might be groomed for their roles as homeowners through counseling and instruction. Assistance in home maintenance might also be provided. In time of financial crisis, late or missed payments might be allowed, as long as such a situation appears temporary.[10]

RECOMMENDATIONS

We conclude that market intermediaries in general have had little effect on outcomes in the allowance program. Program participants rarely demand the services of intermediaries; when they do, the intermediaries respond adequately, and would probably continue to do so, even if the allowance payments provided by the program increased. Therefore, we see no need for new policies that change the relationship of intermediaries and allowance recipients. However, we did find that a few HAO clients were unable to finance required home repairs. As a service to these clients, the HAOs should investigate the feasibility of a front-end financing program to facilitate modest repairs. A successful financing program depends on a design

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[10]RENEW, a currently operating South Bend program, has "trained" successful low-income buyers; their experience would be useful in the design of a broader program.

that minimizes administrative costs and losses and maintains an incentive for clients to seek financing independently.

For further study, we recommend a search for special situations in which intermediary actions might affect program outcomes. For example, do owners of large multiunit structures in large cities rely more on professional repair services than do those of other types of housing? Are any neighborhoods cut off from mortgage financing, even the unconventional types? In what areas does racial steering have a substantial effect? To what extent do other intermediaries, such as insurance firms or rental agents, become important in larger cities?

Appendix

HOMEBUYING POTENTIAL OF ENROLLED RENTERS

This appendix estimates the number of renter enrollees that could be expected to buy homes. It concludes that few have the desire and financial means to buy. That assessment is true even in St. Joseph County, where home values are low and owning a home need not cost more than renting.

What Types of Households Buy Homes?

Buying a home does not interest everyone. For instance, elderly persons or single-headed households may neither want nor be able to maintain a single-family house. Those whose plans, family circumstances, or financial prospects are uncertain may prudently avoid long-term commitments in favor of month-to-month renting.

Young couples most often buy homes. With two household members able to work, income tends to be more stable and home maintenance less of a burden than with single-headed or elderly households. Couples planning families often require the additional space of a single-family home and are more willing to undertake long-term commitments. Table A.1 shows the life-cycle stage of renters in the general population who changed tenure. The table shows that young couples, most with young children, account for over 75 percent of the homebuying by renters in St. Joseph County and for nearly 90 percent in Brown County.[1]

Who Can Afford A Home?

Buying a home requires sufficient financial resources to meet the down payment and closing costs of a mortgage, as well as the continuing costs of homeownership: debt service, property taxes, insurance, utilities, and maintenance. Moreover, the costs of homeownership generally exceed those of renting and involve an extended commitment over the term of a mortgage loan.

The number of households that can afford to buy homes depends on home prices which, as shown below, are substantially lower in St. Joseph County than in Brown County.

Market Value ($)	Brown County (1973)	St. Joseph County (1974)
Upper quartile	29,700	27,500
Median	23,500	18,500
Lower quartile	17,400	12,800

[1]For a detailed analysis and discussion of the influence of life-cycle stage on tenure choice, see McCarthy (1979b, 1979c). Other analyses, including Fredland's 1974 study, have confirmed these findings.

Table A.1

LIFE-CYCLE STAGE OF RENTERS WHO PURCHASED HOMES

Life-Cycle Stage	Percent of Home Purchasers: Brown County (1969-1973)	Percent of Home Purchasers: St. Joseph County (1970-1974)
Young single head, no children	2.5	9.9
Young couple, no children	12.4	22.9
Young couple, young children	70.4	46.5
Young couple, older children	5.9	8.3
Older couple, older children	.4	2.8
Older couple, no children	2.2	1.6
Older single head, no children	2.5	3.9
Single head with children	3.7	4.1
All other	0	0
Total	100.0	100.0
Total changes in tenure	5,856	11,317

SOURCE: Records of the baseline surveys of tenants and homeowners in each site.

NOTE: Distributions are based on a stratified probability sample of 157 households in Brown County and 112 households in St. Joseph County who changed from renter to homeowner in the five years preceding the interview and who moved within their respective county. A few of the tenure changes may not have involved a purchase.

A comparison of lower quartiles is most appropriate for a discussion of homebuying by enrollees, since the lower quartile approximates the lowest price of acceptable housing available. In St. Joseph County, the lower quartile is $12,800, nearly $5,000 lower than in Brown County.

Renter enrollees in St. Joseph County should find the low price of homes there especially attractive, since many enrollees could actually reduce their housing expenses by buying a modest home instead of renting. For a $12,800 home, debt service, real estate taxes, and insurance cost about $1,450 annually. Heating fuel, utility services, and normal maintenance add $950 to that amount. Thus, a yearly cash outlay of about $2,400 would be required to support that modest home. Thirty percent of the renters receiving payments in St. Joseph County in December 1977 were paying more than $2,400 annually for contract rent, fuel, and utilities. Those renter enrollees, therefore, could afford the continuing costs of homeownership as easily as those of renting.

In Brown County, enrollees rent units for about the same amount as enrollees in St. Joseph County, but the higher home values make owning much more expensive. In Brown County, the cash costs of owning a modest home worth $17,400 are about $3,050; the cash costs of renting, however, exceeded $3,050 for only a tenth of the renters receiving payments at the end of the third year of the program. Thus, only about 10 percent of the renter enrollees in Brown County could afford the costs of homeownership as easily as the costs of renting.

The number of households that can afford to buy homes also depends on the requirements of mortgage lenders. Conventional mortgage lenders in our sites differ in the amount required to cover down payment and closing costs. In Brown County, some lenders offer a low 5 percent down on a privately insured loan. For a home priced at the lower quartile of value, $17,400, a 5 percent down payment and about $300 in closing fees require about $1,200 from potential buyers. In St. Joseph County, buyers need less cash because they can obtain FHA-insured loans from mortgage banks. These loans, unavailable in Brown County, require only a 3 percent down payment. Thus, for a home priced at $12,800 (the lower quartile of value in St. Joseph County), a 3 percent down payment and about $250 in closing fees require a cash amount of only about $600.

Conventional lenders in the two sites agree on income requirements. One-quarter of a potential buyer's income must cover principal and interest on the mortgage, and real estate taxes and insurance on the property (PITI). The minimum income required to buy a home is determined by lender requirements and housing costs. Assume that an enrollee purchases at a price equal to the lower quartile of home value, that he finances at a 9 percent interest rate over a 25-year term, and makes the minimum down payment. In Brown County, that buyer must have an annual income of $8,300.[2] Because of lower property values in St. Joseph County, the comparable income there is lower—only $6,300.

How Many Renter Enrollees Will Buy Homes?

We can now characterize the homebuying potential of renter enrollees in the allowance program. In general, those most likely to buy will be young couples. In Brown County, their income, including the allowance, will be $8,300 or more and their cash investment will be $1,200 or more. In St. Joseph County, their income will be $6,300 or more; their cash investment $600 or more.

Few renter enrollees in either site have both the desire and financial ability to buy. Table A.2 shows that almost a third of Brown County renter enrollees are young couples, but only 5 percent of all enrollees there have sufficient income (more than $8,300) to buy. More renter enrollees in St. Joseph County have the income to buy inexpensive homes there, but only a fifth of all enrollees are young couples and only 10 percent have even $600 in savings, the cash amount required for down payment and closing costs. Renter enrollees who have life-cycle, income, and savings potential to buy make up less than 1 percent of the renter enrollee population in each site.

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[2]In Brown County, annual debt service is $1,665; taxes and insurance are estimated at 25 percent of debt service, or $416; so PITI equals $2,081.

Table A.2

Homebuying Potential of Renter Enrollees

Type of Potential			Percent with Indicated Potential	
Life-Cycle[a]	Income[b]	Savings[c]	Brown County	St. Joseph County
X			31.2	21.8
	X		5.2	14.3
		X	15.5	10.2
X	X		3.2	5.5
X		X	1.9	1.2
	X	X	.3	.8
X	X	X	.1	.4

SOURCE: HAO records of June 1977 in Brown County and December 1977 in St. Joseph County (three program years in each site).

NOTE: Entries show percentage of households with various combinations of homebuying potential. The types of potential are discussed earlier in the text. An "X" indicates a positive potential to buy.

[a]Households have life-cycle homebuying potential if they are headed by young couples (those most likely to be interested in buying).

[b]Households have an income potential to buy if their enrollment income exceeds $8,300 in Brown County and $6,300 in St. Joseph County. The amounts vary according to different housing costs in the two sites.

[c]Households have an asset potential to buy if their liquid assets exceed $1,200 in Brown County and $600 in St. Joseph County. The amounts vary according to different home prices and mortgage lender requirements in the two sites.

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