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

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PREFACE

This working note was prepared for the Office of Policy Development and Research, U.S. Department of Housing and Urban Development. It reports on the activities and attitudes of three groups of market intermediaries--mortgage lenders, real estate brokers, and remodeling contractors and tradesmen--during the first year of the experimental housing allowance program in Site I, Brown County, Wisconsin.

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

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*William G. Grigsby, Michael Shanley, and Sammis B. White, *Market Intermediaries and Indirect Suppliers: Reconnaissance and Research Design for Site I*, The Rand Corporation, WN-8577-HUD, February 1974.

SUMMARY

This note assesses the effects of the first year of housing allowances in Brown County, Wisconsin, on the activities and attitudes of mortgage lenders, real estate brokers, and home repair contractors. It draws on residential mortgage data collected in baseline (preprogram) surveys of landlords and homeowners throughout the county, on public records of property transactions in residential areas of special interest, on loan statistics supplied by the major institutional lenders, on informal interviews with representatives of major firms in all three industries, and on records of the Brown County Housing Allowance Office. It covers the period from January 1974 through June 1975.

Although a national shortage of loanable funds caused a sharp decline in mortgage lending in Brown County during the second half of 1974, and this event in turn slowed the pace of residential construction, these events had little direct effect on the experimental housing allowance program. Few of those enrolled were in the market for new homes. During the year, only eight program participants bought homes, and lenders report few inquiries from eligible or participating households about loans for either purchase or home improvement.

We attribute this result to the scarcity of low-priced single-family houses in Brown County and the generally good condition of the housing stock. Renters eligible for housing allowances are unlikely to be able to afford the purchase of homes costing more than $15,000 and only a few hundred properties of lesser value come on the market annually. The repairs needed to qualify a housing unit for occupancy by program participants have only rarely been expensive enough to require credit.

Under these circumstances, the attitudes of lenders towards program participants as credit risks and the properties they can afford to buy as collateral are not of much importance and in any case are hard to determine in the absence of transactions. Nevertheless, we find that institutional lenders have participated readily in transactions involving low-priced homes, but are generally dubious about the

creditworthiness of those whose incomes are low enough to make them eligible for housing assistance. Some lenders have begun sending delinquent borrowers to the HAO to see if they can qualify for assistance that would enable them to bring their loan payments up to date.

Using both survey data and public records of property transactions, we conducted a special study of residential finance in two areas of Green Bay whose futures seemed doubtful. In neither case could we find any substantial evidence that neighborhood problems were being exacerbated by institutional lending policies. Indeed, in several respects loan terms in these neighborhoods were better than elsewhere in the county.

Real estate brokers have only rarely dealt with program participants except in the role of landlord or rental agent. Although they are disappointed that the program has not stimulated home sales, they are not much interested in low-value transactions with low-income buyers. Those brokers who also act as rental agents think the program has bolstered the rental market, but only one of the eight that were interviewed thought the program had significantly improved housing quality.

Although during the program's first year more than 800 housing units were repaired or improved to qualify them for occupancy by allowance recipients, the effects of this activity on the home repair industry have been insignificant. Most of the work has been done by the owners or occupants of the dwellings in question and expenditures for materials and hired labor were probably not much over $30,000 altogether. Data collected by the HAO indicate that over half of the repairs cost less than $10 and over 90 percent cost less than $100.

Events since the end of the program's first year do not suggest much change in the future relationships between these three industries and the allowance program. Enrollment appears to be stabilizing well below the level that would generate a strong demand for home purchases, for mortgage or home improvement loans, or for home repairs.

However, some indirect effects of the program may prove to be more important. During the program's first year, there was a notable increase in community awareness of housing problems, manifested in the formation of several neighborhood improvement groups and in public debate about housing needs. The city of Green Bay recently allocated \$150,000 of its \$1.7 million Community Development grant to a home repair loan fund, and one institutional lender offered low-interest loans to community groups for buying and rehabilitating housing in their neighborhoods. In all of these events, the allowance program has been credited as a community resource that would enhance the effectiveness of neighborhood improvement plans.

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I. INTRODUCTION

Independently of its surveys of landlords, tenants, and homeowners, the Housing Assistance Supply Experiment (HASE) also conducts annual surveys of the activities and policies of market intermediaries in each site--specifically, mortgage lenders, real estate brokers, and home improvement contractors. The general questions we ask concerning these market intermediaries and indirect suppliers were presented in our *General Design Report.** The present report is specific to Site I of the experiment, Brown County, Wisconsin, and follows the plan outlined in our *Reconnaissance and Research Design for Site I.***

Our information was obtained from the baseline residential property surveys and from informal interviews with representatives of eleven lending institutions and eight real estate firms in Brown County. We also used data from the Brown County Housing Allowance Office (HAO), the Green Bay Chamber of Commerce, public records, and reports of Rand's resident site monitors.

The period covered is from January 1974 to June 1975. During that time, the baseline surveys were conducted in Site I, and in June 1974 the HAO opened its doors to general enrollment. By June 1975, the end of the first year of enrollment, 1,255 homeowners and 1,830 renters had enrolled in the program, and 2,210 households were receiving monthly allowance payments.

OVERVIEW OF THE MARKET, 1974-75

We expected, of course, to find changes in the housing market resulting from the entrance of these households into the allowance program and their consequent contacts with market intermediaries and suppliers of housing services. But the important changes in the market were quite independent of the allowance program.

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

**William G. Grigsby, Michael Shanley, and Sammis B. White, *Market Intermediaries and Indirect Suppliers: Reconnaissance and Research Design for Site I*, The Rand Corporation, WN-8577-HUD, February 1974.

Financing and Lending

Mortgage lending in Brown County declined in 1974, a local response to the nationwide tight money situation of that year. We do not have residential mortgage figures for 1973 to compare with those for 1974, but the *Green Bay Area Business Barometer** reports the combined number of residential and nonresidential mortgages written during 1973, 1974, and the first half of 1975:

1973	
January-June	2,897
July-December	3,216
1974	
January-June	2,887
July-December	2,513
1975	
January-June	2,535

By the second half of 1974, the semiannual totals had decreased by 22 percent from the peak of a year earlier. But by early 1975 recovery had begun--somewhat earlier than in the rest of the nation--and nearly all lending institutions had substantial increases in deposits. By May and June, most lenders were making loans exclusively from their own deposits, two of the largest ones were enjoying their best business ever, and most of the others had at least increased their loan volume.

By June of 1975, when interest rates had drifted down to 9 percent from a high of over 10 percent at the end of 1974, more 95-percent loans were being written, more existing housing was being mortgaged, and minimum loan sizes were not being strictly observed. For some lenders, the average loan in the first half of 1975 was larger than in 1974.

Housing Supply

Despite the tight money situation in 1974, housing starts in the county held up well. During the first six months of 1974, construction

*Green Bay Chamber of Commerce, June 1974, December 1974, and June 1975.

began on 349 houses and 775 apartment units, an increase of 28 percent over the corresponding period in 1973. In the last half of the year, only 203 houses and 447 apartment units were begun, but housing starts for the year were still 8 percent higher than in 1973. During the first half of 1975, construction of single-family homes proceeded at about the same rate as in the comparable period a year before (338 units), but apartment construction dropped more than one-third (to 256 units),* apparently because the market had been slow to absorb the rental units built in 1974.

The stock of subsidized rental housing in the county has increased by almost 50 percent since June 1974. As of July 1975, 260 new units were available, and another 197 were expected to open for occupancy by January 1976. Seventy of those completed are in public housing projects in De Pere, and 190 are privately owned rental units built in Green Bay with the aid of low-interest loans under Sec. 236 of the National Housing Act. The rental units still under construction are financed under Sec. 221 (d)(3). Located in downtown Green Bay, they will be restricted to elderly occupants. Outside the urban area, the Farmers Home Administration financed 16 units under Sec. 515.

Community Awareness

At least in Green Bay, public awareness of housing problems seems to have increased since the beginning of the allowance program. Interest in housing conditions was heightened during the last mayoral campaign, which featured a spirited debate over the number of substandard units in the city.** Another reflection of an increased community interest is the rise in the number (from one to four in 1974) and influence of neighborhood improvement groups. These groups have gained

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*Data for housing starts were obtained from the *Business Barometer*, December 1974 and June 1975.

**One candidate cited Rand survey data and claimed there were 3,000 substandard units in the city. The other candidate maintained that there were only 500 such units.

political power, and with the incumbency of the new mayor in mid-April 1975 and the availability of Community Development Act funds, the issues of housing maintenance and repair are being accorded higher priority in the city's decisionmaking.

ORGANIZATION OF THE REPORT

The remaining sections detail our initial findings for the three intermediary industries of policy interest: mortgage lenders (Sec. II), real estate brokers (Sec. III), and remodeling contractors and tradesmen (Sec. IV). At the end of each section we discuss the implications of these findings for the experiment in both Site I and Site II.

II. FINANCIAL INTERMEDIARIES

The effectiveness of a national housing allowance program will depend partly on the degree to which it attracts mortgage capital back into areas lenders have been avoiding. The success of the program will depend also on the willingness of institutions to provide loans for transfers and improvements. For these reasons, we are carefully monitoring the mortgage market in Brown County, focusing on five questions:

1. Do institutional lenders discriminate against any areas of the county by (a) not making loans in these areas at all, (b) making loans only to preferred borrowers, or (c) making loans only on more conservative terms than they grant elsewhere?
2. Do the criteria lenders use to screen properties tend to exclude or treat unfavorably homes that allowance recipients could otherwise afford to purchase?
3. Do the criteria used by lenders to screen potential borrowers exclude allowance recipients from the mortgage market?
4. Do the policies of lenders change significantly as a result of the experiment? Equally, how do these policies and their changes affect experimental outcomes?
5. Do changes in the mortgage market or in regulations governing lending institutions alter lending policies so as to affect experimental outcomes?

Our monitoring of mortgage lending for the first year of the allowance program in Brown County consisted partly of informal interviews with representatives of eleven lending institutions.* We also analyzed data from baseline surveys of landlords, tenants, and homeowners; statistics provided by the HAO and the Green Bay Chamber of Commerce; and data from public records.

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*The institutions are those listed in Table 3, p. 10.

We found that so far lenders have had little opportunity to affect or be affected by the allowance program, since recipients have made very few requests for loans for either home purchase or improvement. One reason is that the residential inventory occupied by allowance recipients in Site I is in quite good repair. Another is that single-family homes are expensive. Only a few are available in the low-price range and therefore theoretically within reach of allowance recipients.

In addition to these findings, our surveys have also raised some questions. It has been alleged that lenders are reluctant to make improvement loans to enrollees who must upgrade their homes before they can receive an allowance. If so, what has been the impact on program participation? Also, some lenders have begun sending clients with delinquent accounts to the HAO: Does this indicate an altered attitude on the part of lenders toward the allowance program or affect their underwriting criteria?

Below, we explore these issues, first giving a profile of the residential mortgage market in the Green Bay area, then discussing current lending policies and their implications for the future.

THE RESIDENTIAL MORTGAGE MARKET IN BROWN COUNTY

Sources of Funds

As Table 1 shows, private lending institutions*--56 different ones over the past 30 years--account for most of the mortgage loans still in effect in Brown County. A few loans were obtained from other sources, such as government agencies or private individuals. Of the outstanding loans financed by private lending institutions, about 75 percent are held by the ten largest institutions, all of which are in Brown County. Twenty percent are held by lenders located outside the county, and the remaining 5 percent by small, private, county-based institutions. Savings and loan associations account for about half (49 percent) of the private institutional loans in the county, with 35 percent of the total

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*"Private lenders" in the tables to this report.

Table 1

PERCENTAGE DISTRIBUTION OF OUTSTANDING RESIDENTIAL MORTGAGE LOANS BY YEAR WRITTEN AND SOURCE OF FUNDS: BROWN COUNTY, WISCONSIN, 1974

Year Loan Written	Source of Funds					
	Private Lender	Govern-ment	Previous Owner	Friend or Relative	Other	Total
			Ownership Properties[a]			
1934-68	89.0	2.6	1.6	6.8	0.0	100.0
1969-71	86.5	4.4	0.5	8.0	0.6	100.0
1972	94.6	1.2	0.0	4.2	0.0	100.0
1973	95.4	1.6	1.0	2.0	0.0	100.0
All years	89.9	2.7	1.1	6.2	0.1	100.0
			Rental Properties			
1934-68	87.5	0.8	2.1	8.6	1.0	100.0
1969-71	90.3	0.5	1.6	7.2	0.4	100.0
1972	94.6	--	2.4	3.0	--	100.0
1973	96.5	0.8	1.0	1.3	0.4	100.0
All years	91.3	0.5	1.8	5.9	0.5	100.0

SOURCE: HASE surveys of landlords, tenants, and homeowners, Site I, baseline.

[a]Residential properties which have no units in them that are rented or available for rent.

being held by just two institutions. Commercial banks, mortgage banks,* credit unions, and credit corporations hold most of the others.

Among the government sources of funds are the Veterans' Administration (VA) and the Farmers Home Administration (FmHA), which can but rarely do make direct loans. Another is the Wisconsin Department of Veterans' Affairs, which is authorized to make second-mortgage loans

*In the 1960s and early 1970s, mortgage bankers provided well over 90 percent of the Sec. 235 loans in Brown County. However, since the government declared a moratorium on such financing in January 1973, the mortgage banking business has declined drastically, and only one office remains in the county. By contrast, mortgage bankers are playing an increasing role in residential financing in Site II.

for up to $5,000 at 3.0-percent interest and first-mortgage loans up to $45,000 at interest rates of 7.0 to 8.5 percent, depending on the rate charged on the revenue bonds sold to fund the program. The first-mortgage program is growing in importance, but since it serves only veterans and must apportion its limited funds over the whole state, its impact on Brown County has not been significant. So far, it has provided only one allowance recipient with funds to buy a home. Because it did not go into effect until July 1974, after the first household surveys had been completed, it does not affect our baseline data.

Friends and relatives presently hold about 8 percent of the mortgage loans outstanding, but their participation as lenders is decreasing. In 1973, only 1.3 percent of the mortgages for rental units and 2.0 percent of those on owner-occupied properties were written by friends or relatives.

A minor source of financing is the sellers themselves, who sometimes take back a mortgage because the buyer cannot secure other financing. They account for only 2 percent of the mortgages in the county.

Residential Lending in 1974

In the past, mortgage lending in Brown County has not been much affected by national shortages of capital. However, by August of 1974, the savings outflows and mortgage money shortages that had already affected lending in the rest of the country were also affecting the policies of lenders in Brown County.

Some institutions reacted by making fewer or no loans for the rest of the year, Other lenders responded to the shortage of funds by borrowing from sources such as the Federal Home Loan Bank Board. Still others ventured into the secondary mortgage market, dealing primarily with the Federal Home Loan Mortgage Corporation (FHLMC) under its tandem plan with the Government National Mortgage Association (GNMA).* Ninety percent of the funds available through this plan are reserved for new

*Under this plan, the Government National Mortgage Association agrees to buy at par mortgage loans made to homebuyers by private lenders at below-market interest rates; GNMA absorbs the cost single-family construction, with the remaining 10 percent available for existing housing.

Despite the fact that virtually all lenders sharply curtailed their business during 1974, those we interviewed wrote over 2,000 residential first mortgages, with a total value of $62 million, and a smaller but substantial number of second mortgages, home improvement loans (excluding mortgage loans), and mobile home loans (see Tables 2 and 3). Most of these mortgages (1,961) were for single-family dwellings; 2-4 unit structures accounted for 383 loans, and 5+ unit structures for only 22.

The preponderance of mortgages for single-family dwellings partly reflects the fact that the new apartment market was overbuilt in 1973, particularly in De Pere and on the West Side of Green Bay. It also reflects the restrictions on lending under the FHLMC-GNMA plan, noted above.

Almost 80 percent of the first mortgages written in 1974 were conventional and uninsured, usually with downpayments of 20 percent or more.* Interest rates were also high, rising from around 8.0 percent at the beginning of 1974 to as much as 10.5 percent by the end of the year.

The average face value of first mortgages written during 1974 on single-family homes was $23,300, reflecting home values of around $28,000. Early in the year, many lenders were writing loans for 95 percent of appraised value, but by December hardly any were going that high. Of special interest to the experiment is the fact that fully 320 first mortgages were written for less than $15,000, indicating

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differential between money at market rates and the discounted rate offered to the individual home purchasers. A similar program has existed for several years with GNMA and the Federal National Mortgage Association (FNMA).

*Nearly two-thirds of the aggregate portfolio of Brown County lenders consisted of loans with downpayments of 11 to 30 percent; one-sixth had downpayments of 31 percent or more, and one-fifth had downpayments of 10 percent or less.

Table 2

ESTIMATED VOLUME OF RESIDENTIAL LOANS WRITTEN BY MAJOR LENDING INSTITUTIONS: BROWN COUNTY, WISCONSIN, 1974

Type of Loan	Number of Loans	Total Value ($ million)	Average Amount of Loan ($000)
First Mortgage			
Conventional uninsured	1,826	47.1	25.8
Conventional insured	425	11.0	25.9
VA	89	1.9	21.3
FHA[a]	26	1.7	65.4
Total	2,366	61.7	26.1
Other Loans			
Second mortgage[b]	167	0.4	2.4
Home improvement loan	193	0.6	3.1
Mobile home loan	172	1.8	10.5
Total	532	2.8	5.3

SOURCE: HASE residential lender survey, 1974.

[a]Subsidized and unsubsidized.

[b]Does not include second mortgages known to have been used for home improvements.

Table 3

ESTIMATED VOLUME OF RESIDENTIAL FIRST MORTGAGE LOANS WRITTEN BY MAJOR LENDING INSTITUTIONS: BROWN COUNTY, WISCONSIN, 1974

Lender	Number of Loans	Volume ($ million)	Percent of Total $ Volume (cumulative)
First Northern Savings and Loan	550	12.3	19.9
West Bank and Trust	500	7.5	32.1
Brown County Savings and Loan	456	13.9	54.7
People's Marine Bank	158	5.9	64.2
Frontier Savings and Loan	136	4.6	71.6
De Pere Savings and Loan	131	2.3	75.4
Kellogg-Citizens National Bank	121	5.8	84.8
First Wisconsin National Bank	96	2.5	88.8
American National Bank	87	2.9	93.5
University National Bank	80	1.8	96.4
Bank Services Mortgage Association	51	2.2	100.0
Total, major institutions	2,366	61.7	100.0

SOURCE: HASE residential lender survey, Site I, 1974.

that loans were available for properties within the financial reach of allowance recipients.*

Foreclosures and voluntary surrenders during the year averaged less than two per lender. Altogether, there were 300 delinquencies of 60 days or more, a figure considerably higher than usual but still less than 2 percent of loans outstanding. Eight of the eleven lenders in our sample now regularly refer delinquent borrowers to the HAO, where they may be able to qualify for allowances that will enable them to meet their mortgage payments.

POLICIES TOWARD NEIGHBORHOODS: REDLINING?

An important question is whether, during the experimental allowance program, lenders reevaluate their underwriting standards with respect to neighborhood characteristics and begin writing mortgages in low-income areas they previously avoided. If they do, homeownership may become more feasible for program participants and property values and housing quality in such neighborhoods may be favorably affected.

Lenders in Brown County claim there are no redlined neighborhoods--areas in which they will not lend. Community groups, on the other hand, allege that there are. To explore the issue, we studied lending patterns in two of Green Bay's older areas, often alleged to be victims of redlining. These areas comprise four HASE-designated neighborhoods: Nos. 340 and 341 on the near West Side, and Nos. 521 and 525 on the near Northeast Side (see the figure below). Mortgage financing in these two inner-city areas was compared with that in the rest of the city of Green Bay and its immediate suburbs, and in rural Brown County.

Redlining could be reflected in our data in any of several ways. One is a decrease in institutional lending in the redlined area, with a concomitant rise in other forms of financing, such as land contracts and consumer loans. Other early signs are the substitution of federally insured for conventional loans, or the imposition of relatively unfavorable terms (short amortization periods, high interest rates, or low loan/value ratios).

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*Some of these loans, however, were for more expensive properties for which the buyers were able to make large downpayments.

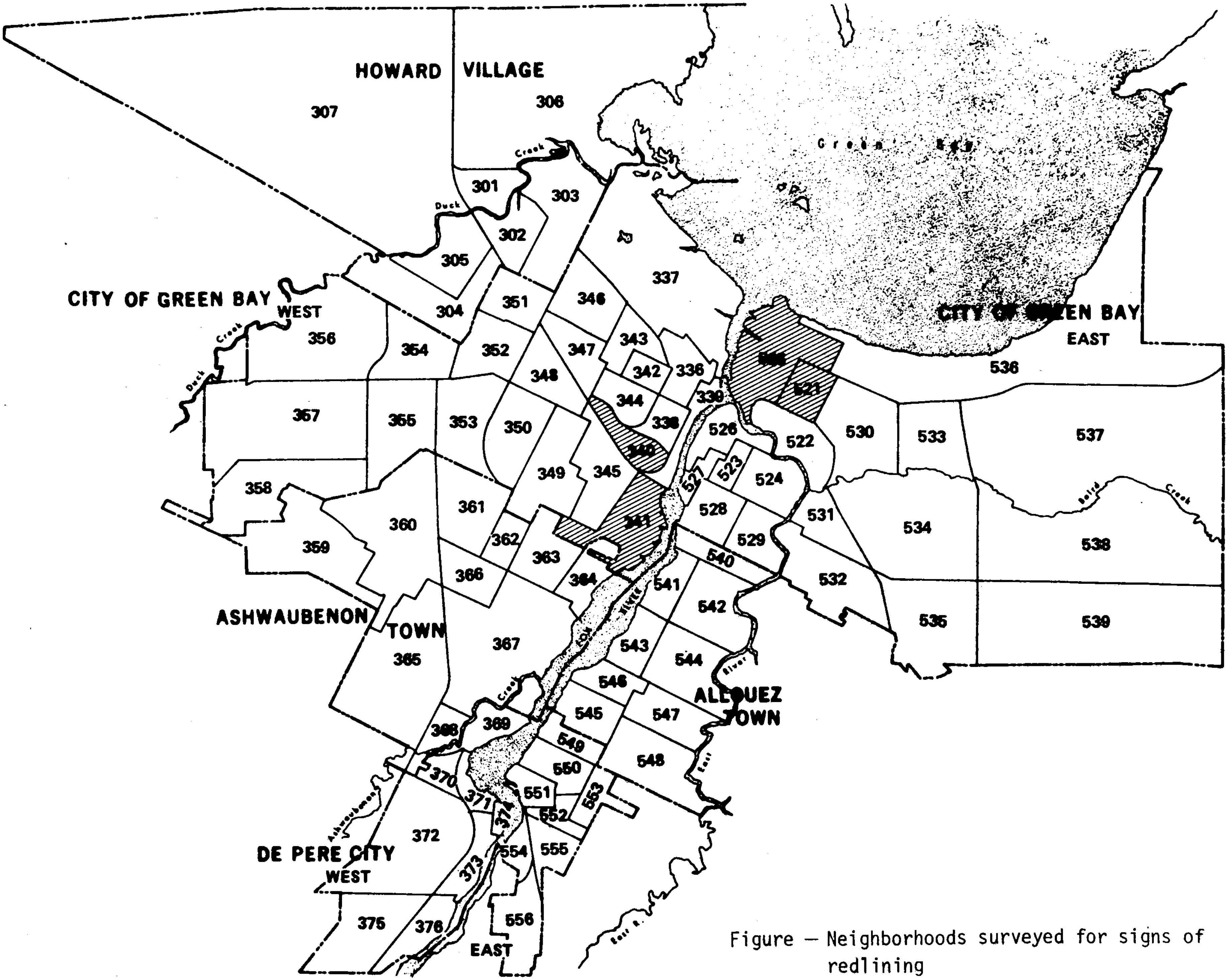

Figure — Neighborhoods surveyed for signs of redlining

We examined all these possibilities and found no indication that redlining was practiced in these two areas prior to the allowance program. However, private lending institutions have played a slightly smaller role in residential finance on Green Bay's near West Side in recent years than they did earlier. Our evidence follows.

Evidence from Baseline Surveys

Institutional Lending. Both before 1969 and subsequently, institutional lenders dominated in all parts of Brown County (Table 4). However, their share of all mortgages written for properties in our two inner-city neighborhoods dropped slightly after 1969, even though it increased in other areas of the county. The decrease in the institutional share of inner-city loans is not statistically significant, nor is the small increase elsewhere in Green Bay and its suburbs. We cannot reliably conclude that the data show withdrawal of institutional lenders from the inner city.

Table 4

PERCENTAGE DISTRIBUTION OF OUTSTANDING RESIDENTIAL MORTGAGE LOANS
BY AREA, SOURCE OF FUNDS, AND YEAR WRITTEN:
BROWN COUNTY, WISCONSIN, 1974

Area	Source of Funds				
	Private Lender	Government	Previous Owner	Friend or Relative	Total
	Loans Written 1934-68				
Green Bay inner city	94.7	0.0	3.0	2.3	100.0
Rest of Green Bay and suburbs	91.4	1.5	1.2	5.9	100.0
Rural Brown County	76.9	6.8	3.6	12.7	100.0
Total, Brown County	88.9	2.4	1.7	7.0	100.0
	Loans Written 1969-73				
Green Bay inner city	92.1	0.0	0.6	7.3	100.0
Rest of Green Bay and suburbs	93.0	2.0	0.9	4.1	100.0
Rural Brown County	83.3	4.5	0.2	12.0	100.0
Total, Brown County	91.7	2.3	0.8	5.2	100.0

SOURCE: HASE surveys of landlords, tenants, and homeowners, Site I, baseline.

Land Contract Financing. On the face of it, land installment contract financing seems to have increased in the county over the past several years, with by far the largest increase in the inner city (Table 5). However, the statistics are probably misleading, since most land contracts are short-lived and many written before 1969 would have been paid off by 1974, when the surveys were conducted. We think that land contract buying was at least as common before 1969 as after. The substantially larger proportion of contract buying in the inner city compared with other parts of the county would seem to indicate market weakness there, however.

Table 5

PERCENT OF RESIDENTIAL PROPERTIES WITH OUTSTANDING LAND CONTRACTS OR FHA-INSURED MORTGAGES BY AREA AND YEAR DEBT WAS INCURRED: BROWN COUNTY, WISCONSIN, 1974

Area	Percent of All Properties Whose Current Debts Were Incurred in:			
	1934-68		1969-73	
	With Land Contract	With FHA-Insured Mortgage	With Land Contract	With FHA-Insured Mortgage
Green Bay inner city	11.6	27.3	21.7[a]	8.2
Rest of Green Bay and suburbs	2.0	24.2	3.3	12.8
Rural Brown County	5.0	5.7	6.4	5.9
Total, Brown County	2.8	20.9	4.5	11.2

SOURCE: HASE surveys of landlords, tenants, and homeowners, Site I, baseline.

[a]A public-record sample of inner city properties also analyzed for this study contains 389 properties, 123 of which were sold and debt-financed between 1970 and 1975. Of these debts, only 11 percent were land contracts. See pp. 19-20, below

FHA-insured Mortgages. Table 5 shows that the number of FHA-insured mortgages written in Brown County has dropped sharply since 1968, except in rural areas. Lenders say they have stopped making such loans because so much red tape is involved.

<u>Interest Rates</u>. Except where usury laws prohibit, mortgage lenders may compensate for the perceived greater risk of lending in older neighborhoods with higher interest rates. But Table 6 shows that, on the average, mortgage interest rates are lower in the inner city than elsewhere in Brown County.

Table 6

PERCENTAGE DISTRIBUTION OF OUTSTANDING RESIDENTIAL MORTGAGE LOANS BY AREA, INTEREST RATE, AND YEAR WRITTEN: BROWN COUNTY, WISCONSIN, 1974

Area	Interest Rate (%)				
	0-6.99	7.0-7.99	8.0-8.99	9.0+	Total
Loans Written 1934-68					
Green Bay inner city	42.5	48.9	8.6	0.0	100.0
Rest of Green Bay and suburbs	55.1	29.9	14.2	0.8	100.0
Rural Brown County	18.9	47.0	26.0	8.1	100.0
Total, Brown County	49.2	33.1	15.8	1.9	100.0
Loans Written 1969-73					
Green Bay inner city	0.6	81.6	12.7	5.1	100.0
Rest of Green Bay and suburbs	9.3	66.9	22.1	1.7	100.0
Rural Brown County	7.1	60.3	27.2	5.4	100.0
Total, Brown County	8.8	66.6	22.4	2.2	100.0

SOURCE: HASE surveys of landlords, tenants, and homeowners, Site I, baseline.

NOTE: Data are for mortgages written by private lending institutions.

Only 18 percent of the mortgages written in the inner city between 1969 and 1973 had interest rates of 8 percent or more. In the rest of the city and its suburbs and in rural areas, 24 and 33 percent, respectively, of the mortgages carried rates this high or higher. Because of the small sample, the difference may not be statistically significant, but it argues against the existence of redlining in the inner city.

Amortization Periods. As Table 7 shows, only 10 percent of the earlier mortgages on owner-occupied units in the inner-city sample were to be amortized in less than 15 years.* Between 1969 and 1973, 14 percent of the mortgages were in this category, but the proportion with amortization periods of 20 years or more rose from 69 to 86 percent. Amortization periods on mortgages written for rental properties in the inner city have clearly lengthened. Whereas 42 percent of those written before 1969 ran for less than 15 years, less than 7 percent of the recent mortgages had such short terms, and periods of 20 years or more now clearly predominate.

For both ownership and rental properties, amortization periods for inner-city mortgages have lengthened relative to those in the rest of Green Bay and its suburbs.

Loan/value Ratio. A high loan/value ratio usually is an expression of the lender's confidence either that the market value of the property will remain high during the term of the loan or that insurance will substantially cover any loss in case of default. The proportion of mortgage loans written on owner-occupied properties in Green Bay's inner city that had a loan/value ratio of at least 90 percent increased sharply after 1968, and a far greater percentage of the loans now fall in this category in the inner city than elsewhere in the county (Table 8). Rental properties in the inner city have also been treated favorably by lenders in recent years. Over 60 percent of the loans written after 1968 have loan/value ratios of over 90 percent--up from 26 percent for loans written earlier. (Loans written on rural rental properties both before and after 1968 had high loan/value ratios, but there are few such properties.) The faith of lenders in the inner city, as evidenced by these data, seems justified. In our sample of properties in the near Northeast Side, discussed below, 80 percent of the units that were sold twice between 1970 and 1975 increased in value (measured in current dollars). Only 10 percent decreased in value, and 10 percent did not change. Among those decreasing in value, the average loss was

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*This figure is probably biased downward, since short-term mortgages written well before 1974 would no longer be outstanding. Thus, a 15-year mortgage written in 1958 would normally have been paid off by 1973.

Table 7

PERCENTAGE DISTRIBUTION OF OUTSTANDING RESIDENTIAL MORTGAGE LOANS BY AREA, AMORTIZATION PERIOD, AND YEAR WRITTEN: BROWN COUNTY, WISCONSIN, 1974

Area	Ownership Properties,[a] by Loan Amortization Period (Years)					Rental Properties, by Loan Amortization Period (Years)				
	Under 15	15-19	20+	Open	Total	Under 15	15-19	20+	Open	Total
Loans Written 1934-68										
Green Bay inner city	10.2	10.2	69.4	10.2	100.0	42.0	26.0	10.0	22.0	100.0
Rest of Green Bay and suburbs	5.8	9.4	84.5	0.2	100.0	20.8	12.0	64.2	3.0	100.0
Rural Brown County	35.2	19.0	34.8	11.0	100.0	29.1	17.7	40.7	12.5	100.0
Total, Brown County	10.4	10.9	76.5	2.2	100.0	23.0	13.6	58.1	5.3	100.0
Loans Written 1969-73										
Green Bay inner city	14.1	0.0	85.9	0.0	100.0	6.5	27.5	64.7	1.3	100.0
Rest of Green Bay and suburbs	8.0	3.9	88.1	0.0	100.0	14.0	8.5	75.5	2.0	100.0
Rural Brown County	16.6	9.8	66.2	7.4	100.0	22.4	11.2	58.9	7.5	100.0
Total, Brown County	9.4	4.7	84.9	1.0	100.0	13.8	10.1	73.9	2.2	100.0

SOURCE: HASE surveys of landlords, tenants, and homeowners, Site I, baseline.

NOTE: Data are for mortgages written by private lending institutions. Distribution of pre-1969 mortgages by amortization period may be biased upward because some short-term mortgages may have been completely amortized before 1974.

[a]Residential properties which have no units on them that are rented or available for rent.

Table 8

PERCENTAGE DISTRIBUTION OF OUTSTANDING RESIDENTIAL MORTGAGE LOANS BY AREA, LOAN/VALUE RATIO, AND YEAR WRITTEN: BROWN COUNTY, WISCONSIN, 1974

Area	Ownership Properties,[a] by Loan/Value Ratio					Rental Properties, by Loan/Value Ratio				
	Under .65	.65-.79	.80-.89	.90+	Total	Under .65	.65-.79	.80-.89	.90+	Total
Loans Written 1934-68										
Green Bay inner city	25.1	38.2	0.0	36.7	100.0	12.8	48.8	12.8	25.6	100.0
Rest of Green Bay and suburbs	11.6	23.5	32.0	32.9	100.0	14.0	26.0	21.4	38.6	100.0
Rural Brown County	31.1	20.8	11.3	36.8	100.0	18.0	13.1	13.1	55.8	100.0
Total, Brown County	15.3	23.6	27.5	33.6	100.0	14.4	26.1	19.9	39.6	100.0
Loans Written 1969-73										
Green Bay inner city	0.0	14.0	0.0	86.0	100.0	4.6	19.1	15.8	60.5	100.0
Rest of Green Bay and suburbs	10.9	37.0	32.4	19.7	100.0	12.4	22.8	28.4	36.4	100.0
Rural Brown County	19.9	11.0	39.8	29.3	100.0	9.2	18.5	9.2	63.1	100.0
Total, Brown County	12.0	34.0	30.7	23.3	100.0	11.9	22.2	27.8	38.1	100.0

SOURCE: HASE surveys of landlords, tenants, and homeowners, Site I, baseline.
NOTE: Data are for mortgages written by private lending institutions.

[a]Residential properties which have no units on them that are rented or available for rent.

only \$100. On the near West Side, fully 90 percent of the sample that sold twice during the same period increased in value, whereas 10 percent showed a decrease.

Evidence from Public Records

Despite the evidence from the surveys that lenders have not redlined the inner city, we also investigated the possibility that there was indeed redlining but that it was restricted to a few blocks within inner-city neighborhoods and was therefore not revealed in the survey data. In our investigation, we reviewed public records of lending activity for 29 blocks in the four HASE areas. On the near Northeast Side, some 225 properties in 15 of the oldest blocks were traced from January 1970 to July 1975. During that period, 81 sales, 8 land contracts, and 64 first mortgages, the latter not always connected with a sale, were recorded. Overall, 88 percent of the sales that were debt-financed at the time of the sale were mortgaged to lending institutions, while less than 10 percent were sold on land contracts. These proportions held over each year of the period.

A similar study was done for 164 properties on 14 blocks of the near West Side, one of the least desirable areas of Green Bay. Both sales and mortgage activity were livelier here than on the Northeast Side, with 104 sales and 95 first mortgages over the period. The average annual rate of transfer was 10 percent, compared with less than 3 percent on the Northeast Side. However, only 73 percent of all financing of transfers was handled by lending institutions; about 12 percent was by land contract, and the other 12 percent by consumer credit firms, friends, the federal government, or the previous owners. Roughly 30 percent of the transactions involved rental properties. Although fewer mortgages were written by lending institutions here than elsewhere, the area cannot be said to be redlined, since these lenders still write most of the loans on property transfers.

POLICIES TOWARD PROPERTIES

We have also tried to determine whether lenders were generally reluctant to finance types of homes that allowance recipients could afford to purchase, and if so, whether the lenders change their standards as the allowance program progresses. Since there have been so few attempts by allowance recipients to purchase homes, the question cannot be answered directly. But we have some insights into lenders' attitudes toward lower-priced older housing from the surveys of landlords, tenants, and homeowners, and from interviews with the lenders themselves.

According to the homeowner survey, in the 27 months immediately before the introduction of the allowance program, sales of owner-occupied housing in the low-price range ($15,000 or less*) averaged fewer than 300 units a year--a drop of almost 25 percent from the average for 1969-71. With housing values rising rapidly, the number of houses selling to owner-occupants for less than $15,000 has probably dropped by now to under 200 a year, accounting for only a small fraction of all transactions.

As shown in Table 9, residential mortgages for properties that sold for less than $15,000 accounted for two-thirds of all mortgages written by institutional lenders before 1969 and only one-fourth subsequently. However, the declining share of such mortgages reflects the increasing scarcity of low-priced homes rather than any reluctance on the part of institutional lenders to finance them.

POLICIES TOWARD ALLOWANCE RECIPIENTS

There have been so few requests for mortgage loans by allowance recipients that it is difficult to determine whether lenders discriminate against this group. Information about the seven recipients who did receive institutional loans suggests that lenders judge recipients by the same standards they apply to other applicants for mortgages, but this policy could conceivably exclude all but a few recipients for one reason or another. Many recipients have poor credit records;

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*For a house priced above $15,000 and secured by a 9-percent, $15,000, 25-year mortgage, the level monthly payment would be $126. If we assume this payment is about 50 percent of total monthly housing cost, housing expense would total $3,024 annually, an excessive amount for most recipients, even with the allowance.

Table 9

DISTRIBUTION OF OUTSTANDING RESIDENTIAL MORTGAGES
BY PURCHASE PRICE OF PROPERTY AND YEAR PURCHASED:
BROWN COUNTY, WISCONSIN, 1974

Purchase Price ($)	Mortgages on Properties Purchased before 1969		Mortgages on Properties Purchased 1969-73	
	Number	Percent	Number	Percent
Under 15,000	9,227	66.9	2,317	23.7
15,000-19,999	2,758	20.0	2,848	29.1
20,000+	1,807	13.1	4,617	47.2
Total	13,792	100.0	9,782	100.0

SOURCE: HASE surveys of landlords, tenants, and homeowners, Site I, baseline.

NOTE: Data are for mortgages written by private lending institutions for both owner-occupied and rental property.

a large number are elderly; most probably do not have funds for a downpayment.

No lender in our survey remembered making any home improvement loans to program enrollees, and only one recalled having turned down a participant's application for a rehabilitation loan.* However, the HAO telephone log has documented at least ten calls from enrollees who said lenders had refused them financing. One instance was a widow with six children who was refused a loan because of her bad credit record and the location of her home in the Northeast section of Green Bay. She qualified for the allowance by gradually doing $2,000 worth of repairs, financed by her own savings and donated labor.

Enrollees in an allowance program face at least three potential obstacles to obtaining home improvement loans. These obstacles have arisen infrequently in Brown County, but they could prove more

*Lenders may have lent to allowance recipients but not been aware of it because they did not require complete declarations of income. Unfortunately, we did not have a good mechanism for obtaining this information the first year, but the annual recertification should pick up new home loans to recipients.

serious in the South Bend experiment or in a national allowance program.

First, lenders are generally reluctant to grant home improvement loans to the elderly, whether or not they are in need of housing assistance. The concern of lenders is that households on fixed incomes during an inflationary period will be unable to keep up loan payments. None of the eleven lenders in Brown County who make home improvement loans cited any repayment problems with elderly clients, but then they noted that few older homeowners apply for such loans.

Second, lenders would undoubtedly hesitate to lend to enrollees who have already exhibited, as ordinary mortgagees, difficulty in handling debt. Third, lenders would be chary of lending money to low-income owner-occupants for home improvements if the improvements still might not qualify a dwellings and its occupants for allowance payments with which to repay the loan. And even though a household may already be receiving an allowance, it may still be considered a credit risk. Some lenders said they would not be inclined to grant home improvement loans to recipients unless assured that part of the allowance payments would go directly to loan repayment.

CHANGES IN LENDER POLICIES AND ATTITUDES

Since lenders have had little contact with the allowance program, we cannot expect any changes in their policies toward individual properties or borrowers due to the program. Nevertheless, there are signs that the program is acting indirectly as a stimulus to the lending industry.

In January 1975, the mortgage lenders of the county met to discuss the Housing and Community Development grant that Green Bay was to receive. It had been hoped that the lenders would establish a revolving loan fund and that this gesture would encourage the city's allocation committee to budget a large part of the $1.7 million grant to housing. Although the lenders supported the idea of such a fund, they did not pledge any money. Even so, the city set aside $150,000 in a revolving fund for low-interest home improvement loans to private homeowners. The city also allocated $100,000 to a fund for purchasing deteriorating housing and rehabilitating it for resale; and in the spring, a private lending institution set aside $50,000 in a similar fund specifically for community groups. At least two lenders believe that the lending community is starting to react positively to neighborhood group demands for improvement loans because of the realization that allowances make housing rehabilitation economically feasible. Whether lenders are in fact making more rehabilitation loans than previously has yet to be determined.

We have noted no changes as yet in loan-approval criteria. Nor can we judge if there is a problem of discrimination by lenders against Native Americans (about one percent of the county's population).* Several of the lenders who did make mortgage loans to recipients said they took the allowance into account when making the loans but that the existence of the program has had no impact whatever on their decisions about applications from nonrecipients.

Nearly all the lenders we interviewed support the program strongly. They are impressed by the high quality of program administration and the absence of fraud, and feel the program is superior to similar federal endeavors in housing, health, and welfare, but are less persuaded that a national program can be as free of mismanagement as a showcase experiment. A fact which did disturb some of them is that the monthly housing payments are so much greater than the amount required to bring residential structures into conformance with the housing code.

All but one of the lenders feel the right people are being helped. The exception is a lender who has several Sec. 235 mortgagees who are delinquent in their payments and whose homes need repair but who are not qualified for help from the allowance program because they already receive federal housing subsidies. Lenders would not speculate on the impact of the program on the housing stock itself, especially given the difficulty of separating changes due to the program from other changes in the market.

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*Data from the second-year tenant/homeowner surveys may reveal whether minority households who receive allowances have been refused mortgages or home improvement loans more often than other enrollees, but the pertinent sample will probably be small.

once they learn how much money is needed. Another broker has sent some of those who inquire about homebuying to the HAO for assistance. A third has tried to arrange several sales to allowance recipients but has failed, either because the offers were too low or because the clients decided not to move after all. Another broker made a sale to an allowance recipient but does not remember the details and had no other contact with the allowance program.

Not only has the program had virtually no direct effect on home sales in the county, it does not appear to have even indirectly affected sales by causing nonrecipients to change from renter to owner-occupant status. Nor has the program precipitated speculation in older single-family structures, for which there seems to be no untapped owner-occupancy market in the county. Brokers who also act as rental agents think that the rental market has been bolstered, but only one of those interviewed thought the program has had any impact on housing quality.

If there is at least a limited amount of lower-priced housing in the county, why then the almost total lack of sales to allowance recipients? The problem most often cited is the credit records of lower-income households. Most of these households are alleged to have checkered credit histories, with some debts overdue and often with small ($5 to $50) judgments against them. Another barrier to home purchases by lower-income households is their difficulty in raising money for downpayments and closing costs, even though these may amount to 5 percent or less of the purchase price.

Brokers are aware that they themselves could promote more sales to allowance recipients, if only by informing them that a housing allowance may be sufficient to permit a home purchase. However, the commission on a low-valued transaction is small and buyers of low-priced homes usually need extra help from the broker in arranging financing. In short, the business would be relatively unprofitable.

ATTITUDES TOWARD THE ALLOWANCE PROGRAM

Although they are disappointed in the lack of sales to allowance recipients, especially considering the buildup the program received in the beginning and the briefings given to real estate sales forces, brokers in Brown County are generally positive about the allowance program. Those with whom we spoke find it superior in concept and execution to Sec. 235 and other housing subsidy programs. They believe it is helping deserving families without hurting others and that it is also acting as a cushion against the current recession. Some simply enjoy being part of the experiment and playing a role in federal policy formation.

Half of those interviewed, however, feel the program would be too expensive if expanded nationwide. They also object that it is a give-away--even if a superior one--and particularly deplore the extensive media advertising the program has used. To those who share a distaste for public assistance in general, the county's low rate of enrollment in the allowance program reflects favorably on the character of its citizens.

PROSPECTS

Housing sales to allowance recipients in Site I are likely to remain very slow, given current housing costs. In Site II, which has many inexpensive housing units for sale, brokers should be more involved with the allowance program. We will nevertheless continue to monitor the brokerage industry in Site I for its information on changes in the housing market and on other trends that may have an impact on the experiment.

IV. HOME REPAIR CONTRACTORS AND TRADESMEN

Our study of the home repair industry focuses on the possibility that program-induced demand for home improvements might adversely affect either the price or the quality of the work. Neither of these effects has yet been noted. Although 1,481 of the 3,065 housing units that were evaluated at the request of program enrollees during the first year of the experiment failed to meet program standards, only 834 were repaired by June 1975. Data collected by the HAO indicate that the total cash expenditures for repairs and improvements directly attributable to program requirements could not have been much over $30,000. Much of the work has been done by owners and occupants of the units rather than by home repair contractors or tradesmen.

As enrollment grows, housing of lower quality may be repaired for the benefit of program participants. Even so, we do not expect upgrading investment prompted by the program ever to overload the area's improvement industry, for two reasons: First, there is very little poor quality housing in the county; and second, enrollment in the program is growing relatively slowly.

INDUSTRY CHARACTERISTICS

The residential repair and improvement industry in Brown County consists of all persons and firms that do repair or remodeling work on a fulltime, parttime, regular, or intermittent basis. These resources are of five types:

1. About six firms that engage exclusively in remodeling.
2. A number of independent carpenters, some semiretired, who work for these firms and for individual owners.
3. Building firms that do a certain amount of remodeling, especially when construction is slow.
4. A large number of firms that specialize in a trade, such as plumbing, heating, roofing, siding, and that regularly work for owners of existing structures while simultaneously subcontracting with home builders.

5. Property owners who do some of their own repair work or have it done by fulltime employees.

The baseline surveys of landlords, tenants, and homeowners did not yield the identities of individual firms or information on the volume and distribution of their activity. It is clear, though, that whereas mortgage lending in the county is highly concentrated among a small and readily identifiable group of firms, residential repair and improvement work is diffused among many firms and individuals. It should be noted that except for plumbers, none of the residential building trades in Brown County is unionized.

In terms of the research design, our study of repair firms and tradesmen in Site I has changed considerably. Rather than investigating the industry per se, we are focusing on the quantity and quality of rehabilitation work carried out to bring housing up to allowance program standards. This information will come from the records of the HAO.

PROGRAM-INDUCED DEMAND FOR REPAIRS

During the first year of the allowance program, almost 1,500 of the initial housing evaluations conducted by the HAO resulted in failure reports, typically for minor hazardous conditions. The enrollee requesting the evaluation usually arranged for repairs but sometimes moved to an acceptable unit or dropped out of the program. By 20 June 1975, 834 units that had originally failed the evaluation passed their reevaluation, indicating that the defects noted earlier had been repaired. Some repairs far exceeded the requirements.

Detailed data on repairs were not gathered for the first year of program operations, but information for February through June of 1975 is available from HAO reevaluation reports.* As Table 10 shows, most repairs were minor, such as installing handrails, installing or repairing

*The housing evaluation staff uses these reports to record information on each failed-unit reevaluation. If the upgrades are acceptable, the nature and approximate cost of the improvements are noted. The cost is obtained from the client if possible; otherwise, the evaluator estimates it.

Table 10

REPAIRS AND IMPROVEMENTS MADE TO QUALIFY DWELLINGS FOR ALLOWANCE PROGRAM: BROWN COUNTY, WISCONSIN, FEBRUARY-JUNE 1975

Type of Repair or Improvement	Number	Percent
Install handrails	188	38.9
Repair wooden structure (e.g., steps)	57	11.8
Repair or install vent pipe	55	11.4
Repair or replace windows, screens	50	10.4
Repair electrical outlets, switches	47	9.7
Unstick windows	38	7.9
Hang draperies, curtains	25	5.2
Repair plumbing	20	4.1
Connect gas, electricity	3	0.6
Total	483	100.0

SOURCE: HAO reevaluation reports, 1975.

vent pipes, or making windows operable. They were also inexpensive; 53 percent of the deficient dwellings were repaired for less than $10, and 78 percent for less than $25. Repairs costing more than $100 were reported for only 7.8 percent of the units. (See Table 11.)

Skilled outside labor was not often needed for the repairs. Electrical and plumbing work was usually done by professionals, but almost all other repairs have been done by homeowners, landlords, or their friends and relatives. Professional firms have been hired for a few minor repairs, especially for elderly householders, but the firms have not been taxed by the demand for such services.

As some indication of the impact of the allowance program on the industry, one firm that sells materials as well as labor has found it hard to keep handrails in stock, and it has had a surge of sales of screens and lumber for porch repairs; but seldom has the bill exceeded $100. The demand for help on small jobs had been easy to handle.

This firm has had no collection problems with allowance recipients. The owner, who is the only industry tradesman who voiced an opinion of the allowance program, is generally in favor of it. He reported

Table 11

EXPENDITURES FOR REPAIRS OR IMPROVEMENTS MADE TO QUALIFY DWELLINGS FOR ALLOWANCE PROGRAM: BROWN COUNTY, WISCONSIN, FEBRUARY-JUNE 1975

Amount Spent ($)	Number of Units	Percent
.00	44	14.4
.01-10	120	39.2
10.01-25	75	24.5
25.01-50	30	9.8
50.01-75	7	2.3
75.01-100	6	2.0
100.01-200	15	4.9
200+	9	2.9
Total	306	100.0

SOURCE: HAO reevaluation reports, 1975.

NOTE: Expenditures include purchased materials and paid labor. Owners or occupants often contributed labor or materials not counted here.

that, thanks to the program, a porch in his mother's neighborhood was repaired, to the gratification of the neighbors as well as the occupants of the unit.

PROSPECTS

The average cost of repairs per unit in Brown County might increase with time, but neither the number of units needing repair nor the scale of these repairs is likely to affect the cost or quality of repair work. In Site II, on the other hand, where the quality of the units being brought into the program is lower and where the enrollment rate is higher, chances of some strains on the rehabilitation industry are greater.