431

AN ANALYSIS OF ALTERNATIVE METHODS OF RURAL HOME REPAIR

Submitted By:
Housing Assistance Council, Inc.
June 29, 1973

to

Housing Policy Task Force IV
Department of Housing and Urban Development

HOUSING ASSISTANCE COUNCIL, INC.
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Executive Director

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I. INTRODUCTION

The following report represents the findings of the Housing Assistance Council, Inc., in response to the request of HUD Task Force IV to provide an "Analysis of Alternative Methods of Rural Home Repair". Any analysis of repair programs in rural areas, however, is understandable only within a context which examines both the housing conditions and the prevailing resources in rural America.

Demographic Data

In 1970, non-metropolitan areas contained thirty percent of the population, but approximately forty-three percent[1/] of the poverty population, as defined by the Office of Economic Opportunity. One person in five is below the poverty level in non-metropolitan areas,[2/] as compared to one in nine in metropolitan areas. Put another way, the incidence of poverty in non-metropolitan areas is roughly twice that in metropolitan areas.

With only thirty percent of the population in 1970, non-metropolitan areas also had fully forty-five percent of the housing units which were lacking essential plumbing, over-crowded, or both.[3/] One house in five[4/] is inadequate in non-

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1/ of 27,007,113 poverty persons nationally, 11,750,296 are in non-metropolitan areas.

2/ of 61,979,570 non-metropolitan persons, 11,750,296 are poverty persons.

3/ of 8,215,630 inadequate housing units nationally, 3,633,072 are in non-metropolitan areas.

4/ of 19,586,800 units in non-metropolitan areas, 3,633,072 are in-adequate.

metropolitan areas, while only one metropolitan house in twenty-five is inadequate. The incidence of inadequate housing outside of metropolitan areas is roughly 3.5 times higher than the metropolitan incidence.

Most striking, the great majority of non-metropolitan poverty and inadequate housing is found in towns and unincorporated places of 2,500 population and below. It is "rural" in the truest sense of the word.

Special Rural Problems

While lack of decent housing for low-income citizens has been a persistent national problem, the problem in rural areas has some special characteristics. These include:

(a) National ignorance about the rural housing problem

The fact that almost sixty percent of the nation's substandard housing exists in towns of 2,500 population or less is largely unknown to the American public, and its elected and appointed officials. The low-income housing and community development problem has been considered urban and not rural.

(b) Severe poverty

The rural poor, generally, possess lower income levels than their urban and suburban counterparts. This is due to lower wage rates and lower welfare assistance levels in the rural sections of the country. This exacerbates their housing problem, obviously. Most housing subsidy programs require some partial ability to pay; this element is lacking in rural areas, where the income of many low-income families is insufficient for even the real estate tax and utility cost burdens of decent housing.

(c) Under-allocation of federal resources

The "urban crisis" has captured the national attention. For every dollar of federal housing and community development monies allocated to rural areas, six dollars are spent in the cities.

(d) Absence of public agencies dealing with the problems

In cities and even in suburbs, public housing authorities, urban renewal agencies, planning commissions and other bureaucracies have permanent, professional staffs which spend major portions of their time on achieving delivery of low-income housing. These groups possess skill and access to federal resources. Nothing comparable exists in rural areas.

(e) Lack of entrepreneurial interest in rural housing development

Considerable low-income housing production in cities and in suburban areas is initiated by private sector forces, such as developers, architects, real estate persons and interested lawyers. This sector of low-income housing development is virtually nonexistent in rural areas for a variety of reasons, including lack of a profitable market.

(f) Inadequate and inexperienced private financing resources

The sizeable and active private construction and mortgage lending institutions are urban and suburban; "country" banks generally lack the knowledge and resources to finance low-income housing development.

(g) The deepest subsidy programs are under-utilized

Despite exceptionally sharp and pervasive poverty, the housing program serving lowest incomes - public housing - is less widely used than in urban and suburban areas. Rural America has half of the country's poverty and only a third of its population, and yet it has received less than twenty percent of the public housing subsidized units in the country.

(h) Lack of organized concern for the rural housing problem

Most sections of the country possess a variety of organizations whose voices are raised on behalf of low-income housing problems, such as minority, civic, charitable and community and neighborhood action groups; rural areas have no groups paying regular concern to the housing needs and issues.

(i) Absence of rural development policy

While the nation lacks a comprehensive policy for the relative development of urban, suburban and rural areas, there is considerable effort in planning for the future in metropolitan areas and cities. No comparable efforts exist for rural areas.

(j) HUD's efforts are almost entirely non-rural

Even though it is the cabinet level department entrusted with our national housing and community development programs, its efforts and resources are aimed almost exclusively at urban and metropolitan sectors and, consequently, the major national effort in these programs does not reach rural areas.

Rural-Urban Contrasts

The fact that rural areas have a substantially higher incidence of poverty and inadequate housing than urban areas is the result of a history of neglect, as well as of the special problems of minimal financial, employment, and other resources. At the same time, it is one of the causes of the perpetuation of these problems. In other words, housing and economic development are integrally connected.

To solve these problems would require a coordinated and rational rural development policy - a policy that recognizes the interrelationships of housing, economic and community development. In urban areas, at least the fragments of such a policy exist, no matter how the plans are eventually implemented.

For years, government officials have recognized that, in order to revive and sustain an urban area, activities of a

wide-ranging, public nature had to be undertaken and levels of spending for these activities had to be increased. Some rational planning and mounting of comprehensive federal programs have been undertaken. Overall development policies, however inadequate some might consider them, do in fact exist in the cities. Various needs--economic development, employment, transportation, health and education--have been integrated.

Urban renewal, for example, requires that plans be approved for the location of transportation, educational facilities, water and sewer systems, and so on, before urban renewal funds can be utilized, because each element affects the others. No comparable program exists in rural areas.

HAC has found that there is little pattern, or equal distribution of resources - nothing which could be described as a rational network -- for producing housing for the rural poor. The necessary agencies of government are largely lacking. For example, almost 50% of all rural counties lack even a public housing authority. With few exceptions the formation of nonprofit housing development corporations has been random, and their geographic coverage erratic and limited. In short, there is no set of ideas or institutions for the development of rural areas which could be considered public policy.

Rural Rehab/Repair Opportunities

The paucity of definitions and data on rural rehabilitation

serves to hinder any rational policy. The census states that there are 3,633,072 "inadequate" units in rural America, but no one knows the real condition of these units. That is, how many are "rehabable". There are not even definitions of what a " standard" unit is or what constitutes a "rehabable" unit. While it is clear that the retention of the salvageable housing stock is a desirable and necessary goal in rural as well as urban America, the absence of a coherent national development policy impedes the assessment of the role of repair/rehabilitation in a rural housing strategy.

Obviously, repair/rehabilitation is only one element in the formation of an overall, rational development plan for rural areas. By itself, a repair program cannot be seriously considered as a housing strategy.

Repair programs do have a place in any overall housing strategy. That place should be as a tool to maintain existing housing stock. Repair should not be used in lieu of rehabilitation, nor as a substitute for new construction. The exception to this general approach would be a situation where it is obvious that the structure will be used only for a limited period of time; for example, elderly homeowners who live in structures which will not have continued occupancy after the present occupants are gone.
As part of a comprehensive development program including all forms of rural housing, repair/rehabilitation can help meet the tremendous need for liveable units in rural areas.

It is obvious that there has been a housing "non-strategy" in effect for rural America, with repair frequently used as the only program available. And even these repair programs are

miniscule in terms of the need.

Within these constraints, however, this study nonetheless, seeks to define, in some workable fashion, the role of repair/rehabilitation and how it should fit into an overall national rural housing and development policy.

II. CONCEPTUAL DIFFERENCES BETWEEN REPAIR AND REHABILITATION

On the assumption that there exists in rural areas an existing housing stock that can be preserved, and in the hope that some rational housing policy for rural areas will be developed, a part of which will deal with the preservation of the existing stock, we should examine the factors which will determine the method of preservation to be used.

Condition of Structures/Financial Feasibility

First consideration should be given to the condition of the structure. It goes without saying that there are structures in rural areas that should not be treated under any circumstances. Many of the shacks and hovels used to portray rural housing conditions are beyond repair. The decision on which structures should be treated should be based among other considerations, on an assessment of the financial feasibility of that treatment. If a new unit can be provided for the same or lower costs than that of long term preservation, the decision should be to provide the new unit.

This not only provides the family with a better living environment; it also would insure that we do not repeat one of our major urban housing mistakes - that of leaving a low-income family with an over improved property. There are, of course, extenuating circumstances. If for instance, there is some overriding community benefit or some special family situation that makes rehabilitation a better solution, then these factors should be weighed. As a general rule, however, the financial feasibility of preservation should prevail.

Available Funds

Once we have established our preservable stock, we should then examine the dollars available to treat it. The problem of limited funds is one that has plagued all of our housing programs in the past, and unless there is some major change in this nation's priorities, we expect it to plague us in the future. We cannot expect, for instance, development of a program that would provide all the funds necessary to treat all of the substandard housing in rural areas. Even if we assumed that only one half of those structures should be saved, and allocated the sum of $2000 per structure, the cost would be approximately 3.5 billion dollars. Since we are fairly sure that we will be working with limited dollars, it is very important that we get the maximum benefit from these funds.

Locational Factors

This brings us to our third factor, the location of the structure. Given a preservable housing stock and limited funds with which to accomplish its preservation, the location of the structure is the factor that determines the degree of treatment.

Given a choice between spending the preservation dollar in areas of stability or potential growth which reflect the recognition of public planning and programming, or spending that dollar on unplanned, random preservation efforts, the rational decision on allocating funds must be directed toward long term preservation.

Treatment Alternatives

The three items discussed above, condition and location of the structure and the amount of funds available, have led us to two kinds

of treatment for existing housing units. One, a short term treatment designed to meet the immediate comfort needs of the family, and two, a long term treatment designed to bring the structure up to a designated acceptable standard.

In addition to the obvious distinctions between a long term and short term strategy, there are two differences that should be noted. First, that the short term strategy is geared to the individual in contrast to the long term strategy which is geared to the structure. And second, that the long term strategy is designed to bring the structure into conformity with some standard to make it a permanent part of the housing stock.

This approach assumes that there are declining rural areas which are located in inaccessable places, lack employment opportunities, and otherwise have failed to attract large scale private and public investment. Decisions for the necessary public investment to revitalize such areas have not yet been made.

There are small towns and rural areas which seem to have been abandoned by public policy and left without growth potential. The housing dollars, invested in these areas, therefore, should be short term investments.

To achieve the national goal of a decent home in a suitable living environment for every American, it is necessary to establish some yardstick with which to measure whether or not a structure is "decent." In urban and suburban areas, that yardstick has been provided in the form of minimum housing standards embodied in building

or related codes. Since the goal is the same, the measuring device should be the same; therefore, we must establish a set of minimum housing standards for rural areas. We are not suggesting that the standards be the same as the standards for urban and suburban areas, nor are we suggesting a set of second rate standards for rural housing.

What is suggested is a set of rural standards designed to deal with situations that are peculiar to rural areas. Equally important to their establishment is the enforcement of these standards. The experience in urban areas demonstrates that unenforced standards lead to rapid deterioration, the end result being either abandonment or the increased cost of correcting the deterioration - a cost which more often than not is borne by the taxpayer.

The realization that it costs less to enforce codes than it does to deal with abandoned structures has led to the use of special programs (e.g.FACE) which aid enforcement agencies and provide financial assistance to those who might not otherwise be able to afford to bring the homes up to standard. These programs are available for urban areas, and once standards are established, should be made available to rural areas.

We will not attempt to deal with all the problems of the establishment and enforcement of rural housing standards in this study. We would suggest that the subject is important enough that each state should appoint a rural housing Standards Commission. Many

states have recently established statewide standards for industrialized housing, the same procedures could be used to establish statewide standards for rural housing.

Definitions

Rehabilitation

A long term treatment program can be defined as a program that has as an end result a structure which meets a designated standard of health and safety and becomes a part of the permanant housing stock. Rehabilitation is defined as: the complete replacement of one or more basic subsystems of a structure which by itself or together with other work results in a structure which is up to a designated standard of health and safety.

Total Rehabilitation

Within this definition of rehabilitation there are varying degrees of treatment. First, there is the total or "gut" rehab, which calls for the complete replacement of major subsystems, any structural changes that are necessary including redesign for better space utilization, and a complete cosmetic treatment. The major advantage of this method is that the family ends up with a property for which future outlays for maintenance should be minimal. This is especially important for low-income families, since it allows them a maintenance free period in which their only housing expense is the monthly mortgage payment plus utilities.

The major disadvantage of this method is that it is initially more expensive.

Partial Rehab

The other method of treatment is partial rehab, which repairs or replaces only those subsystems or structural components which are not up to standard. All functioning systems are not treated. This method is initially less expensive because it does not require total replacement, but may become more expensive over the long run because of hidden maintenance costs.

The extent of the rehabilitation will be determined by the condition of the structure and the amount of funds available to treat the structure. Whichever method of rehabilitation is used, it should meet the following goals:

1) it should be less expensive than new construction

2) it should be quick

3) the final product should become a permanent part of the housing stock

4) it should avoid relocating the family whenever possible

Repair

The short term method of treatment is one which is designed to meet the immediate health and safety needs of the family. In many cases, this may be accomplished by repairing the roof, patching the holes in the walls, providing a more sanitary method of supplying water and disposing of waste, or simply repairing the hole in the porch. The goal is to solve an immediate problem without regard to whether this solution meets a long term need or meets the requirements of some designated standard. Repair is thus: an activity which partially treats a subsystem and may or may not bring the structure to a standard of health and safety.

Before getting into the uses of a repair program, it is necessary to again emphasize the theme that runs throughout this study, that no single program will have any meaningful effect on the improvement of the rural housing situation, unless that program is a part of an overall strategy to deal with the problem. It is especially true that a repair program by itself cannot deal effectively with the housing problems of rural areas. It can, however, serve the following two functions:

First, as we discussed earlier, there are declining rural areas, into which the investment of the housing dollar should be made on a short term basis. A repair program would be the recommended form of such an investment. The program would be people rather than structure oriented and its goal would be the correction of defects which threaten the health and safety of the occupants.

An effective housing program must make some provision for preventive maintenance. This would be the second use for a repair program, that of providing funds for low income families to make the periodic repairs which will keep their homes from becoming dilapidated.

Conclusion

In summation, it is our view that rehabilitation should be a significant part of any rural housing strategy. It should be used in a concentrated manner as the method of preserving the existing housing stock. This concentrated effort should be centered in areas which evidence stability or growth potential and into which have gone systematic planning and programming to provide the essential housing and housing related services. Finally, an essential part of this program is the establishment and enforcement of rural housing standards.

The repair program, on the other hand, should be used to protect the health and safety needs of residents of declining areas and as a means of providing for the ongoing maintenance needs in other areas. Repair, as rehabilitation, should be used as a part of an overall strategy.

III. Description and Assessment of Existing Programs

Even though there is no coherent public policy for rural development, there is an existing government agency whose only concern is rural development. The programs of the Farmers Home Administration, an agency of the United States Department of Agriculture, are restricted to open areas and towns of less than 10,000 population, that are rural in character.

The FmHA has a straight line administrative structure with policy and guidelines determined at the national office in Washington and carried out through state and county offices. While their guidelines are flexible locally, FmHA provides for appeal to the national office in the case of abuse or discrimination.

The FmHA can potentially serve low-income people through its practice of direct loans with interest reduction to as low as 1%. In many rural areas, FmHA programs are the only means for low-income people to have their housing needs met.

While FmHA's primary purpose is to finance various rural development programs, there is no coherent system for utilizing FmHA funds. That is, applicants must be aware of FmHA programs and seek out the FmHA office. This results in an irrational system of distribution of resources, since areas of greatest need may thus be overlooked.

Section III describes and evaluates current FmHA programs which have been utilized - or have the potential to be more fully utilized for repair/rehabilitation projects. Included are FmHA Section 502, Special 502, 504 and 515.

Section III also examines the four other existing programs that provide federal resources for repair/rehabilitation of low-income housing in rural areas. These include the BIA-administered Housing Improvement Program; the Department of Labor's Operation Mainstream (for housing rehabilitation); HUD Section 23 Leasing/ Rehab and HEW Section 1119 (Emergency Home Repair Program).

FARMERS HOME SECTION 502

Legislative Authority: Authorized under Section 502 of Title V of the Housing Act of 1949, as amended. The Housing Act of 1968 added a provision for interest credits.

Intent: To provide decent, safe and sanitary housing for families through loans amortized up to 33 years.

Work Accomplished: To purchase, construct, improve and repair* modest housing, to purchase sites, and in limited cases, to refinance existing mortgages.

Beneficiaries: Families with low to moderate income who cannot obtain other financing at reasonable rates and terms. Loans are made for owner occupied units.

Area of Operations: Available in open areas and towns with populations of less than 10,000, that are rural in character.

Description of the Program

Section 502, under Title V of the Housing Act of 1949 as amended, established Farmers Home Administration's basic homeownership program. It is the most widely used of FmHA's credit services.

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*Because Farmers Home terminology does not distinguish between "repair" and "rehab", the terms are used interchangeably in this study.

Possible Type of Work

Although the 502 program usually has been used for new construction, the loans can be used for repair of existing stock as well. The repair may be performed in conjunction with the purchase of an existing house or an occupied unit. Improvements may include the repair of a water supply and sewage disposal, or any house components; and the replacement of fixtures, including a refrigerator, stove, washer and dryer. 502 repair loans can be used for cosmetics such as painting and new ceilings. Funds can also be used for landscaping, legal expenses, the improvement of farm labor housing, and in certain cases, the refinancing of debts.

Depth and Type of Subsidy

Loans are provided directly from Farmers Home Administration to families who cannot obtain other credit on reasonable terms. FmHA has not set a ceiling on the amount, although the size of the loan is limited to the amount necessary to provide adequate housing, modest in size, design and cost.

Loans are repaid at a rate established annually by law. The rate for Fiscal 1973 is 7 1/4 percent with up to 33 years to repay. No downpayment is required, and a real estate mortgage secure loans in excess of $1500.

In 1968, Congress approved an interest credit provision enabling FmHA to provide interest subsidies that may lower the interest cost to as low as one percent, depending on the income and size of the borrower's family.

The cost of borrowing with interest credit contrasts sharply with the unsubsidized rate. The following shows amortization rates and annual payment per $1000 loan at several rates:

Interest Rate	33 Year Factor	Annual Payment Per $1000 Borrowed
7 1/4%	.08049	80.49
5%	.06249	62.49
3%	.04816	48.16
1%	.03573	35.73

The above represents a difference of $44.76 per $1000 borrowed from high to low rate. 1972 figures indicate that the average loan for a combination purchase and repair was $12,634 (of which $856.63 was attributed to repair). The differences in payments then become significant. For that $12,634 mortgage, the possible costs would be:

Interest Rate	Annual Payment	Monthly Payment
7 1/4%	1016.91	84.74
5%	789.50	65.79
3%	608.45	50.70
1%	451.41	37.62

The lower payment is $565.50 less than the highest, representing a 55.7% difference.

The figures below are hypothetical, but represent the incomes which could be served under similar conditions with the above priced unit ($12,634), when 20% of adjusted family income is used for mortgage, taxes, and insurance. Givens are: 1) Taxes---$250 per year, and 2) Insurance---$67 one year - 3) Family with 3 children.

Interest Rate	Family of Five Minimum AFI	Minimum Gross Income
7 1/4%	$6670	$7968
1%	$3173	$4287

Program Administration

Applications for Section 502 loans are made at county offices of the FmHA. County Supervisors are responsible for approving the loans and for inspecting the actual work.

Distribution of Benefits

Incomes Served

Because of interest credit, the average adjusted family income of all Section 502 borrowers had shown a slight decline from Fiscal Year 1970 to Fiscal Year 1972. This is expected to increase dramatically in FY 1973 due to the moratorium on the interest subsidy.

	1970	1971	1972
Number of Borrowers...............	62,869	103,190	106,878
Average adj. family income (AFI)...	$5,539	$5,433	$5,471

Use of Loans

Statistics for FY 73 indicate the following breakdown of 502 loan usages:

Total Initial 502 Loans (all uses).	106,878	
Purchase of Homes and Repairs . . .	25,349	
Percentage.		23.7%
Repair Only	1,201	
Percentage.		1.1%
Total of two Categories	26,550	
Percentage.		24.8%

For state by state breakdown, see Appendix A.

Social Characteristics

While no breakdown of 502 repair recipients by age, family size, etc. is available on a national basis, a Housing Assistance Council survey does provide an example of this breakdown for Paintsville, Kentucky.

	Rehab	Repair
For Repair and Rehab		
Avg. age of head of household.	42	35.8
Family size.	5	4.6
Gross Income	$6742	$7198
AFI.	$5750	$6060
For purchase with rehab:		
Avg. age of head of household.	35.4	28.25
Family size.	3.4	4
Gross Income	$4980	$5208
AFI.	$4192	$4275

For more details, see Appendices A, B, and C.

Although the sample is too small to draw conclusions we can hypothesize on the income groupings above. First, the incomes are higher when repair or rehabbing is done as the sole use of 502 funds. This indicates that lower income families cannot readily afford to repair homes they already own, even when amortized over 33 years. (see HAC Recommendation for added refinancing authority under Section 502).

The opposite seems true where purchase and repair are combined. This feature enables lower income families to purchase units of lesser value and make necessary improvements. The $4275 AFI in this case (repair) is substantially below the national 502 average AFI of $5471. The slightly higher income of the "repair" group indicates their ability to purchase homes in somewhat better condition and therefore somewhat higher value.

Program Assessment

Purchase with Repair

The practice of purchasing and repairing and/or rehabilitating existing units becomes very important if lower levels of income are to be served. We can assume the following:

1) There is not a sufficient stock of available existing rural units in decent, safe, and sanitary condition.

2) Lower income families can be housed, by purchasing with rehabilitation and/or repair.

This second assumption is verified by the following chart, which shows the difference in minimum gross incomes required to pay the mortgage on a new or existing unit. For FY 72, the average "new" loan was $15,483, and the average "purchase" loan for an existing unit was $12,634. (To arrive at the minimum income requirements below, the basis of the givens previously noted [taxes $250, insurance $67, family with 3 children])

Type of Unit	Interest Rate	Minimum Gross Income
New	7 1/4%	$9552
Existing	7 1/4%	7968
Difference		$1584
New	1%	$5041
Existing	1%	4287
Difference		$ 754

Repair Only

The use of 502 for repair and rehabilitation of presently owned homes represented only 1.1% (1201 units) of all 502 loans. The average loan was $4,394.64. However, its use, as a financing tool, provides a potential means for those with low/moderate income to maintain their homes. Since there are 2,179,600 units of owner occupied rural dwellings in need of renovation, according to 1970 Census figures, this potential is meaningful.

There are reasons why section 502 loans are not widely used for Repair:

1) Farmers Home Administration has generally placed an emphasis on new construction, as evidenced by the 444.1 Instructions and FmHA housing loan pamphlets.

2) Local builders, suppliers, nonprofits and other interested groups have publicized the new construction program, to the exclusion of the other potential aspects of 502.

3) Loans for the purchase of existing dwellings are given support by the existence of the real estate sales industry. This factor is reinforced by the cost differences between new and used homes. Inflation has severely inhibited the ability of families eligible for FmHA 502 loans, in many states, to purchase a new home.

4) Those rural contractors who do specialize in repair and rehabilitation activity do so on a small scale. In addition, there is generally not enough of a profit factor to induce them to become involved in 502 repair.

5) In some areas, the percentage of homes that can be economically repaired is limited.

6) The existing mortgage payments of some families preclude the adding of additional debt for repair.

7) In some cases, the present debt, on a given unit, exceeds the value of the property as developed (improved); or a combination of present debt and repair may exceed the appraised value of the dwelling.

Conclusions and Recommendations

Conslusions

1) Section 502 has not been effectively used for repair purposes.

2) Section 502 is not being so used because:

   a) a constituency of supporters, such as builders, real estate brokers, etc., provide the impetus for new construction and purchase of existing houses, rather than repair

   b) preoccupation of FmHA with new construction

   c) legal limitations on refinancing which might otherwise make large numbers of families eligible to proceed with dwelling repairs.

3) With program modifications, adequate funding, and a better advocacy, the 502 program can be meaningful in the repairing of rural housing stocks.

Recommendations

1) Refinancing Authority

The scope of program activity can be extended by providing a refinancing authority. 502 loans should be used for refinancing when:

   a) Failure to do so might cause hardship including losing the home

   b) The dwelling needs substantial repair or rehabilitation and the family cannot afford to proceed without refinancing of existing indebtedness. The use of interest credit and longer repayment terms in the 502 program provides a means by which such refinancing can be meaningful. (see Exhibit proposing a revision to Title V of the Housing Act of 1949 on this subject, Appendix D)

2) <u>Borrowing loan funds through the Treasury</u>

A limiting aspect of any program is its cost effectiveness. The interest-credit provision of section 502 is expensive. Through it the government is providing a dual subsidy, one to the family borrower, and one to the insured investor. Subsidy to the low-income family is necessary; without subsidy there is no possibility of benefiting low income familes or upgrading and/or maintaining large numbers of housing stocks. An alternative method of financing 'direct' programs, such as 502, is to borrow through the Treasury, instead of selling notes to the market. Since the Treasury's borrowings are diverse, its average long term rate is lower than that of present market notes. Use of the Treasury could, then, reduce the "subsidy" to the insured investor. Below are some statistic references:

a) 1973 FY rate for FmHA Treasury borrowings (only used currently for watershed loans) - 3.649%

b) Insured note sales rate as of 5/23/73

Held 1-2 years - 7.125%
Held 3-4 years - 7.2%
Held 5-9 years - 7.25%
Held 10-25 years - 7.375%

A program for direct treasury borrowing is only politically manageable with a change in federal accounting procedures, revised to show each mortgage as an asset, rather than each loan as an appropriated expenditure.

3) An alternative for interest credit

Additionally, low-income families must have subsidy to enable them to own and maintain decent, safe and sanitary housing units. An inducement to repair their homes is the availability of funds at terms within the family's budgeting ability. Another suggested alternative means of providing this financing for Section 502 is as follows:

a) Borrow through the Treasury as indicated.

b) Increase maximum repayment period to 50 years.

c) Provide a combination of loan and secured commitment (a loan or grant which is secured by a note and mortgage; but only repayable, during the amortization period, in the event the family's circumstances warrant same). Such secured commitments are periodically reviewed for full or partial conversion to interest bearing, repayment status and further provide protection for the government in the event of a sale for profit, etc. The amount of loan would be determined after considering the family's capacity to carry mortgage, taxes, insurance, etc. with the balance necessary being the secured commitment.

d) Such a provision can greatly aid low-income families to secure housing and we recommend that Farmers Home Administration be given this amended authority.

FARMERS HOME SPECIAL SECTION 502

Legislative Authority: Special 502 rural housing loans are authorized under Section 502, Title V of the Housing Act of 1949, as amended.
Intent: To bridge the gap between Section 502 housing, which must be adequate in all respects, and Section 504 shelter-type housing.
Work Accomplished: Improve, enlarge, or complete modest dwellings and related facilities to make them decent, safe and sanitary, although they may lack some features required under the regular 502 program.
Beneficiaries: Families unable to qualify for regular 502 loans; particularly those families with property that has title defects.
Area of Operations: Available in rural areas and towns with populations of less than 10,000.

DESCRIPTION OF THE PROGRAM

Because the Special Section 502 rural housing loan program is being phased out around 8/1/73, a discussion of the program is relevent only in terms of those facets of the program which are not included in either 502 or 504. When the 504 maximum was raised to $3500, closing the gap between 502 and 504, Special 502 lost most of its reason for existence.

The other major difference between Special 502 and regular 502 is the absence of a requirement for clear title in Special 502. With special 502, proof of ownership or leasehold is not required, and legal and title work are inexpensive. This is also the case with 504.

It will not be clear whether any gaps will exist between 502 and 504 as a result of the termination of Special 502, until new FmHA instructions are issued.

DISTRIBUTION OF BENEFITS

Dollars Expended

The following figures show the very limited use of Special 502 over the last several years.

Fiscal 1971	- 27 initial loans totalling	$19,350
Fiscal 1972	- 426 loans totalling	$1,118,430
First Half Fiscal 1973	- 214 loans totalling	$581,470

HAC Survey

There were only 3 Special 502 loans made in the Paintsville, Kentucky office and all were used to complete partially constructed housing. The average income was $4,190.

In the Taos, N. Mexico office, 18 Special 502 loans were made over the last several years. The income levels served ranged from $4,000 - $6,000. The funds were used primarily to complete houses, although some provided house rehabilitation and repair.

CONCLUSIONS AND RECOMMENDATIONS

If there are gaps between 502 and 504 after the instructions are issued, we recommend that the gaps be closed. There must be a provision in 502 for repair of presently owned homes with title problems. Without this provision, a homeowner with title problems would be restricted to the $3500 maximum under 504 (which we also recommend be raised).

However, we are not recommending that clear title requirements be eliminated for the whoe 502 program. In the case of new construction, and purchase, clear title requirements afford protection to the buyer during the 33 year title of the mortgage.

FARMERS HOME SECTION 504

Legislative Authority: Authorized under Section 504, Title V, of the Housing Act of 1949, as amended.

Intent: To remove health and safety hazards from homes of very low income families, through the use of loans and grants.

Work Accomplished: To repair or make additions to existing units, such as repairing roofs, improving structural supports, and providing adequate plumbing facilities.

Beneficiaries: Rural homeowners or lessees who lack sufficient income to qualify for a Section 502 loan.

Area of Operations: Rural areas and towns with populations of less than 10,000.

DESCRIPTION OF THE PROGRAM

Section 504 of the Housing Act of 1949, as amended, authorizes loans and grants to very low-income rural homeowners to rehabilitate and improve their homes. These improvements are intended to remove certain hazards to the health and safety of a home's occupants and the surrounding community. The improvements may, or may not, bring the home up to a level of real adequacy.

Eligibility

Loans are provided by Farmers Home Administration directly to families who lack sufficient income to qualify for the FmHA Section 502 loan program, and whose income prospects show little chance for improving enough to repay a 502 loan. They can be applied to houses located on farm and non-farm land owned by the borrower. Loans can also be made to leaseholders of non-farm lands.

Depth & Type of Subsidy

Subsidies for the 504 program are in the form of loans of up to $3,500 with up to 10 years to repay at one percent interest. A grant provision is in the authorization, but Congress has consistently refused to fund it. Although the loan limit is $2,500, $1,000 more may be borrowed if those funds are used for repairs or improvements involving a water supply, septic tanks, or bathroom or kitchen plumbing facilities.

A real estate mortgage secures a loan for more than $1,500. Full legal services are not required, and evidence of ownership (clear title) is not rigid for a mortgage lending program. A mortgage rarely is required for loans of less than $1,500.

Possible Types of Work

Loans may be used to repair a roof, supply screens, repair or provide structural supports, provide a convenient and sanitary water supply, provide toilet facilities, add a room to an existing house when the addition is necessary to the family's health, make other similar repairs and improvements, or pay related fees for expenses (i.e., for technical services and reasonable connection fees for water, waste disposal, electricity or gas.)

DISTRIBUTION OF BENEFITS

Numbers of Loans and Dollars Expended

The following statistics are the national figures on 504 loans made over the past three years:

	Initial Loans	Dollars	Average
FY - 1971	4364	$5,281,270	$1,210.19
FY - 1972	3219	4,480,540	1,503.74
FY - 1973 (1/2 yr.)	1412	2,128,660	1,507.55

The average number of 504 initial loans per office in FY 1972 was 1.83.

(A state-by-state breakdown of 504 activity appears in Appendix A)

The monthly cost per family for the average loan made in FY 1973 has been $13.26. This compares with the maximum loan of $3,500, where the monthly payment is $30.79.

The Program in Four States

HAC isolated four states to study more closely the program in selected county offices. These states, which have a higher level of activity are identified below:

State	No. 504 Loans FY-71-72	Total No. County Offices	County Offices Selected
Kentucky	1141	58	3
Missouri	369	74	1
New Mexico	339	19	3
Texas	1987	143	5

The data below indicates that some offices carry a high percentage of 504 activity in their state:

Office	No. Init. 504	Dollars	No. Subs. 504	Dollars	No. Init. 502	No. Subs. 502
Manchester, Ky	54	$ 54,000	12	$ 5,000	18	2
Hazard, Ky	140	161,000	12	8,000	13	1
Paintsville, Ky	67	90,000	20	19,000	83	16
Houston, Mo	10	18,000	3	2,000	49	5
Los Lunas, NM	16	30,000	2	1,000	84	4
Espanola, NM	30	44,000	6	8,000	23	5
Taos, NM	48	101,000	10	12,000	5	2
Henderson, Tex	34	36,000	0	-0-	14	0
Houston, Tex	9	11,000	0	-0-	205	1
Hebronville, Tex	11	24,000	2	4,000	103	1
Rio Grande City, Tex	28	72,000	9	12,000	128	0
Pearsall, Tex	19	30,000	0	-0-	78	0

The average per office listed above is 38.8 initial 504 loans, which is considerably above the national average of 1.83/office.

HAC Survey

HAC's more detailed study of 31 Section 504 loans made through the Paintsville, Kentucky, FmHA office revealed the following data:

Average loan: $1,555

Average age of household head: 51.97 years

Average family size: 4.2

Average gross income: $2,724

(High - $4,800; Low - $1,040)

Average adjusted family income: $1,872

(High - $3,560; Low - $600)

The average loan is lower than many FmHA offices, because the local Community Action Program operates a manpower program which provides a labor subsidy to at least 50 percent of the 504 recipients. In addition, lower-income families have benefited in Paintsville for two reasons: the state welfare department increased shelter allowances to families wanting home improvement loans; and private lending institutions have lent liberally to moderate-income families, enabling FmHA to work more closely with somewhat lower-income families.

A specific look at 504 loans in the Taos, New Mexico, FmHA office showed these statistics:

Average loan: $2,104

Income ranges:	Under $2,000:	10%
	$2000 - $4000:	90%

FY 1968-1972:

15	- new roof
100	- electrical
130	- plumbing
60	- heating
10	- new room additions

The Taos office has made 135 Section 504 loans over the last four years. Fifty-eight were issued during FY 1972. Most units lacked running water or baths; some needed floors or new roofs.

The FmHA county supervisor estimates that about 60 percent of the families with 504 loans were within OEO income guidelines. Also, unlike the Paintsville office, the program has not been coordinated with a CAP manpower program.

The complete Taos and Paintsville studies are contained in Appendix C.

Comparisons of data in Appendix C allows us to make the following observations and conclusions:

1) The average incomes for both the repair and rehabilitation programs in the Taos and Paintsville areas do, in fact, serve low income families.

Average AFI	504 Repair Loans	504 Rehab Loans
Paintsville, Ky.	2063	1570
Taos, New Mexico	2015	1787

The Paintsville AFI's show a substantial difference between the families using the 502 and 504 programs:

Average AFI	502 Repair	502 Rehab
	6060	5750
	504 Repair	504 Rehab
	2063	1570

2) In reviewing this data, we are faced with figures that indicate that lower income families are doing the most work to their properties. While the sample is too small to draw meaningful conclusions, we would like to speculate on why this occurs i.e. lower income families do not have the financial resources to properly maintain their property. Consequently, when they do make repairs, the condition of the structure dictates that these repairs be extensive.

This is, however, only an assumption on our part, and we would recommend that a larger, more detailed sampling be taken to test our theory. If, however, our assumptions are correct, it would indicate a need for some better financing mechanism's to serve low income families. This could be accomplished by extending the amortization period on Section 504 loans or by implementing the grant features of this program.

3) Our reports do not give us sufficient detail to make a cost comparison between rehabilitation and repair, they do, however, indicate that rehabilitation work is on the average $658 higher in Paintsville, Kentucky and $1160 higher in Taos, New Mexico. In addition, we know that the difference between the average cost in Kentucky and the average cost in New Mexico ($502) is basically because more than 50% of the 504 work performed in the Paintsville area was done under a multi-county Mainstream Labor Program. We would again recommend that a larger sampling be taken to examine other factors that influence the cost of repair or rehabilitation.

ASSESSMENT OF THE PROGRAM

Hac examined the reasons for varying levels of Section 504 activity. The following appear to be major factors:

(1) Widespread title problems in a given area.

(2) An aggresive community action program* or welfare program which focuses on a home repair program.

(3) Large numbers of low-income homeowners.

(4) Areas with limited or very expensive building sites.

Those counties with greater 504 activity seem to have had one or more of these factors operating in their area.

Although 504 loans were intended for the lowest-income borrowers who could not qualify for 502 loans, the program has not been reaching enough of them. The monthly repayment on the full $3,500 loan is $30.79, which, for a homeowner, would be in addition to other debts and operating expenses. This, plus the inflated cost of construction, and the non-implementation of the grant provision, make the use of 504 impractical for any substantial repair for many low-income people.

With inflation so greatly reducing the purchasing value of the $3,500 limit set on 504 loans, there has been a trend toward fewer applications. Another major factor is that there has been an increase in 502 funding in recent years. The greater emphasis on 502 programs has somewhat overshadowed the 504 programs.

The following figures for FY 1972 also help to illustrate the weakness in 504:

*Includes Non-profit Housing Development Corporations; including those with manpower components.

No. Initial Loans	3219	Amount -	$	4,840,540
No. Subsequent	584	Amount -	$	500,270
Total	3803		$	5,340,810

Average age of borrowers = 60.9
Average adjusted family income[1] = $1942

Gross Income	Percentage of Loans
Under -1000	2.9%
0 - 1999	41.2%
2000 - 2999	31.2%
Over - 3000	27.6%

Program Variations

There are a variety of possibilities for extending the benefits of Section 504. One is combining it with a manpower training program, such as the Department of Labor's Operation Mainstream. (See the section on Operation Mainstream in this study). In Paintsville, Kentucky, for example, the use of a manpower program virtually eliminated the cost of labor for rehabilitation for 50 percent of the loan recipients. The reduced cost ultimately enables the program to serve lower income levels. However, the number of manpower programs in rural areas is limited, and few teach construction and rehabilitation skills.

Another alternative is combining it with a self-help housing

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1 Adjusted family income is the gross family income, less 5% of that gross, less $300 per minor child.

program like the FmHA 502 self-help section. These programs, however, appear unsuitable for any volume approach. Many eligible recipients are older and may not be as motivated or able to do the repairs themselves. In addition, self-help programs usually require an organization of six to twelve families working together on each other's homes. The possibilities seem meager that enough families could be found in a given rural area who would want to undertake a rehabilitation project.

Another method, increasing welfare allowances or payments to cover all or part of the monthly payments on a 504 loan, also is limited. Not all families are welfare recipients, and the amount of each state's monetary participation in the federal welfare program varies widely. Allowance formulas would have to be liberal enough to permit increases for this purpose.

Utilizing other grant programs -- through state or local resources or revenue sharing -- is another alternative. Unfortunately, local grant money often is difficult to obtain, and its use would not be uniform. And, intense competition for revenue sharing funds could put the 504 type programs low on the list of local priorities.

CONCLUSIONS AND RECOMMENDATIONS

These program variations are examples of innovative people extending limited programs. However, a rational housing development plan would obviate the need for such tortuous combinations. In the absence of a rational policy, the 504 program itself can provide an effective mechanism in the rural rehabilitation process by implementing three basic changes.

Increased Maximum Loan

First, increase the maximum loan to $5,000. Inflation has reduced the capacity of the $3,500 limit. This is particularly true in the more northern, higher cost areas, as the following FY 1972 figures indicates:

State	Initial 502 Loan Per Office	504 Loans Per Office
Alabama	81.48	3.05
Kentucky	41.02	9.33
Texas	32.73	8.74
Ohio	135.37	.56
Indiana	96.83	0
New York	68.72	.22
Wisconsin	56.44	.33

Increased Amortization Period

Second, increase the amortization period. Two alternatives might be employed:

(a) Flat increase of up to 20 years.

(b) Graded level of repayment

(1) To $499, up to 10 years.
(2) $500 - $1,999, up to 15 years.
(3) $2,000 and over, up to 20 years.

The chart below illustrates monthly payment comparisons:

Monthly Cost Comparison on 1% Loans Amortized Over 10, 15, and 20 years

Amount of Loan	Monthly Payments 10 Year	15 Year	20 Year
$5000	43.99	30.05	23.09
3500	30.79	21.04	16.16
3250	28.60	19.53	15.01
3000	26.40	18.03	13.86
2750	24.20	16.53	12.70
2500	22.00	15.03	11.55
2250	19.80	13.52	10.39
2000	17.60	12.02	9.24
1750	15.40	10.52	8.08
1500	13.20	9.02	6.93
1250	11.00	7.51	5.77
1000	8.80	6.01	4.62
750	6.60	4.51	3.46
500	4.40	3.01	2.31
250	2.20	1.50	1.16
100	.88	.60	.46

The above statistics speak for themselves. The use of a longer amortization period will directly reduce the "income floor" necessary to afford repayment. The government's security position is reasonably well maintained through the holding of a mortgage, plus the combination of inflating values and housing unit shortages.

Implementation of Grant Provisions

Finally, implement the grant feature. The act did not intend that people not able to afford the maximum repayment be excluded. It provides for a use of combined loan and grant. Monthly payments would be cut, extending the spectrum of eligible participants. Congress has seen fit to prevent use of the grant feature, annually attaching a clause to the salaries and expense section of the FmHA appropriations bill, which reads, *"provided further, that no part of any funds in this paragraph may be used to administer a program which makes rural housing grants pursuant to section 504 of the Housing Act of 1949, as amended."*

Combining an increased amortization period with grants would lower the amount of funds required, because the need for a grant is conditioned upon ability to repay.

FARMERS HOME SECTION 515

Legislative Authority: Authority under Section 515, Title V of the Housing Act of 1949, as amended.

Intent: To provide eligible occupants with economically designed and constructed, decent, safe and sanitary rental facilities.

Work Accomplished: Construction, purchase and repair of multi-family rental units, financed through a loan of up to 50 years.

Beneficiaries: Families with low to moderate incomes and elderly.

Area of Operations: Rural areas and towns with populations of less than 10,000, that are rural in character.

DESCRIPTION OF THE PROGRAM

Section 515 of the Housing Act of 1949, as amended, provides for low interest rate loans to purchase, construct, alter, improve and repair housing used for rental to low and moderate income families.

Eligibility

Loans may be made to public bodies, nonprofit corporations, individuals, profit corporations, and limited profit corporations, on the condition that the rental units be priced at a level affordable to low/moderate income or elderly people.

Eligibility for renting units in a 515 project is determined by income. However, the specific income limit differs by the type of subsidy utilized and from project to project, depending on costs in that state or region. Maximum adjusted family income limits are prescribed separately for each state. (See FHA Administration Letter 108 (444), Appendix E)

Two plans are available to sponsors applying for interest credits. Under Plan I, the effective interest rate is 3 percent, and rents are set accordingly. Occupancy under this plan is limited to low-income non-senior citizens and low and moderate income senior citizens. It is available only to broadly based nonprofit corporations and consumer cooperatives.

Plan II provides for a sliding scale interest from market rate (currently 7 1/4%) to one percent. Occupancy restrictions under Plan II are: low and moderate income non-senior citizens and senior citizens of any income. The interest rate will reflect operating costs and family size and income. Plan II is available to the following: broadly based nonprofit corporations, consumer cooperatives, and to profit organizations and individuals operating on a limited profit basis.

FmHA allows both nonprofit sponsors and eligible cooperatives to utilize either plan, and arrangements can be made to change from one to the other. Rents under both plans are set on a project-by-project basis. Maximum amortization period for both plans is 50 years.

Profit sponsors can borrow only at market rates (currently 7 1/4%) unless they agree to limit profit. However, they must rent to either low/moderate income people or elderly. In almost all cases, market rate projects are not affordable to low-income people.

Due to the housing subsidy moratorium, none of the interest subsidy plans for 515 is operative.

PROGRAM ASSESSMENT

Limited Purchase with Repair and Rehab

Though the legislation authorizes purchase and improvement of existing housing, FmHA has administratively minimized implementation of this feature of the program. The policy is outlined in FHA Instruction 444.5 as follows:

> "V. Loan Purposes: RRH loans may be made to qualified applicants for:
>
> A. as a general policy, the construction of new housing. Loans may be made to purchase, improve, alter or repair housing only if in the opinion of the state director - the housing meets the requirements of Paragraph VIII A and the housing will be equivalent to the new construction in quality, design, and all other respects. In these cases, the application with the information required in Paragraph VI C (prior consent) will be submitted to the National Office for review prior to docket development."

Under such conditions, it is obvious that the major emphasis of the program is directed to new construction.

CONCLUSIONS AND RECOMMENDATIONS

Though we cannot document the existence of rehabable buildings in rural areas that would be suitable for multi-family rental, the assumption is that they exist. If this assumption is accurate, then a program that provides for purchase and repair of existing units for rental to low/moderate income people has an important place in an overall housing strategy, and indeed might assume greater emphasis than in the past.

Such a program would serve to help maintain the existing housing stock and at the same time, to provide rental units affordable to rural low-income renters, via the introduction of subsidy and long term. In addition, it would provide housing in areas where new construction is too costly and available land for construction is limited. To implement this approach, we recommend the following changes:

1) Redirect the emphasis against purchasing existing units but, at the same time require an adequate repair and rehabilitation plan; and allow purchase within safeguarded regulations and without undue national restrictions.

2) Provide some form of operating subsidy so as to reach the rural poor (see Appendix F on sample legislation "Subsidy and Assistance Payments for Low and Moderate-Income Families" - Section 521 (a) of the Housing Act of 1949). The sample legislation referred to and included in the Appendix, will give FmHA the authority for rent supplement or other direct operating subsidy.

   Inflation and inflated taxes have caused operating costs which put even low-interest financed units out of reach of the rural poor.

3) Change FmHA 444.5 VIII K

To allow interest-subsidy and up to 50 years amortization for units leased to housing authorities. With HUD's flexible subsidy formula and lower interest rates, rents can be decreased. Presently such loans must bear the maximum interest rate and be amortized over a period not to exceed 40 years. This reach very low-income families in states where construction, utility costs and taxes run high. (Farmers Home Administration disallows interest credit based on an O.G.C. ruling citing that such subsidy would subsidize HUD instead of the renting families, as required by law. HAC's views, expressed in a technical paper to FmHA dated October 16, 1972, are that interest credits can subsidize the families when the HUD assistance formula is maximized and further subsidy is needed to reach the target families. We recommended its use on a need basis and showed three varying examples: (1) South Carolina, where the 7 1/4% - 40 years works; (2) Maryland, where 5 1/2% - 40 years was needed; and (3) Maine, where 1% - 50 years is absolutely essential. It is interesting to note that in many New England towns there are existing repairable structures available for conversion to low-income rental units.

4) Provide Legal Authority for FmHA to Include Initial Operating Expenses Within the Definition of Development Costs. (See Appendix G [Possible Amendment])

Farmers Home Administration required rental housing sponsors to have initial operating capital available in the amount of 2% of the cost of buildings and related facilities. They do not want sponsors to borrow this money; and cannot legally lend it themselves. The requirement for having the 2% is sound since sponsors will need start up money. Nonprofit corporations, however, often find it difficult to amass the necessary capital. This becomes more true as management and utility requirements force projects to become larger. Since nonprofits can produce units that rent at lower rates, their value in rural areas cannot be questioned. The proposed sample legislation, which would amend Section 515 of Title V of the Housing Act of 1949 gives FmHA the authority to include the 2% "AMPO" funds in the loan.

(See Appendix H for changes in Section 517 necessary to provide for implementation of other proposed amendments.

SECTION 23 LEASING

Legislative Authority: Section 23 of the Housing and Urban Development Act of 1965 (Section 23 Leasing)

Intent: To lease new or existing private units and rent to public housing eligible occupants. Existing units may be leased with or without rehabilitation.

Work Accomplished: Either new construction or rehabilitation work required to raise the housing to standards.

Beneficiaries: Eligible recipients for public housing.

Areas of Operations: Urban and rural.

DECRIPTION OF THE PROGRAM

Original Intent

Section 23 of the Housing and Urban Development Act of 1965, as amended, was intended as a streamlining mechanism for public housing. By leasing units from private landlords, several benefits might be obtained.

Leasing would more directly involve the private market in low-income housing, without removing more of the housing stock from the tax rolls. In leasing existing housing, better use would be made of available resources and in a faster, more efficient manner.

Program Administration

A housing authority can either approach a landlord or be approached by him about negotiating a lease for an existing unit. The lease specifies the guaranteed rent that the landlord is to receive from the housing authority. The lease covers a specific time period - 1-10 years, with provisions for renewal.

The housing authority then rents the units to families eligible for public housing, who pay 25% of adjusted family income. The difference between the market rent that the landlord receives and the subsidized rate that the tenant pays is provided by the housing authority through the Annual Contributions Contract.

The selection of tenants is determined according to the terms of the lease. Either the landlord may choose the tenants, subject to the approval of the housing authority, or vice-versa.

Rehab/Repair Incentives

While 23 Leasing is not a rehab/repair program, it potentially can serve as an incentive for rehab/repair of existing units. If the existing unit is substandard, the lease will specify what work must be done to bring the unit to standard.

Two basic methods are possible for paying the cost of the rehab/repair. The housing authority and the landlord can enter into a conditional commitment whereby the landlord agrees to pay for the detailed rehabilitation work in return for the guaranteed rent.

The other method provides the landlord with a guaranteed rent lower than the maximum HUD will allow for a particular unit in the area of operation. (HUD sets maximums per unit by area.) The difference between the guranteed rent and the maximum can than be applied to rehabilitation costs.

In either case, the Housing Authority is responsible for inspecting the finished rehab work to insure that the unit has, in fact, been raised to standard.

Type of Work Possible

The type of work can be as extensive as gutting the unit and replacing all vital systems or it can be as minimal as eliminating small hazards such as window size and arrangement. The only criterion is that the unit be raised to standard.

ASSESSMENT OF THE PROGRAM

Once again the severe time constraints prevented any site visits or extensive research on 23 leasing. However, some very interesting and potentially promising issues were raised primarily from our discussions with the Vermont State Housing Authority.

Vermont State Housing Authority Program

This state housing authority has 500 leased units that involved rehabilitation of some level in rural areas of the state. In all 500 cases, the landlord paid for the rehabilitation work.

Most locations have had from one to six units, though there have been some large developments, ranging from 16 to 104 units. Families have been the recipients in 76% of the units, while elderly have moved into the remaining 24%.

Implications

The implications of the Vermont State Housing Authority's experience are particularly interesting for other rural housing authorities. The urban experience has been that the guarantee of full occupancy rents at the level determined by HUD has not been enough incentive for landlords to make the necessary capital outlays for rehab. Since most of the units are located in deteriorating city neighborhoods where the demand for housing far outweighs the supply of available housing, landlords can obtain comparable rents without the trouble and expense of rehabilitation.

However, the director of VSHA contends that their experience is replicable in most other rural areas. The demand for high cost standard rental housing is just not that intense. Also, the maintenance costs of units in rural areas is substantially less than in urban neighborhoods. Therefore, the guarantee of full occupancy rent over 5 years is apparently sufficient incentive to induce the landlord to lease to the housing authority.

The value of this program for generating rehabilitation of low-income occupied rural rental units is further emphasized by the fact that virtually no units other then the Authority's have been rehabed in Vermont and rented at costs affordable to low-income people. It is not entirely clear what the extent of the work has been (repair vs. rehab), what the condition of the structures was, nor whether there are a set of conditions (market, populations, geography, politics, etc.) that are peculiar to Vermont.

CONCLUSIONS AND RECOMMENDATIONS

23 Leasing/Rehab Study

If the Vermont experience is, indeed, replicable in other rural areas, then the 23 leasing/rehab combination can potentially provide a very useful mechanism for encouraging the private market to rehabilitate housing for low-income people. There are a number of issues which must be explored to determine the reasons for the apparent success of this particular program - these are obviously beyond the scope of this study.

It is recommended that further investigation and analysis of the Vermont experience occur, to determine to what extent a state-wide leasing program can be used as a catalyst for private sector rehabilitation efforts in rural areas.

If the recommended study reveals that standard housing can be produced through private rehabilitation for leasing to public housing authorities at feasible costs, then a concentrated national effort, with specific rural set-asides, should be undertaken at an early date, with the designated goal of bringing under public lease as many rural rental properties as can be identified and brought into the standard stock for low-income people.

OPERATION MAINSTREAM

Legislative Authority: Authorized under Title Ib and Ie of the Economic Opportunity Act of 1964, as amended.

Intent: To provide work training and employment activities, with necessary supportive services, for chronically unemployed poor adults.

Work Accomplished: Activities contributing to "betterment or beautification of communities or areas served by the project," including the improvement and rehabilitation of facilities (such as housing) used by the poor.

Beneficiaries: Persons over 22 who are chronically unemployed and have incomes under the poverty level. Forty percent of the participants must be 55 or older.

Area of Operations: Programs must be in a non-standard metropolitan statistical area; small areas with significant cutbacks in local defense installations; other relatively rural areas with high unemployment, or Indian reservations.

DESCRIPTION OF THE PROGRAM

Title Ib and Ie of the Economic Opportunity Act of 1964, as amended, authorized the Office of Economic Opportunity to provide work-training and employment activities, with necessary supportive services, for chronically unemployed poor adults who, for a number of reasons, are unable to secure other employment or training assistance. The program in 1967 became known as Operation Mainstream, and its operation was delegated to the Department of Labor, although appropriations continue to be made through the Economic Opportunity Act.

Its use was intended to benefit the unemployed poor, but it has shown potential for greatly lowering the ultimate cost of rehabilitating the homes of low-income families.

Eligibility, Regulations

Before 1968, while not restricted from participation in construction work, trainees in the Mainstream Program could not displace any employed workers nor impair existing contracts or services. In most jurisdictions where construction workers are unionized the Department of Labor administratively prohibited their use in construction.

Beginning in 1968, exceptions were being made to these restrictions, notably in the case of Adams and Brown Economic Opportunities Corporation which sponsored the OEO funded "FURPO" program, and the Eastern Kentucky HDC, which sponsored the Joint Home Repair Program. It was not until 1972, when OEO in conjunction with FmHA and the Department of Labor sponsored the Housing Manpower Subsidy Demonstration Program, that the restrictions on the use of trainees for construction were lifted. The 1972 Perkins amendment to the Economic Opportunity Act specifically authorized the use of Mainstream trainees on rural housing construction.

Type of Subsidy

Since 1968, the program has been used in conjunction with "conventional" financing mechanisms such as the FmHA 502 or 504 programs. Occasionally it has been coupled with an HEW 1119 grant, while on other occasions rehabilitation has been done by private means.

Grants made by the Department of Labor to State and Local governments or to private non-profits, for use in non-SMSA areas, provide the salaries of trainees as well as for the administration of the program.

ASSESSMENT OF THE PROGRAM

While there may have been as many as 15 or 20 projects which at one time have used OM trainees in rehabilitation and repair work, four projects have improved a substantial number of units using the Mainstream Program, and deserve recognition. They are the Mid-West CAP, the Missouri Housing Alliance, Eastern Kentucky HDC, and Blue Ridge Opportunities Commission, Inc., in North Carolina.

Other programs have used Mainstream Trainees for new construction, but their experiences are not relevant to this discussion.

The obvious effect of the labor subsidy is to reduce, to the family, the cost of the rehabilitation, or to maintain the same cost while increasing the scope of the work. Examples of both situations can be found in two of the OEO/Manpower demonstration programs.

The Missouri Housing Alliance is sponsoring a rehabilitation/repair program covering three counties, and the average loan there has ranged from $1,000 to $1,500. This put the family's monthly repayments, under the FmHA 504 program, at between $8.79 and $13.19.

Nearly all of the above amount represents material expenditures. MHA estimates that with the Manpower program, approximately 120 percent of material costs is spent on labor. This means that the actual value of the improvements is in the \$2,200 to \$3,300 range. If the total costs were covered by the family, the monthly payments would range from \$19 to \$29.

In New Mexico, where the Mid-West New Mexico Community Action Program is sponsoring the demonstration program, the labor subsidy permits rehabilitation which in total value exceeds the limits of the 504 loan program.

The average 504 loan made in connection with the Mid-West CAP program is \$2,100, resulting in monthly payments of \$18.00. The value of labor on these jobs is estimated at \$2,500, bringing the value of the total jobs to \$4,600, or \$1,100 beyond the FmHA 504 limit. If this total cost were amortized at 1% over 10 years, the monthly payment by the family would be \$40.47.

(A more detailed report on the Mid-West CAP program is in Appendix I.)

In Kentucky, the Eastern Kentucky Housing Development Corporation has combined the manpower program with other forms of subsidy to achieve a home repair program which provides some form of subsidy for materials, labor and administration. (For a more detailed description of this program, see Appendix K)

Some of the programs have attempted to compare the cost and value of rehabilitation or repair with similar work by private contractors. They have found that some costs could be compared and others could not. Specifically, Missouri Housing Alliance found that its labor costs were running about 20% higher than a private contractor's however, compared with total contract costs, including profit and overhead for the private contractor, their own costs, less program administration, were nearly 20% lower. It is likely that the total costs of administering a rehabilitation/repair program by manpower trainees, when added to the actual improvement costs, would reduce the 20% gap.

Providing a grant to cover private labor costs for a specific rehabilitation project often can be less costly to the government than providing the labor through a training program. Trainees, generally, are not as efficient as professional contractors and would require more time to complete a rehabilitation task. Private labor could provide more improvements, for the money, in a shorter period of time.

A grant program would be effective if enough private laborers and contractors existed in rural areas. Where they do exist, a rehabilitation program would have to be extensive enough so that they could make a reasonable profit over and above the costs of labor and materials.[1]

However, the limited use of the 504 program indicates that either there is insufficient labor in rural areas to do extensive rehabilitation projects, or that the profit in limited rehabilitation (costing from $2,500 to $3,500) is insufficient to attract the private sector.

1/ No attempt is made in this discussion to evaluate the benefits or the social desirability of a training program.

CONCLUSIONS AND RECOMMENDATIONS

Although the use of subsidized labor, such as Operation Mainstream, is one alternative in the rural rehabilitation/repair process ideally it would be unnecessary. If other programs such as FmHA 502 and 504 contained subsidies which were deep and flexible enough to meet the housing needs of the rural poor, such "piggybacking" of various federal programs would be unnecessary.

Because the present financing mechanisms make loans for extensive home rehabilitation prohibitive to low-income families, a grant mechanism should be introduced. HAC suggests the following:

(1) In instances where skilled labor is available, eligible families should be able to use the grant to contract the work on the open market.

(2) Where labor skills are unavailable, a training program should be instituted which develops the necessary skills to carry out the rehabilitation, with the costs of such training programs borne from a source other than the housing subsidy.

HOUSING IMPROVEMENT PROGRAM (HIP)

Legislative Authority: Authorized under the Snyder Act of 1921, the Housing Improvement Act was implemented in the early 1960s and is administered by the Bureau of Indian Affairs.

Intent: To enable Indian families to alleviate unsafe and unhealthy housing conditions.

Work Accomplished: To purchase, construct, repair, or improve housing, provide transitional housing, and to provide grants to lower the costs of other program loans to make them more feasible.

Beneficiaries: Indians who would be eligible for continued occupancy in public housing and who need financial assistance in rehabilitating existing homes or buying new homes.

Area of Operations: Indian reservations.

DESCRIPTION OF THE PROGRAM

The Housing Improvement Program (HIP) was developed in the early 1960s under the authority of the Snyder Act of 1921, to repair, rehabilitate or construct new Indian housing.

The severity of the housing problem on reservations and the slow response of the traditional FmHA and HUD programs caused the creation of HIP.

Eligibility

Eligibility is limited to Indian families or individuals living in substandard housing on a reservation. The family or individual must be eligible for continued occupancy in public housing and have insufficient resources to accomplish improvements themselves.

Possible Type of Work

HIP contains five categories. Categories I&II provides grant funds for repairs, renovations, and enlargements to existing substandard or deteriorating housing while Category II grants must bring structurally sound, but substandard housing up to standards. Category I grants must only make the house more livable.

Depth and Type of Subsidy

The subsidy is in the form of a grant of up to $3500 for Category I and $5000 for Category II for the repair/rehabilitation of a home. Other amounts are available for new construction, but this report concerns itself only with the repair/rehabilitation of existing stock.

The program intends that HIP funds be combined with other program funds and resources to the maximum extent possible. In the cases where HIP funds are used in conjunction with training (i.e. subsidized labor) programs, the HIP funds can be used almost exclusively for materials and technical assistance. There are virtually no restrictions on how the HIP grant funds can be combined with other programs, as long as the HIP funds are used for the intended purpose - to improve substandard housing.

Program Administration

HIP is administered through the area directors of the Bureau of Indian Affairs. The BIA representative on the reservation, the agency superintendent, determines who qualifies for participation in the program.

The repair/rehabilitation program may be implemented in one of three ways:

1. Contracting with Indian or non-Indian contractors. Preference is given to Indian tribal organizations.
2. Grants directly to the occupant with BIA providing assistance in contracting and inspection of the work.
3. The BIA acting as the general contractor--purchasing materials, hiring labor and supervising the work.

In most cases, grants have been provided directly to the Indian recipient.

DISTRIBUTION OF BENEFITS

Number of Units

BIA reports that between 1963 and 1972, 15,522 substandard homes were repaired/rehabilitated on Indian reservations. The area of greatest concentration of the program was in the Southwest. The attached list is the cumulative production of repaired/rehabilitated units by BIA area office and section of the county. (The figures include, in addition to Category I, units that were rehabbed under Category II, meaning they were brought up to minimum standards.)

SOUTHWEST	
Albuquerque	1840
Anadorka	713
Muskogee	863
Navajo	4059
Phoenix	2080
TOTAL..........	9555
NORTH CENTRAL	
Aberdeen	1555
Billings	878
Minneapolis	897
TOTAL..........	3330
PACIFIC	
Juneau	1092
Portland	700
Sacramento	509
TOTAL..........	2291
SOUTHEAST AGENCY	336

Dollars Expended

The total amount of money spent in Fiscal Year 1972 by HIP was $9,164,000. Of this, $3,722,000 was spent on Category I repairs and $2,999,000 was spent on rehabilitation in Category II.

Category I units totaled 3,560 in FY 72 for an average of $1045/unit, while Category II units totaled 1,307 for an average of $2295 per unit. It should be noted that BIA administrative funding for both the central and field offices were skimmed from the top of the total figure. Thus,the average quoted is somewhat higher than the actual benefits to the family.

PROGRAM ASSESSMENT

HIP was, for a period of years, virtually the only program to improve housing on Indian reservations. It is still the main program for repair and rehabilitation. In FY 72, of the 4998 construction starts for rehabilitation and repair on Indian reservations, 4501 were attributed to HIP (including minimal repairs). The 497 other units were presumably financed through HUD, FmHA or private means.

The need to vastly expand the one program that is geared specifically to Indian needs is particularly poignant within the context of housing conditions on Indian reservations.

In an annual report on housing conditions on Indian reservations for FY 72, the BIA reports the following:

> Of the total of 88,450 existing housing structures, only 30,144 are standard. 22,453 need replacement and 24,853 need renovation (BIA terminology).

CONCLUSIONS AND RECOMMENDATIONS

Indians are forced to live in the most deplorable conditions of any people in the nation while the federal resources provided for Indian needs have been grossly inadequate. Indians have been isolated on reservations, forced to change their lifestyles to conform with federal "standards".

Historically, the U.S. government has made and then broken treaties with the Indian peoples. The failure to meet the commitment to house Indians in decent, safe and sanitary dwellings is one more broken "treaty".

The Housing Improvement Program represents a limited attempt to fulfill that commitment. The small successes of HIP in housing rehabilitation emphasize the inadequacies of all federal rural housing programs. The 4501 rehab and repair jobs financed through HIP in FY'72 was even greater than the 3219 FmHA 504 loans in the same period.

There are elements of the Housing Improvement Program that represent a rational system of delivering housing services. The method of subsidy is a maximum $3500 or $5000 grant. A public agency, the BIA is responsible for providing financing, technical assistance and inspection of the quality of work. In addition, the Housing Improvement Program is administered by a process that could have considerable citizen involvement.

Caveats

While the Housing Improvement Program appears to be a relatively successful program, it was not possible within the severe time constraints of this study, to make any site visits to Indian reservations in order to assess the actual implementation of the program. Several issues emerge and should be more fully explored before any definitive conclusions are made about the program.

While there are three methods for implementation, grants to the recipient for use on the private market are most frequently used. Because the BIA agency superintendent determines eligibility, it is possible that abuses could occur. Another concern revolves around the superintendent's role in assisting the recipient in his choice of a contractor. It is not clear what monitoring provisions exist to afford the proper protections to the consumer in his choice.

HIP appears to offer significant opportunities for encouraging economic development on the reservation. Jobs and the development of Indian contractors are obvious additional benefits potentially available from the rehabilitation work. While rehab work through Indian contractors is permissible under the program, it is seldom used. An examination of the apparent lack of affirmative action in this area is clearly needed.

Considering the number of Indians who live in substandard housing, it would seem that there would be a large backlog of applications. This may be the case. But in the absence of hard data, the question needs to be raised as to the awareness-level of the Indian population regarding this program.

Recommendations

1) We recommend that a study be undertaken to answer the questions we have raised about the functioning of the HIP program itself.

2) We also recommend that, regardless of the results of the study, a program specifically oriented to Indians and available only to Indians is the only realistic way to begin to solve the Indian housing crisis. Considering the special status of reservation Indians, no other solution is acceptable.
3) It is further recommended that funding levels for Indian rehab efforts be increased in coordination with an increase in funds for new construction.

The results of the recommended study will suggest the manner in which this funding increase should be administered, by whom, and under what conditions. It is important to retain, however, the essential ingredients of a public agency delivery system, the grant provision, etc., as they are now embodied in HIP.

SECTION 1119 EMERGENCY HOME REPAIRS

Legislative Citation: Section 1119 of the Social Security Act.

Intent: To provide grants for emergency home repairs.

Work Accomplished: Necessary home repairs under $500.

Beneficiaries: Welfare homeowners.

Area of Operations: Urban and rural.

DESCRIPTION OF THE PROGRAM

Section 1119 of the Social Security Act provides funds for emergency home repairs to welfare homeowners in those states that choose to include this program in their state welfare program.

Eligibility

The regulations are strict. The welfare recipient must own and live in the house and the house must be so seriously substandard that continued occupancy would be impossible without the grant.

Depth and Type of Subsidy

The subsidy is in grant form and cannot exceed $500 for any one home. The federal government matches state funds, dollar for dollar. While there is no federal statutory authorization limit, the program usage is effectively limited by the amount each state legislature is willing to authorize.

Program Administration

While each state administers the program differently, generally the family applies for the grant directly to the local welfare department when a problem arises, such as a damaged roof or inoperative heating system. If the family is approved, it finds a local contractor to perform the work. The contractor sends the bills to the welfare department, which pays them for the family.

The same caseworker with whom the family is familiar monitors the work to insure that the quality is acceptable. Generally, there is no inspection by anyone above the level of the caseworker.

DISTRIBUTION OF BENEFITS

Very few states have chosen to adopt this program. Those that have include Alaska, California, Connecticut, Guam, Illinois, Kansas, Nebraska, Massachusetts,and West Virginia. In FY 72, of these states, Connecticut, Guam and Kansas did not participate.

In FY 72, a total of $557,692 in total home repair payments were made in the six states that participated. This total was used to repair 3235 units. In each of the four categories of eligible welfare recipients, at least half of the grants were made in California. The attached chart provides a more complete breakdown of the payments by state and by category.

Assessment of the Program

Limited Participation

It is not clear why some states have chosen to participate and others have not. Or, of those who do participate, why some provide significantly more funds than others. It does seem, however, that

SECTION 1119 HOME REPAIR

FY 72

	Old Age Assistance Total Payments	Cases	Aid To The Blind Total Payments	Cases	Aid To Permanently And Totally Disabled Total Payments	Cases	Aid To Families With Dependent Children Total Payments	Cases
Alaska	$ 1,160	4			$ 300	1	$ 96	2
California	62,400	300	$ 5,200	40	111,200	380	134,220	1200
Illinois	826	7			1,593	6		
Massachusetts	23,615	18			11,289	38	75,967	253
Nebraska							38,860	158
West Virginia	39,868	365	2,741	31	28,594	240	19,763	132
Total	$127,869	754	$ 7,941	71	$152,976	665	$268,906	1745

Total 1119 (all 4 categories)

	Payments	Cases
Alaska	$ 1,556	7
California	313,020	1,920
Illinois	2,419	13
Massachusetts	$110,871	369
Nebraska	38,860	158
West Virginia	90,966	768
Total:	$557,692	3,235

those states with the most knowledgeable and committed welfare departments have utilized the program more. This is especially significant since it is only a permissive and not a mandatory involvement on the part of each state.

This program has tended to work best in rural areas because there are more welfare recipient homeowners there, especially among the elderly. However, the very low grant maximum has greatly restricted the extent of the program's usefulness.

Piggybacking

It has had far more extensive effectiveness when coupled with other subsidy programs such as Operation Mainstream, or with other types of free labor. For example, the West Virginia Welfare Department has pushed the 1119 program. By using innovative sources of labor, the $500 maximum has been extended. The grant has been used primarily for materials and the labor has been provided without cost by voluntary groups such as fraternities,junionr chamber of commerce members, etc. In fact, the Department reports that approximately 90% of the 1119 funds have been used exclusively for materials.

An interesting variation of the 1119 program has been utilized by Eastern Kentucky HDC. Because Kentucky does not participate in the 1119 program, a research and development grant from HEW to the state was substituted for the state's matching share. In effect, in this situation federal money was matched with federal money.

The effect of this variation has been, as in West Virginia, to increase the total value of the work. The total $500 for materials, plus labor costs supplied by a DOL grant, have brought the average total value to around $1500.

CONCLUSIONS AND RECOMMENDATIONS

The 1119 program is not a housing program; it is a welfare program and should be viewed as such. Such a restricted program should not be mistakenly considered any major element in a national housing strategy. At best, it is a stopgap measure, with limited applicability.

However, within the context of welfare programs, 1119 has a rightful place. In fact, it should be expanded along the following lines:

(1) The restrictions on emergency repairs should be loosened. Any substandard home is in an "emergency" situation and should be treated accordingly.

(2) The $500 maximum is too low to improve the home in any serious way. The maximum should be extended to at least $1500 and, when the situation warrants it, there should be authority to go higher.

(3) In those states where the program is operative, the limited use of it can be increased by making welfare workers aware of its existence, to inform eligible recipients.

(4) In those states where the program does not operate, it is apparently because of reluctance of the state to match federal funds. Legislation could be amended to require state participation, or other federal incentives could be developed to encourage wider use of the program.

Additional Approaches To Rehabilitation/Repair

In addition to the programs described above there are a number of other programs and legislative proposals which might have some direct bearing on rehabilitation efforts. The time constraints of this study plus the newness of some of these programs do not allow in depth study at this time. We do feel, however, that they should be mentioned and their use deserves consideration in the formation of a national rural rehabilitation program.

1) The Housing Preservation Act of 1973 - in February of 1973 this Act, designed to preserve and improve the low-income housing stock was presented by Senators Taft and Cranston. The bill provides FHA insured refinancing; 3% or interest free home repair loans for elderly or handicapped homeowners and direct loans to homeowners facing foreclosure. We are in general agreement with the purposes of this bill, however, we are concerned about the implied absence of rural coverage, and believe it should be modified in accordance with our letter to Senator Taft, dated June 12, 1973, a copy of which is Appendix J.

2) The Housing Allowance Program - A program designed to demonstrate the feasibility of providing families of low-income with housing allowances to assist them in obtaining rental housing of their choice in existing standard housing. The implications of this program

are that the allowances will serve as an incentive to property owners to repair deteriorating structures. If this is true and if the whole experiment proves feasible, this program could be a major factor in the preservation of the existing housing stock. It is too early to judge either the experiment or its effect on rehabilitation; we would, however, urge that special attention be given to whether or not it is a sufficient incentive to stimulate rehabilitation.

3) <u>Community Development Revenue Sharing</u> - All community development revenue sharing proposals presently lack housing provisions. Until such time as there is either a companion housing bill or housing provisions added to the proposals, no funds would be available for rural housing rehabilitation under Community Development Revenue Sharing.

The Administration's bill, the Better Communities Act, does not include any housing provisions. In addition, it incorporates previously authorized 312 rehab loan funds, without allowing housing uses.

Senator Sparkman has reintroduced the community development bill that passed the Senate last year 80 - 1. While it also does not provide any housing uses, as presently written, it does recognize the connection between housing and community development by requiring a needs plan that includes plans for low income housing and slum prevention and clearance. It is not likely that either of this year's bills will be passed without substantive housing provisions.

The Rural Development Act, which passed Congress last year and has not yet been implemented, also does not include any provisions for housing rehabilitation or repair. In short, none of the community development revenue sharing proposals or legislation have provided any funds for rural housing rehabilitation.

4) Tax Incentives - The idea of using some form of tax incentive to encourage the preservation of property has been tried in many forms. Tax abatement, tax credits, accelerated depreciation are some of the forms that have been used to stimulate participation in rehab. The two most widespread approaches to using the tax mechanisms are: 1) the use of the Internal Revenue Code and the tax consequences of sheltering income and accelerating depreciation to catalyze the private sector to participate in low/moderate income housing efforts; and 2) the abatement of real property taxes by governmental jurisdictions concerned with attracting low/moderate income housing activity, including rehab. In addition, there has been scattered use of tax credits to special categories of property owners, such as the elderly.

There are a number of issues to be considered in looking at the tax device as a stimulus to rehab, not the least of which are the safeguards necessary to protect the tenant of a property whose landlord has received property tax benefits in some form. How such savings can be passed on in the form of lower rents needs to be explored further.

There is a wide range of opinion on the effectiveness of tax incentives. Some would maintain that they have in fact, acted as a disincentive because rehabilitation increases the value of units and therefore, by implication, the tax load. A recent study by Arthur D. Little, Inc., "A Study of Property Taxes and Urban Blight" disputes this popular belief with the following finding, "Incremental assessment of building specific improvements is not a major source of blight or a major disincentive to upgrading." This is true apparently, because in practice, improvements are seldom reassessed unless they involve very extensive investment.

How applicable this conclusion is for rural areas remains unknown.

IV. ANALYSIS OF ALTERNATIVE METHODS FOR HOME REPAIR

INTRODUCTION

Since 1949, national policy has proclaimed every American's right to a decent home in a suitable environment. To implement that goal, a number of federal and state programs have been developed. While there has never been the level of commitment required to meet the national housing need, a variety of techniques have been undertaken to reduce the costs of housing to low-income people, both rural and urban. Among these are interest subsidy programs, grant and loan programs, tax techniques, and to a lesser extent, manpower labor programs.

To address the specific problem of housing repair and/or rehabilitation, as an element in a comprehensive housing program, the analysis which follows will look at those methods of reducing costs which are available or can be applied to the repair process.

SUBSIDY MECHANISMS

Most housing subsidies to rural low-income families are direct, in the form of interest credit loans, grants or a combination of the two.

Some indirect subsidies also help the low-income consumer. For example, labor costs can be reduced by a manpower subsidy, where available. Even less direct, are real estate tax credits for property-owners.

Cost Reductions to the Consumer

1. Interest Credit Loans

The cost of a loan to the consumer is determined by the interest rate and the term of the mortgage. The difference to the low-income homeowner in the cost of monthly payments for a given principal amount can often be the difference between the ability to pay for needed property improvements or remaining in a substandard dwelling.

Lower interest rates can substantially reduce repayment costs for a low-income family. For example, the annual payment for principal plus interest on each $1,000 borrowed at the current FmHA market rate of 7 1/4% over the current FmHA term of 33 years is $80.49. The annual payment at a 1 percent interest rate on the same loan is only $35.73.

The length of term of amortization can also significantly affect repayment costs. A repair loan of $2500, at 1 percent over 10 years, would result in monthly payments of $22. A simple increase to a 20-year mortgage would cut the monthly payments nearly in half--to $11.55.

The cost to the consumer is also affected by the type of loan. The FHA-HUD loan which subsidizes a private institution will cause higher costs to the consumer because he must pay for points and costly closing fees. The FmHA loan, which is lent directly to the consumer, will be less because there are no points or closing fees.

2. Grants

Many families can not afford even a one percent loan. For example, a low-income homeowner in New England with the mortgage completely paid, might have the following kinds of housing expenses - $15/month for taxes; $40/month for utilities; $5/month for insurance. Since a $2500 loan at 1% would cost $22/month, the family's total housing expenses would be $82/month. To afford this kind of monthly housing expense, FmHA general guidelines indicate that the family's AFI should be about $3936/year. Yet there are many low-income homeowners with incomes well below this figure.

This kind of problem is addressed in urban areas under the Section 115 program. Grants up to $3500 to bring properties to code are available in Urban Renewal Areas (Title I) and Code Enforcement Areas (Section 117). However, the only operative repair grant program in rural areas is the very small 1119 HEW program (See Section III). The legislation for the more significant FmHA 504 program envisioned a grant feature, but funds have never been appropriated (See Section III).

3. Combination Loans/Grants

A combination of grants and loans, based on a recipient's income, provides a deeper subsidy for the family and at the same time cuts the cost to the government. At one end of the income spectrum, 100 percent grants could be used, and at the other end, federal loans could serve a family's needs. A combination of grant and loan could fill family needs falling between the two extremes, based on ability to repay the loan.

For example, the family of five with an adjusted income of under $3936/year could not afford the $2500 loan at one percent over 10 years. If that same family's adjusted income were $2500/year and it was responsible for costs up to 20 percent AFI, it could only afford to make payments of about $10/month. This would pay for a $1000 loan (at 1%). However, if they needed a $2500 loan, the $1500 difference would be a grant from the government.

There is precedent for this method in the FmHA Farm Labor housing program and the HUD Section 115 and 312 rehab program which utilize combinations of loans and grants. The Farm Labor program provides a maximum 90 percent grant and 10 percent loan at one percent interest. The loan/grant ratio can vary, but generally, the maximum grant has been utilized. As we have shown, section 115 (grant) and 312 (loan) may be used in Urban Renewal and Code Enforcement Areas. The maximum grant is $3500 and the remainder may be loaned, if the rehabilitation effort were impossible without use of a grant.

To emphasize again that the combination loan/grant concept is not new to rural repair, the FmHA 504 program has provisions for this kind of subsidy, which have not been implemented.

Flexibility-Cost Variations

A combined loan and grant program also would be flexible enough to deal with cost factors which vary from area to area.

Cost factors vary in all elements of the repair process. Labor costs vary with region, salary and cost of living standards and the cost of materials also vary with region. Weather conditions in certain areas may increase the cost of repair or require more costly or extensive repairs. Administrative costs also are dependent on cost standards in a particular area. In addition, higher tax and utility rates may leave a homeowner with less available money for repair work.

Costs for repair work, according to a HAC spot survey, for the installation of a bathroom, septic tank and plumbing in North Carolina would run about $1,500. In Wisconsin, the same work would cost an additional $500. The cost of an additional room in North Carolina, at $1,500 would also cost $500 more in Wisconsin.

Currently, a program such as FmHA 504 or 502 will reach very low-income people in one area, like the Carolinas, but will serve only moderate income people in other areas, like New England. The combination loan/grant program would provide the flexible tools needed to compensate for these costs differences.

Other Techniques to Reduce Consumer Costs

While loans, grants and combination loan/grants are the most directly applicable subsidies to the repair process, there are other subsidy mechanisms which may provide additional resources for the low-income consumer or otherwise affect the housing market.

1. Tax Credit

This subsidy is probably the most universal in this country and is granted by the Internal Revenue Code to all homeowners paying off a mortgage. Interest payments on mortgages are allowable deductions from income taxes. The largest subsidy, of course, applies to those with the largest mortgages, and usually, the highest incomes. But it does serve to expand even the lower-income homeowner's available financial resources (as long as gross income is high enough to be paying income taxes).

2. Labor Subsidies

Subsidizing the cost of labor eliminates that element of the final repair cost to the consumer. And since subsidized labor programs are usually operated by nonprofit organizations the only cost to the consumer is for materials. Manpower programs, of the type analyzed in Section III, are not available on any widespread basis, and therefore, cannot be considered as a major element in a national repair strategy.

The Cost to the Government

1. Private Market Borrowering

While this report will not contain an indepth study of federal government financing methods, it can be noted that federal borrowing, and the resources of such borrowing, produce different costs to the government. Raising funds for federal housing loans through sale of tax-exempt Treasury notes, for example, with their lower interest rates will cost the government less than having commerical market supply these funds at market rates.

The ultimate goal is to enable the low-income consumer to purchase housing services at a cost that he can afford. If the government can therefore reduce its costs, it should be possible for the consumer to benefit accordingly or for more consumers to be benefitted.

FHA-HUD

Although the cost to the government depends on the type of loan, most federal programs (i.e. HUD-FHA) subsidize interest on loans from private institutions. The lender receives a market rate on the loan (within a HUD-set maximum) and the government pays to the lender the difference between that rate and the lower rate set for the low-income borrower.

To take a simple FHA example, a $15,000 loan at one percent over 30 years would cost a family $579.60 per year. Interest at the current FHA maximum rate of 7 1/4 percent would require interest payments of $1,229.40. So the government, then, would pay to the commercial lender the difference of $649.80 per year.

FmHA

The FmHA loan program lends directly to the recipient without recourse to private lending institutions. However, FmHA receives its loan funds by selling notes in the investment market at rates which usually are not substantially below those of market rate for mortgages. Though the rates do vary, generally a FmHA loan costs the government within a percent or two of the FHA-HUD maximum mortgage interest rate through use of conventional mortgage lenders.

2. Treasury Borrowing

A government agency can also borrow directly from the U.S. Treasury to acquire its loan funds. Treasury rates for government agencies are much lower than market rates - generally in the area of 3 1/2%. Use of this method allows the government housing agency to save the difference between the Treasury rate and market rate.

Presently, no loan program in rural America borrows directly from the Treasury. Furthermore, a large-scale program of loans borrowed from the Treasury may be politically impractical-banking institutions and similar organizations have a vested interest in the status quo. Further, the budget system which shows loans only as liabilities makes direct loans politically unacceptable because it implies a higher spending level. However, if the loans were to be shown as liabilities and the mortgages as assets, this problem would be offset. This concept was implemented in the "Export Expansion Finance Act of 1971".

(For more details, see Testimony of Elmer Staats, director of General Accounting Office, before the Joint Economic Committee of Congress.)

ADMINISTRATIVE SYSTEMS

Subsidies, regardless of their source, must be delivered to eligible recipients through a tangle of government and other institutions. At present, the network of organizations that may be involved in the delivery of any single method of reducing housing costs are complicated, at times overlapping, and frequently inaccessible or unknown to the low-income consumer.

The major governmental agencies that may be involved at some point in the process are Farmers Home Administration, Department of Housing and Urban Development, and state housing finance agencies, housing authorities, state departments of community affairs and other public institutions. The private sector, including banks and building contractors, may also play a role. In many areas, nonprofit sponsors and HDCs play a significant role in the delivery process.

Federal Government

1. Farmers Home

At the federal level, the Farmers Home Administration has the responsibility for delivering financing for low and moderate income housing to residents in rural areas and small towns under 10,000 population. It monitors and inspects the work done with its funds. FmHA funds may be used among other purposes, for single family housing (new and rehab/repair); multi-family (new and rehab/repair), water and sewer, etc.

FmHA activities are carred out through a national system of state and county offices. While there is relative autonomy to make decisions on the basis of local conditions, national guidelines provide recourse against abuse or discrimination on the part of a county supervisor.

The major flaws in the FmHA structure lie in the "passivity" of its distribution process. Because there is no parallel administrative system nationally, responsible for actual housing development, FmHA must necessarily distribute its subsidy funds to what is available--a patchwork of nonprofit sponsors, private builders and individuals.

Because FmHA does not actively recruit those who would qualify for its programs, people must discover the programs on their own. A subsidy program is relatively useless if the eligible recipients are not informed of the program's potential benefits.

2. HUD

HUD does provide some subsidy funds to rural America, notably public housing, Indian housing and some water-sewer grant funds. But generally, HUD does not operate in towns under 25,000 population.

State Agencies

1. State Housing Finance Agencies

SHFA's have come into being in states to assist in building and managing housing that serve public purposes. While the powers of SHFA's vary widely from state to state, they generally act as mortgage banking institutions by providing below market interest rate, long term mortgage loans.

Many housing finance agencies have sponsored housing development under FHA programs, including Sections 221 (d)3, 236 and 235. Some SHFA's are empowered to make seed money loans and to provide technical assistance to nonprofit developers.

Some finance agencies have even broader powers. For example, Missouri and Maryland have all of the cited powers plus the capacity to insure private loans. New York has, in addition, a rent supplement program, the power to acquire land through eminent domain and site development powers.

Almost all state housing finance agencies tend to be urban and suburban oriented, thus reinforcing the historical HUD bias. Recently, some SHFA's have begun to reorient a portion of their activity toward rural areas. For example, the West Virginia Housing Development Fund has become involved in several programs in rural West Virginia, after previous activity largely in the FHA 236 projects in urban areas.

2. Housing Authorities

Housing authorities are established by state enabling legislation to utilize federal funds to construct low-income public housing. Generally, local housing authorities are restricted to certain localities. State and regional housing authorities have a wider scope of jurisdiction.

There are currently 9 state housing authorities. Generally, SHA's operate in rural areas not covered by LHA's either by statute or practice. There are, however, exceptions such as South Carolina SHA which has the dominant role in housing in that state.

Housing authorities float bonds backed by the federal government to provide the funds for constructing low cost housing. The bonds are repaid by funds provided by the annual contributions contract with HUD.

State housing authorities can, in addition, float state bonds, reinvest them and use the resultant gain to supplement their administrative funding or they can receive administrative funding from the state legislature.

Housing authorities can manage their units directly or they can contract for management services. Most state housing authorities contract, though Massachusetts is a notable exception because of a state subsidy program.

3. Department of Community Affairs

The powers and functions of the 42 state departments of community affairs (different names in different states) vary widely. Most of the DCA's are cabinet or subcabinet levels of the governor's office.

Among the DCA powers are legal and legislative advice; coordination of state programs; training and technical assistance; research and information; economic development planning.

Few are directly involved in housing. However, the trend towards greater involvement in housing may be surfacing. Several, including Pennsylvania, Wisconsin and Colorado, have developed code standards and are empowered to enforce them.

Notable in housing activity is the Wisconsin DCA which has received public housing allocations and the power to decide on their distribution throughout the state. Several DCA's, including Pennsylvania, administer a seed loan fund and technical assistance programs for nonprofit developers. Most DCAs, however, have not actively undertaken housing roles.

4. Single Purpose State Agencies

Most states have agencies such as the Welfare Department and the Highway Department whose primary function lies elsewhere than in housing. However, agencies such as these may be drawn into housing activity.

For example, in providing a variety of services for their clients, Welfare Departments may also provide shelter allowances or emergency home repair grants (see Section III). Highway Departments sometimes also become involved in relocation of people who have been dislocated by the construction of highways.

Private Institutions

1. Banks - (Commercial and Savings and Loan)

Lending institutions have a history of involvement in financing construction activity in both rural and urban areas. They have lent both long and short term capital. Such institutions have developed skills related to land, site improvement, and construction activity.

In rural areas, the experience of the Housing Assistance Council has shown that many banks have been traditionally conservative. They have frequently been unwilling to make loans to builders, particularly nonprofits, who serve a low-income population. Even in dealing with federally insured programs, rural banks have displayed considerable reluctance.

This is an area which deserves considerable study to determine what public policy actions might be taken to inform rural lending institutions more fully about federal opportunities in housing as well as to assess the community-related responsibilities of such institutions.

Frequently rural banks do not have the resources to finance large scale operations. For example, a HAC loan to Adams-Brown in Ohio collateralized a line of credit for $100,000. But that $100,000 had to be divided between 2 banks, because neither one had the resources to make a $100,000 loan. Obviously, this would not be a problem in most urban areas.

2. Private Builders

The primary role of private builders, of course, is to perform the actual construction work, whether new or rehab/repair. The availability and quality of such businesses in rural America is uneven and inconsistent, at best. In many rural areas, there simply are not private builders, willing to become involved in low-profit building for low-income people, thus limiting the use of a particular program.

Builders have, in some cases, played other roles. They have engaged in packaging loans. They have also stimulated activity in a particular subsidy program. For example, they have publicized the FmHA 502 new construction program in many areas to the exclusion of other aspects of the 502 program, such as repair on presently occupied homes.

3. Nonprofits and HDCs

Nonprofits and HDCs have filled the gap in several stages of the housing development process. Their roles have varied from information provider and referral agent to sponsor/developer. In many cases, they have informed families of the available resources and provided assistance in the paperwork of the application process. In general, they have monitored in behalf of the applicant's best interests.

In many areas where there are no private builders willing to build at costs affordable to low-income people, nonprofits are the only groups willing or able to produce lower cost housing. The great majority of HAC loan funds have gone to nonprofit developers to provide them with the front-end money necessary to acquire land, develop sites and build houses. The savings to the nonprofit from the HAC loan have been passed on to the buyer in the form of a lower total mortgage cost.

4. Cooperatives

Cooperatives are another form of corporation, and are allowed to undertake housing development. However, this mechanism has not been as extensively used in this country as in some others.

Several have formed around specific federal housing programs such as Hope Village, N.Y. and the Federation of Southern Coops in Georgia. These co-ops act only as sponsors, where housing is constructed and occupied along traditional guidelines.

Other types of cooperatives have become active in housing development in a very limited scope. In Oklahoma, for example, the state legislature amended the rural electric cooperative enabling law to allow rural electric cooperatives to develop housing in areas served by the cooperative. In this case, the cooperative is authorized to act as a public housing authority, with development powers within the service areas of the co-ops.

ALTERNATIVE MODELS FOR HOME REPAIR

A combination of any of the alternative subsidy mechanisms and administrative systems analyzed in the previous section may be involved in the home repair process. Obviously, some combinations are more effective in serving low-income people than others.

As has been indicated throughout this paper, repair is one element in a comprehensive housing delivery system. Criteria are set up for evaluating the various possibilities, based on how many elements of a comprehensive system each model possesses.

These criterias include: 1) is the administrative mechanism public and permanently funded with adequate staff? 2) does it cover a wide geographic jurisdiction easily accessible to the public? 3) does it include the full range of housing development powers, including planning? 4) is the subsidy level provided deep and flexible enough to serve any low-income person? 5) can it raise revenues? 6) does it inform the public of its services?

While these criteria are applicable to a comprehensive housing agency, there are some additional elements pertaining specifically to repair as an activity. An effective repair program should:

(1) be less expensive than new construction;

(2) be quickly accomplished;

(3) make the final product a permanent part of the housing stock;

(4) avoid relocating the family, whenever possible.

According to these criteria, some models can be dismissed quickly. An unsubsidized bank loan for the individual to purchase the repair or other work on the private market simply can not be afforded by a low income person. Even if a nonprofit is the contractor, thus lowering the cost, it generally is not affordable to low income people. In short, any model that does not include at least some kind of subsidy is beyond the purchasing range of a low income person.

By injecting various other subsidies into the scheme, the model improves. For example, a nonprofit with subsidized labor can perform the repair work relatively inexpensively. If the family receives a FmHA 504 or 502 interest credit loan, then the work becomes affordable. If a welfare grant is also included, the work becomes available to an even larger segment of the population.

However, this type of model does not represent a very efficient system according to the criteria we have set up. While FmHA is public and permanently staffed, covering a wide area, the other agencies involved lack these characteristics. Nonprofits are not permanent and they are not located in every area. They also do not have a full range of housing powers and neither does FmHA. In addition, there is little coordination and planning on any significant scale.

Several administrative systems already exist that possess one or several of the desired characteristics. What follows is a chart that shows each of these administrative systems in relation to each other, concerning these characteristics. The first half of the chart shows existing elements and the second half indicates what is lacking. That is, it shows what is needed to make a complete system. (The ranking for "existing" and the ranking for "needed" always totals 3, representing full power.)

The second chart demonstrates graphically how limited are the subsidy capabilities granted to these administrative systems in comparison to what each could do. It indicates with an "x", which types of subsidy are available through each administrative mechanism.

The complete model for each administrative system would represent a situation where that administrative agency is a clearinghouse for all federal funds flowing into its geographic area, as well as providing for the development and planning function.

Though the chart assumes the provision of an array of housing services, the factors would also relate to repair alone. The administrative problems mentioned, for example, are specifically related to repair.

The series of models leads logically to a more fully described comprehensive housing delivery system. That is, each administrative system proceeding down the page moves closer to the full range of desired powers and characteristics. The hierarchy may vary from region to region. It would be logical, therefore, that that housing agency which has established itself as viable and knowledgeable in its particular area, should be designated as the model for repair or any other housing service for that area.

EXISTING POSITIVE ELEMENTS

Administrative Mechanisms	Public, Permanently Funded	Wide Geographic Jurisdiction	Substate Office Network-Easy Assessability	Development Powers	Utilizing Subsidy From Other Sources	Raising Revenue	Housing Experience	Code Enforcement
Single Purpose Public Agency	3	1	3	0	1 e/	0	1	0
Cooperatives	2 b/	3	3	2 d/	1 d/	2 b/	1	0
DCA	3	3	0	1 d/	1 d/	0	1	1
SHFA	3	3	0	1 d/	2 e/	2	3	0
State, Regional HDCs	0	3	0	3	1 e/	0	3	0
State, Regional Housing Authorities (a)	3	3	1 c/	3	3	3	3	0

KEY

0= None
1= Limited
2= Substantial
3= Full

FOOTNOTES

a--All housing authority powers relate to public housing only
b--Permanently funded, through membership and service charges
c--State, regional housing authorities have a variety of management plans
d--Dependent on state enabling legislation
e--Coordinated usage of subsidies

NEEDED POWERS AND/OR RESPONSIBILITIES

Public Permanently Funded	Wide Geographic Jurisdiction	Establishment of Substate Network	Development Powers	Utilizing Subsidies From Other Sources	Raising Revenue	Code Enforcement
0	2	0	3	2	3	3
1	0	0	1	2	1	3
0	0	3	2	2	3	2
0	0	3	2	1	1	3
3	0	3	0	3	3	3
0 a/	0	2	0	0	0	3

FOOTNOTE

a--Need to broaden authority powers beyond public housing

Administrative Mechanisms	Type of Subsidy[a/] Existing: Loans	Grants	Loan/ Grants	Lease	Labor Subsidy	Potential: Loans	Grants	Loans/ Grants	Lease[b/]	Labor Subsidy[c/]	Cost To Government: Admin. Funds	Loan Funds
Single-Purpose	x	x	x[f/]		x	x	x	x	x	x	x	x
Cooperative						x	x	x	x	x	x	x
Dept. of Comm. Affairs						x	x	x	x[d/]	x		x
SHFA	x					x	x	x	x	x[e/]		x
HDC					x	x	x	x	x	x	x	x
Reg., State housing authorities	x			x		x	x	x	x	x	x	x

a/ Under all subsidy systems, inspection problems exist, espically inspection of repair work.
b/ Problems exist in locating willing landlords; collecting rents.
c/ For administrative problems on labor subsidies, see Section III (Operation Mainstream).
d/ The Wisconsin DCA has distribution powers on public housing leasing set-asides.
e/ W. Va. HDF has coordinating powers over use of Sec. 504 funds and training programs in multi-county area.
f/ HIP grants can be combined with loan programs authorized on Indian reservations.

Comprehensive Public Agency System

A comprehensive delivery system would be administered by a network of public agencies, which would be responsible for delivering the whole spectrum of housing services - new construction, rehabilitation, housing allowances, leasing, etc. Repair would be only one of many services available through this public agency system.

General Characteristics

An ideal mechanism is characterized by several basic factors, all of which can be institutionalized. 1) The public agency should be easily accessible to the public and its resources should be made widely known. 2) The agency should be funded for adequate staff and empowered to implement the various phases of the housing development process - financing, land acquisition and development, construction, and inspection. 3) The staff should also be aware of other relevant resources. 4) The staff should be committed to serving the needs of its rural consumers, and to assign to rural areas the priorities they deserve.

Description of the System

A system of regional housing service agencies should be established to cover all the rural areas of every state. A parallel system of metropolitan organizations would be responsible for the metropolitan areas.

The public agency system should be regional in nature in order to take advantage of economies of scale. Covering a wide area would make it more economically feasible to fund a permanent, skilled staff. It would help to control management costs, and a regional approach would provide a better opportunity for coordination of plans and activities. In addition, it would insure that all areas of the state have access to housing resources.

Regional Agency Powers

Each regional agency would have the following kinds of powers with which to carry out the full range of housing services envisioned:

(1) to construct and manage low/moderate income housing and to acquire and develop land, directly or by contract. This assumes the power to utilize funds from any source, including federal funds. The housing must be in accordance with an overall state plan that takes into account all the inter-related elements of housing - water and sewer construction, location of employment, transportation, educational, commercial facilities, etc. This plan must also have a special emphasis on the construction and/or rehabilitation of low/moderate income housing.

(2) to override local zoning, building code or other regulatory impediments to the construction of low/moderate income housing; included would be the power of eminent domain.

(3) to set rural housing standards, with enforcement powers.

(4) to review all applications for housing assistance or mortgage insurance submitted for federal funding, to certify compliance with the state plan.

(5) to approve management entities for subsidized units, where the agency itself is not the management entity; and to contract for payment of federal operating subsidies to the local management entity.

(6) to develop a comprehensive housing services plan and to allocate funds to implement the plan. This plan should be both the regional version of the state plan and a more detailed accounting of housing related services for that region - namely, health, education, employment, etc., in the area of the housing units.

(7) to administer any housing allowance program that might be legislated into existence

(8) to make loans for private market transactions

State Role

The role of the state government in this system would be threefold: First, the state would have to enact enabling legislation to establish the regional housing agencies, enpowering them with the delineated functions;

Secondly, the state would be responsible for providing administrative funding on a permanent basis to these regional agencies. The funding could come from a variety of sources - i.e. state/local revenue sharing funds, from state bonds, etc. Ideally, the agencies would be funded as a standard part of the legislature's appropriation process, just as the welfare or highway departments are funded. In any case, they should not be dependent on the vagaries of federal administrative funding.

Third, the state would either establish or designate a state agency to coordinate or oversee the regional agencies in that state. It would be responsible to make sure that each regional agency was, indeed, implementing the state plan in its region.

Federal Role

The federal government, through its own mechanism, would provide subsidy funds to each state according to a needs[6] formula for the whole state. All criteria for evaluating the various functions of both the state and regional agencies would be determined according to federal guidelines. For example, the state plan would have to be approved according to federally established criteria; any management entity approved by the regional agency would be subject to federal guidelines; the comprehensive housing services plan would have to be approved by federal standards; etc.

The purpose of these federal controls would be to make the state and regional agencies accountable to federal standards, especially in relation to non-discrimination provisions. And, more importantly, enforcement of these provisions where federal funds are being utilized, would be actively carried out by the federal agency in conjunction with the state oversight agency.

The threat of cutting off huge amounts of federal subsidy funds should be enough to insure that federal goals are met in each region of every state.

The federal interest should be administratively handled through a national mechanism with state and local or regional offices. In rural areas, the FmHA structure would be adaptable to this kind of approach. In any case, there should be a separate administrative system for rural and urban areas, to insure that rural interests are not subsumed to those of the more organized urban interests.

Subsidy Mechanism

The subsidy mechanism utilized would be dependent on the particular situation - i.e. multi-family or single family, new or repair, Generally, however, a direct subsidy to the consumer based on the loan/grant combination should be the most efficient mechanism in reaching the most consumers. It would include the advantages discussed earlier in the subsidy mechanism section.

Each public agency would also have the authority to lease units from private landlords, to rent, inturn, at subsidized rates. This leasing arrangement, as discussed earlier, should serve as an incentive to landlords to repair their units.

Conclusion

The major advantages of this system are manifold. Primarily, it represents a workable, rational system for distributing limited federal resources in the most equitable manner. The regional approach insures that every area will be served and that federal funds will not be distributed haphazardly, as they are now. It also allows for maximum flexibility based on varying local needs, with concomitant federal control to minimize abuse and discrimination.

To construct a repair model in any context, other than within a comprehensive housing system would be to perpetuate the irrationality of the present housing delivery "system".

V. CONCLUSIONS AND RECOMMENDATIONS

1. Repair as a Housing Strategy

As we have shown consistently throughout this study the distinctions between repair and rehabilitation is tenuous at best: Semantics are only one part of the problem. More important is the conceptual framework in which we view the entire housing development process, and the place within that process that is occupied by repair and/or rehabilitation efforts.

It is our belief that any meaningful housing program has as its objective achieving a long term benefit. In dealing with an existing housing program the benefit should be the long term preservation of the housing stock. To achieve this goal it will be necessary to make a substantial investment in these properties. The amount,of course, will vary depending on location, condition of the house, etc. but generally we are talking about an expenditure in the $3 to $5000 range as opposed to the $500-$1000 range. We believe this is required to bring rural units up to a designated standard. Thus,by definition, we are not talking about repair. This is not to say that repair should not play a part in an overall housing strategy. It is to say that repair is not a strategy in itself and should be a lesser element in whatever comprehensive strategy is devised. Again this is based on the view that the major dollar and program emphasis should be on those kinds of activities which provide permanent solutions.

There is, of course, a need in some areas to provide a temporary solution - interim measures to be used as a holding action until more resources are brought to bear to solve the problem. In declining areas there is a need, and an obligation to meet the basic health and safety requirements of the residents of substandard housing.

It would be neither appropriate nor useful within the context of this study to suggest the proportion of dollar resources that should be allocated to repair vs. rehabilitation vs. new construction. Suffice it to say, the gap between need and commitment of resources has always been enormous, and continues in an even more exacerbated manner at this point in time.

The ultimate role which repair will play in the context of a national comprehensive housing strategy will in part be determined by the extent to which we commit the necessary resources to solve all aspects of our housing problem. The unique rural considerations of that problem, and their impact on possible solutions will follow.

2. Conclusions

In spite of the limited access to program data, and the severe time constraints imposed by the Task Force's deadlines, HAC is able to derive a number of conclusions regarding rural repair/rehabilitation needs, gaps and future prospects.

It is important once again to establish the framework into which the conclusions fit and out of which the recommendations which follow have emerged.

Rural Context

Rural America possesses a number of distinct and unique characteristics which are not descriptive, either in degree or in kind, of urban America. Primary among these is the historical and persistent underserving of rural areas in terms of both private and public resources. Institutions which are common place in urban areas are either totally lacking or so widely dispersed as to be inaccessable to the vast majority of rural citizens.

Distinctiveness of Rural Market

Financial and credit resources, as well as contractors and builders from the private sector are notable for their absence. Public intervention in providing funds and services for housing, economic development, transportation, health, jobs, etc. has been at a level so out of proportion to the need as to be virtually unnoticeable. And overriding these specific elements of a rational social and community life is the total absence of a comprehensive and coherent development policy for rural areas which takes into account past, present and future needs, and which plans for and implements programs and services to meet these needs.

While we recognize and define what is lacking, we can at the same time suggest policy decisions, legislative actions and administrative strategies which must be undertaken to remedy the historic inequities.

Need for Rational Policy

Thus, it is assumed that a comprehensive and rational development policy for rural America is a desirable and necessary goal. Intrinsic to such a policy is a housing strategy which contains, as one major element, a significant repair/rehabilitation effort.

Repair/Rehabilitation Component

The repair/rehabilitation effort which is undertaken, beyond that presently exists in a limited fashion, must take into account the peculiar characteristics which differentiate rural from urban America. Among these are necessarily the recognition of the presently limited capacity and will of the private sector to undertake rehab/repair programs of any scale, and the concomitant recognition that the public, governmental role must thus be proportionately increased.

Public institutions to deliver repair/rehabilitation services must be strengthened where they exist, and new ones created, on the state and sub-state levels where they are absent. Such delivery mechanisms would provide repair/rehabilitation as part of a comprehensive housing delivery system. This system would include, among other elements, new construction, site development, water and sewer treatment and all levels of subsidy including demand-type subsidies such as housing allowances and section 23 leases.

Policy Caveats

HAC's recommendations address both the general and the specific issues of the housing needs of the rural poor. While housing cannot and should not be separated from the larger issue of community development, the means by which the nation's housing goals are met cannot be dependent on programs whose major purpose is the solution of some other problem. Poor housing is just one of the many problems from which rural America suffers. While all of these problems require solution, no one program should be expected to ameliorate all of the afflictions in rural America.

In the recent past we have seen housing programs attempting to solve the unemployment and job training problems of their community. The result has been that none of the programs fully achieve their goals. Conversely, there are examples of innovative people in rural areas tortuously piggybacking programs, matching a state program with a federal program, and in general going through a bizarre set of contortions in the effort to deliver decent housing to the poor.

Housing Goals as Primary

HAC feels that the housing needs of the American people should not be treated as a secondary result of employment or health programs.

Housing solutions must be formulated with decent housing as the primary goal. This is not to criticize those who have successfully "hustled" the system. On the contrary, it implies that their successes are all the more startling!

This is also not to say that there is no relationship between housing and employment, health and education. Again to the contrary, a housing program that envisions better housing as a first priority will open up the possibilities of the benefits of increased employment opportunities, better health and better education.

Further, HAC's recommendations must be viewed in light of the paucity of concrete definitions and data on rural home repair/rehab. The state of the art is deplorable. No generally accepted definition of substandard housing, of rehabilitation, of repair, etc. exists. And accordingly, little data on these elements exist.

With this framework in mind, HAC submits the following recommendations with respect to new institutions, changes and reforms. The recommendations fall into two broad categories: 1) General Policies, and 2) Specific and program-related.

3. Recommendations

General Policies

1) A detailed study of the need and capacity for rural repair/ rehabilitation should be undertaken. The study should include, among other elements, a standardized definition of repair/rehab and a categorization of housing conditions; it should specify the number of units in rural America that fall into each category; it should define what a "rehabable" unit is and provide estimates of the number of such units. This type of data is sadly lacking at present and the absence of such data hampers the development of reasonable programs.

2) A rational public delivery system for all housing services should be instituted. Repair/rehabilitation would be delivered as one housing service among a variety of others, i.e. new construction, housing allowances, leased housing, water and sewer, site development, etc.

   In the interim, existing delivery mechanisms should be used and strengthened, depending on what is already available or what could be most easily established in a particular area. Statewide and regional mechanisms such as the State Housing Finance Agency's, State Housing Agency's, Departments of Community Affair's or regional housing authorities top the list. Also in this category are statewide or regional HDC's and nonprofits that have proven their capability to deliver housing services. The Extension Service of the USDA should be examined as a potential outreach resource for disseminating housing information and technical services and education.

3) The subsidy mechanism for providing housing rehabilitation/repair to all segments of the low-income community should be deepened. A combination grant and loan mechanism, with a sliding scale whereby a family pays according to its means (i.e. 25% AFI) would serve the purpose, taking into consideration, the need to reflect escalating costs due to inflation with a percentage system.

   For rental units, incentives to the landlord to repair/rehabilitate his unit must be coupled with a mechanism to contain the rent at a level affordable to low-income people. The incentive to the landlord could be guaranteed rent from the government and the subsidy to the family could be in the form of lower permissible rents. (i.e. 23 leasing/repair as a model.)

4) Funding levels for rural repair/rehabilitation programs should be expanded, though not necessarily at the expense of new construction programs. In other words, the overall funding for rural housing programs should be expanded to meet the level established by the National Housing goals of the 1968 Housing Act. The recommended needs study above should help determine a rational allocation of funds for new construction vs. rehabilitation/repair.

5) Statewide commissions, with full consumer representation, should be created and encouraged to develop a system of rural property standards. The goal is to preserve the existing housing stock, through the promulgation of flexible and reasonable standards to provide decent, safe and sanitary housing in owner-occupied and rental units. Many states have recently established industrialized building codes, etc. An overall set of rural standards, which contain enforcement provisions and maximum consumer protection is long overdue.

6) A national concentrated program of rural rehabilitation/repair should be mounted, with streamlined processing procedures, with sufficient funding to focus the resources which are necessary in specific communities and areas which have indicated a desire and capacity to undertake such a program. The urban experience with Project Rehab has produced a number of lessons which can be applied to rural areas and from which much can be learned. State multi-county or regional delivery mechanisms, where they exist, can be utilized to administer such a rural Project Rehab. In the absence of such broad based public agencies, a major repair/rehab effort of this kind might serve as an incentive to their development.

RECOMMENDATIONS

Specific Programs

Farmers Home Administration Section 502 (United States Department of Agriculture

1) Provide refinancing authority within 502 capabilities.
2) Finance 502 by borrowing from Treasury instead of selling notes to the market.
3) Improve subsidy provisions for low-income borrower by:
   a) Increasing amortization period to 50 years;
   b) Providing combination loan and secured commitment.

Farmers Home Administration Special Section 502 (United States Department of Agriculture

1) Close any gaps between 502 and 504 that might exist after instructions on elimination of special 502 are issued.
2) Provide for rehabilitation of presently-owned homes with title problems, without eliminating clear title requirements for entire 502 program.

Farmers Home Administration Section 504 (United States Department of Agriculture

1) Increase the maximum loan to $5,000.

2) Lengthen the amortization period by either a flat increase to 20 years, or through a graded repayment level, as follows:
   a) $0 to $499: up to 10 years
   b) $500 to $1,999: up to 15 years
   c) $2,000 or more: up to 20 years
3) Implement the grant feature, and use a flexible system of combined loans and grants.

Farmers Home Administration Section 515 (United States Department of Agriculture

1) Expand the use of 515 for purchase of existing units, but require an adequate repair and rehab plan.
2) Provide operating subsidy to owner.
3) Allow interest subsidy and amortization up to 50 years for units leased to housing authorities.
4) Provide legal authority for FmHA to include initial operating expense within the definition of development costs, which are included in the mortgage.

Housing Improvement Program (Bureau of Indian Affairs)

1) Conduct a study to evaluate administration and side benefits of HIP. Should examine monitoring mechanism, affirmative action, level of Indian awareness and usage of HIP, etc.
2) Continue to provide a specifically Indian program.
3) Increase funding for Indian rehab effort in coordination with increase in new construction funding. Administrative mechanisms to utilize increased funding to be determined from the study.

Section 23 Leasing (Department of Housing and Urban Development)

1) Conduct further investigation of Vermont State Housing Authority experience to evaluate catalytic effect of 23 Leasing on private rehab.
2) Assuming a positive outcome (determined from the study), implement a concentrated effort nationally to encourage rural rental rehab in conjunction with 23 Leasing, through the use of specific rural set asides.

Operation Mainstream (Office of Economic Opportunity)

Utilize labor subsidy programs such as Operation mainstream for rehabilitation, only under one or a combination of the following conditions:

1) Skilled, professional labor is inadequate or nonexistent;
2) The cost of private labor is so high that it excludes low-income people from the market; or
3) The social benefits to the trainees are so compelling that they outweigh other factors.

Section 1119 of the Social Security Act (Department of Health, Education and Welfare)

1) The restrictions on emergency repairs should be loosened.

2) The maximum should be extended to at least $1500 and, when the situation warrants it, there should be authority to go higher.

3) The limited use of the program can be increased by making welfare workers aware of its existence, to inform eligible recipients.

4) Legislation could be amended to require state participation, or other federal incentives could be developed to encourage wider use of the program.

APPENDIX A

FISCAL YEAR 1972 FARMERS HOME ADMINISTRATION

	Section 504						Section 502	
	Initial		Subsequent		Purchase & Repair		Repair Only	
State	Number	Amount	Number	Amount	Number	Repair Cost	Number	Amount
Region I								
Connecticut	0	0	0	0	161	48,020	1	8,000
Maine	54	108,300	9	11,640	1,154	1,209	80	386,560
Massachusetts	2	7,000	0	0	127	91,650	2	15,700
New Hampshire	0	0	0	0	336	276,910	3	11,930
Rhode Island	1	3,500			38	41,350	2	4,180
Vermont	12	20,000	2	1,700	380	250,510	17	48,630
Region II								
New Jersey	8	3,250	0	0	269	205,150	9	25,400
New York	7	11,200	0	0	1,246	597,780	12	52,050
Puerto Rico	102	95,900	6	4,170	24	56,600	40	226,100
Virgin Islands	3	10,500	0	0	0	0	0	0
Region III								
Delaware	0	0	0	0	42	10,200	0	0
Maryland	16	27,250	1	300	133	85,250	12	74,390
Pennsylvania	44	71,880	20	16,380	722	391,780	5	15,440
Virginia	104	218,970	7	6,830	793	490,310	86	405,940
West Virginia	77	99,620	14	12,810	779	402,110	29	116,530

Region IV								
Alabama	177	319,680	34	36,750	166	35,790	38	166,850
Florida	36	61,160	5	4,520	114	9,040	12	59,020
Georgia	105	159,530	17	14,430	289	64,490	20	117,070
Kentucky	541	706,510	110	84,980	591	175,180	42	142,330
Mississippi	133	224,250	23	20,430	290	93,670	59	317,770
North Carolina	122	237,970	21	16,300	460	110,220	60	220,530
South Carolina	30	69,390	8	11,890	503	213,830	28	156,360
Tennessee	94	144,660	29	29,760	858	245,610	44	196,760
Region V								
Illinois	14	15,340	0	0	1,273	504,160	17	36,370
Indiana	0	0	1	100	1,668	414,080	13	39,340
Michigan	27	31,770	6	4,450	1,796	672,600	9	44,270
Minnesota	15	28,850	2	1,570	534	248,010	13	77,150
Ohio	15	20,180	6	2,780	1,540	527,350	18	55,430
Wisconsin	15	20,610	9	6,940	1,053	586,280	25	139,150
Region VI								
Arkansas	151	251,750	41	30,240	710	181,720	64	269,050
Louisiana	100	86,500	10	7,410	202	34,750	31	97,930
New Mexico	166	293,360	40	39,960	213	46,020	24	75,820
Oklahoma	38	56,870	7	3,910	957	426,680	37	188,010
Texas	737	1,022,150	95	80,740	597	185,770	178	661,880

e ion VII								
owa	47	66,150	6	2,240	1,263	775,230	22	111,030
a sas	10	14,430	3	5,400	573	264,540	10	31,690
i souri	120	174,530	36	24,320	444	87,130	33	128,650
e raska	6	8,150	0	0	322	214,360	11	64,580
e ion VIII								
olorado	28	59,680	8	8,200	213	128,330	9	27,150
tana	5	3,250	0	0	117	55,330	6	24,490
o th Dakota	14	20,970	3	4,460	296	175,780	20	124,510
outh Dakota	7	6,820	1	280	311	243,640	17	94,010
t h	12	16,270	2	1,870	228	90,100	10	66,150
yoming	1	1,500	0	0	293	133,290	6	14,550
e ion IX								
r zona	4	11,500	2	2,500	238	50,720	5	33,900
alifornia	7	8,750	0	0	145	7,150	4	22,300
a aii	2	4,500	0	0	15	5,540	0	0
evada	0	0	0	0	12	14,160	1	740
e ion X								
l ska	0	0	0	0	27	32,270	2	8,790
daho	5	7,510	0	0	338	170,850	6	33,020
r gon	2	3,200	0	0	155	35,220	4	20,850
ashington	3	5,430	0	0	291	114,440	6	19,610
. . Total	3,219	$4,840,540	584	$500,270	25,349	11,529,960	1201	$5,277,96
verage:		$1,503.74		$856.63		454.85		$4,394.64

Average Loan Including Purchase - $12,634

Total Units Involving Repair -- 30,353

APPENDIX B

REGIONAL TOTALS - REPAIR AND REHABILITATION
(FY 1972)

	504 Program				502 Program			
					Purchase with Repair		Repair Only	
	No. Initial Loans	Dollars	No. Subs. Loans	Dollars	No.	Repair Cost	No.	Dollars
Region I	69	$ 138,800	11	$ 13,340	2,196	$ 709,730	105	$ 475,000
Averages		2,012		1,213		323		4,523
Region II	120	120,850	6	4,170	1,539	859,530	61	303,550
Averages		1,007		695		538		4,976
Region III	241	417,720	42	36,320	2,469	1,379,650	132	612,300
Averages		1,733		865		559		4,639
Region IV	1,238	1,923,150	247	219,060	3,271	947,830	303	1,376,690
Averages		1,553		887		290		4,544
Region V	86	116,760	24	15,840	7,864	2,952,480	95	391,710
Averages		1,358		660		375		4,123
Region VI	1,192	1,710,630	193	161,660	2,679	874,940	334	1,292,690
Averages		1,435		838		328		3,870
Region VII	183	263,260	45	31,960	2,602	1,341,260	76	335,950
Averages		1,439		710		515		4,420
Region VIII	67	108,490	14	14,810	1,458	826,470	68	350,860
Averages		1,619		1,058		567		5,160
Region IX	13	24,750	2	2,500	410	77,570	10	56,940
Averages		1,904		1,250		189		5,694
Region X	10	16,140	0	0	811	352,780	18	82,270
Averages		1,614		0		435		4,570

APPENDIX C

SURVEY OF REPAIR AND REHABILITATION
LOAN ACTIVITY IN PAINTSVILLE, KY.
AND TAOS, N.M. FMHA OFFICES.

HAC recently visited two Farmers Home Administration county offices to more closely examine the scope of rehabilitation loan activity in those areas. The studies were limited to 502, 502 Special, and 504 programs and were conducted around Taos, New Mexico, and Paintsville, Kentucky. The results by no means are representative of all local FmHA offices, but they do offer some relevant information about similarities and contrasts in the separate, local administration of Farmers Home programs.

Both offices serve a large number of low-income people. Paintsville and Taos were chosen for study because they originally showed a greater amount of rural repair and rehabilitation activity, particularly with 504, than other FmHA offices. FmHA repair and rehabilitation programs are normally "passive." To be active and effective, they need "institutionalized" pushing, usually in the form of an aggressive local nonprofit agency or Community Action Program.

Both county supervisors in the Paintsville and Taos offices were cooperative and maintained good relationships with local lending institutions and local social programs. In Paintsville, for example, the local CAP pushed the FmHA 504 program with its manpower component, which provided more than 50 percent of the labor free to recipients.

PAINTSVILLE, KENTUCKY

Paintsville is located in Eastern Kentucky, an area of hilly, rugged terrain. The area served by this FmHA office is predominantly low-income and offers a scarcity of suitable building sites.

A "windshield survey" by HAC of the area showed what appeared to be a visible need for housing services. Although no overall detailed data is included in this report, many units observed were undersized, lacked inside plumbing, and were deteriorating structurally.

The FmHA office has maintained excellent relationships with lending institutions, community action programs and the welfare department. Cross-referral and cooperation are routine here.

502 Activity

The Paintsville office made a total of 68 Section 502 loans from July 1, 1972 to December 31, 1972. Forty-three loans were made over the next six-month period to June 14, 1973. Records show that 66 2/3 percent of all 502 loans made during FY 1972 included interest credit.

The 36.7 percent decrease in loans in the second half of FY 1972 was due largely to the housing moratorium, which included interest credit on 502. The county supervisor reports that new applications are at the lowest level in recent years.

Fifteen separate 502 loans were examined in more detail. Five were classified as "purchase and repair"; of the other 10, five could be classified as repair and five as rehabilitation. An analysis of the 502 loans follows on the next page.

Special 502 Activity

Only three Special 502 loans were made through the Paintsville office in the past several years, and all were used to complete partially constructed units. Gross income averaged $4,190; the average

PAINTSVILLE, KY.

ANALYSIS

502 REPAIR ONLY — 10 samples

# APPARENTLY REPAIR	5
# APPARENTLY REHAB	5

# INSTALLING WATER SYSTEMS (WELLS ETC.)	1
KITCHEN IMPROVEMENTS	2
NEW SIDING	4
NEW HEATING SYSTEM	1
ADDITIONAL ROOM	1
ENCLOSING A PATIO OR PORCH TO MAKE A NEW ROOM	1
INSIDE PARTIONING, PANELING, CARPETING, ETC. DOORS, WINDOWS, ETC.	4
ROOF REPAIR	4
STRUCTURAL	2
WIRING & ELEC.	2
BATHROOM OR BATHROOM IMPROVEMENTS	2
MISCELLANEOUS (SIDEWALKS ETC.)	5
ADDING A PORCH	1
DECORATIVE OR LANDSCAPING	1

AVERAGES

LOAN SIZE	-	$2,785.00
AGE OF HEAD OF HOUSEHOLD	-	42
NO. IN FAMILY	-	5
GROSS INCOME	-	6,742
A.F.I.	-	5,750
LEGAL FEES	-	$39.00
INTEREST CREDIT	-	7/10

SECURITY

9- Junior Liens, 1- 1st lien

LOCATION

FARM	-	0
OPEN COUNTRY	-	6
PLACE /w POP TO 2,499	-	1
PLACE /w POP 2500-5500	-	2
PLACE /w POP 5501-10,000	-	1

NO COSIGNED NOTES

PAINTSVILLE, KY.

ANALYSIS - 502 PURCH. & REPAIR - (5 SAMPLES)

NO. APPARENTLY REPAIR	-	4
NO. APPARENTLY REHAB	-	1

USE

WATER SYSTEM	2
LANDSCAPING	2
APPLIANCES	2
CONCRETE REPAIRS	1
INTERIOR REPAIRS, PANELLING, CARPETING, ETC.	1
SEWAGE LINES	2
PAINTING	2
MISC.	2

AVERAGES

PURCHASE PRICE	-	14,500
LOAN	-	14,400
AMOUNT OF REPAIR	-	714
AGE		35.4
NO. FAMILY		3.4
GROSS INCOME		4,980
A.F.I.		4,192
FEES		186
INTEREST CREDIT	-	4/5

SECURITY

ALL 1st LIENS

LOCATION

OPEN COUNTRY	-	3
PLACE /W POP. 2500-5500	-	2

PAINTSVILLE, KENTUCKY

Analysis of 502 Loans made involving Repair

	Purchase and Repair Loans	Repair Only
Number involved	4	5
Averages		
Amount of Loan	$13,700	1400
Purchase Price	13,625	N.A.
Amount of Repair	593*	1400
Age - Head of household	28.25	35.8
Number in Family	4	4.6
Gross Income	5,208	7198
Adjusted family income	4,275	6060
Location:		
Open Country	3	1
Place with population to 2499	0	1
Place " " to 2500-5500	1	2
Place " " to 5501-10,000	0	1

*One applicant has a sizeable down payment.

loan was $2,167. An analysis of Special 502 activity is on the next page.

504 Activity

The Paintsville office made a total of 87 Section 504 loans in FY 1972. HAC received clearance to pull case files on 31 loans for a more in-depth look.

The 504 activity has reached many lower-income families in the area because the Community Action Program has a manpower component which provides free labor to over 50 percent of 504 recipients. The referrals are two-way, because the county supervisor refers families to the CAP.

The FmHA supervisor also works closely with the welfare department, which has increased allowances to enable families to carry home improvement loans. Further, the relationship with the savings and loans and banks is good. These private institutions lend liberally to moderate income families, enabling the FmHA to concentrate on somewhat lower levels. Activity has recently slackened, and FmHA attributes it, at least partially, to grapevine publicity about the moratorium on interest subsidies, although the 504 program was not affected.

The 31 loans studied revealed these figures:

Average loan: $1,555

Average age of household head: 51.97 years

Average family size: 4.2

Average gross income: $2,724

(High, $4,800; Low, $1,040)

PAINTSVILLE, Ky.

ANALYSIS SPECIAL 502 - (3 samples)

NO. REAIR -
(All Completions)
NO. REHAB

USE

COMPLETE A PARTIALLY CONSTRUCTED DWELLING - 3

	AVERAGES	LOW	HIGH
LOAN	2167	1000	3500
AGE	44.7		
FAMILY SIZE	4		
GROSS INCOME	4190		
AFI	3490		
NO FEES			

SECURITY

PROMISSORY NOTE ONLY - 1

FIRST MTGE. - 1

JR. MTGE. - 1

LOCATION

FARM - 1

OPEN COUNTRY - 2

Average adjusted family income: $1,872

(High, $3,560; Low, $600)

Only one note co-signed

CAP manpower involvement: 22 of 31

A summary follows.

PAINTSVILLE, KY - ANALYSIS - 504 LOANS

(SAMPLE 31)

APPARENTLY REPAIR	-	19
APPARENTLY REHAB	-	12

USE

WELLS OR CONNECTION TO WATER SYSTEMS -	7
SEPTIC SYSTEMS	6
BATH	15
KITCHEN	4
OTHER PLUMBING	4
HEATING	1
ADDING A ROOM TO HOUSE	8
INSIDE REMODELING INCL. WINDOWS, SHEETROCK DOORS, PANELING, CEILINGS, ETC.	20
FOUNDATION AND STRUCTURAL REPAIR	7
ROOF	8
ADDING OR REPAIR PORCH	7
DECORATION & PAINTING	4
LANDSCAPING	
ELEC.	5

AVERAGES

	High	Low	
LOAN			1,555
AGE			51.97
FAMILY			4.2
GROSS INCOME	(4800	1040)	2,724
A.F.I.	(3560	600)	1,872

SECURITY

NOTE ONLY	-	19
1st MTGE	-	12
JR MTGE	-	0

LOCATION

FARM	-	2
OPEN COUNTRY	-	27
PL TO 2499	-	2
PL 2500-5500	-	0
PL 5501-10,000	-	0

# NOTES - COSIGNED	-	1
# LOANS IN CAP MANPOWER INVOLVEMENT	-	22

TAOS, NEW MEXICO

The Taos FmHA office serves an area in northern New Mexico with approximately 60 percent of its families under OEO minimum income guidelines. About 80 percent of the people are minorities, most of them Indian or with Spanish surname. The office has used more 504 loans than other FmHA offices because the state has a large number of families with old Spanish Land Grants, making title clearance difficult or impossible. Section 504 is more permissible in title matters than the 502 program.

502 Activity

The Taos office processed 83 Section 502 loans between Fiscal 1969 and 1972. Only nine were processed in Fiscal 1972, due in part to title problems, and to the housing moratorium on interest credit. All the loans, however, were used for new construction.

Special 502 Activity

The Taos office has made 18 Special 502 loans over the past several years. The average gross family incomes ranged from $4,000 to $6,000. Although some loans were used for rehabilitation, most were to complete unfinished homes, such as the addition of water and sewage systems.

504 Activity

The Taos office made about 135 Section 504 loans over the last four fiscal years. Fifty-eight were made during FY 1972. The program, with its permissive title requirements, has proven more suitable than the 502 programs. Most of the units rehabilitated under the 504 program were without running water or baths. Some needed floors and new roofs. Unlike Paintsville, 504 has not been coordinated with a CAP.

The county supervisor reports that the program is being developed through word-of-mouth, news articles, good FmHA contact with the community, and with the help of the Department of Public Welfare.

Most of the work is contract, with local contractors working at about 50 percent capacity.

On the next page is a tabulation of 504 activity in Taos.

TAOS, NM - ANALYSIS - 504/LOANS

(sample: 108)

Apparently Repair	-	61
Apparently Rehab	-	47

USE

Wells and Pumps	-	25
Septic Systems	-	51
Bathrooms	-	57
Other Plumbing	-	25
Kitchens	-	11
Heating Systems	-	14
Electrical	-	10
Structural	-	40
Other	-	1

AVERAGES

Loan		$1,935.83
Age		57.41
Family		3.05
	(HIGH - LOW)	
Gross Income	($6,400 - $970)	$2,470.93
A.F.I.	($6,030 - $230)	$1,941.85

SECURITY

Note Only	-	15
1st Mtge.	-	95
Jr Mtge.	-	8

LOCATION

Open County	-	98
Pop. to 2,499	-	3
Pop. 2,500 to 5,000	-	7

HAC BRIEF STUDIES IN TWO FmHA COUNTY OFFICES (504 Program - Rehabilitation only)

ITEM	Paintsville, Ky.	Taos, N.M.
A. Section 504 Loans		
1. Percent of sample-rehab	39%	43.5%
2. Averages		
a) loan size	$1958.33	$2532.13
b) age, head of household	52	54.5
c) number in family	4	3.26
d) gross income	$2368.33	$2380.62
e) adjusted family income	$1570.	$1787.10
3. Type of Rehabilitation	Septic systems Bathrooms added New roofs Flooring Add and repair porches Interior rehab Siding Well and pump Heating system Foundation and structural	Septic systems Structural systems Well and pump Bathrooms Kitchens Roofs Flooring Heating systems Electrical
4. Sample	31 (12 rehab only)	108 (47 rehab only)

Brief comparison study of Section 504 Repair Loans

	Paintsville, Ky.	Taos, N.M.
Number of Units repaired	19	61
Percent of total sample	61%	56.5%
Averages:		
Loan size	$1300	$1372
Age - Head of household	51.9	57.7
Number in family	4.3	2.7
Gross Income	$2902	$2453
Adjusted family income	$2063	$2015
(high)	(3560)	(6030)
(low)	(600)	(230)
Number:		
Secured by note only	14	13
Secured by 1st R.E. mortgage	5	43
Secured by Jr. Mortgage	0	5
Loans involving C.A.P.	12	0
Manpower programs (percentage)	63.2%	0
Location:		
Farm	2	0
Open Country	16	53
Places to population of 2499	1	2
Places " " 2500 to 5500	0	6

NOTE: Type of Repairs --- repair usages reflect normal continuing maintenance in addition to repairing of defective sub-systems

APPENDIX D

POSSIBLE OR PROPOSED LANGUAGE COVERING RECOMMENDED TECHNICAL AMENDMENTS TO THE HOUSING ACT OF 1949

CHAPTER V--RURAL HOUSING

REFINANCING OF INDEBTEDNESS FOR CERTAIN ELIGIBLE APPLICANTS

Section 501 (a)(4) of the Housing Act of 1949 is amended--

(1) by adding after the comma at the end of clause (B) the following: "or, if combined with a loan for improvement, rehabilitation, or repairs and not refinanced, is likely to cause a hardship for the applicant, and";

(2) by striking out ", and" at the end of clause (C) and inserting in lieu thereof a period; and (3) by striking out clause (D).

APPENDIX E

Maximum Adjusted Income for

Low-Income Families

STATE	MAXIMUM ADJUSTED INCOME	STATE	MAXIMUM ADJUSTED INCOME
Alabama	$ 6,100	Nevada	$ 7,000
Arizona	7,000	New Hampshire	7,000
Arkansas	6,000	New Jersey	7,000
California	7,000	New Mexico	6,300
Colorado	6,500	New York	7,000
Connecticut	7,000	North Carolina	6,400
Delaware	7,000	North Dakota	6,300
Florida	6,600	Ohio	7,000
Georgia	6,300	Oklahoma	6,000
Idaho	6,500	Oregon	6,900
Illinois	7,000	Pennsylvania	7,000
Indiana	7,000	Puerto Rico	6,000
Iowa	6,900	Rhode Island	7,000
Kansas	6,400	South Carolina	6,400
Kentucky	6,200	South Dakota	6,400
Louisiana	6,200	Tennessee	6,100
Maine	6,800	Texas	6,000
Maryland	7,000	Utah	6,700
Massachusetts	7,000	Vermont	7,000
Michigan	7,000	Virginia	7,000
Minnesota	7,000	Virgin Islands	6,500
Mississippi	6,000	Washington	7,000
Missouri	6,400	West Virginia	6,700
Montana	6,900	Wisconsin	7,000
Nebraska	6,300	Wyoming	7,000
Hawaii	8,000	Alaska	10,000

MAXIMUM ADJUSTED INCOME FOR MODERATE-INCOME FAMILIES

STATE	MAXIMUM ADJUSTED INCOME	STATE	MAXIMUM ADJUSTED INCOME
Alabama	$ 8,400	Nevada	$11,900
Arizona	9,100	New Hampshire	10,500
Arkansas	8,200	New Jersey	10,600
California	10,400	New Mexico	9,000
Colorado	10,000	New York	11,400
Connecticut	11,900	North Carolina	9,300
Delaware	9,900	North Dakota	10,200
Florida	9,500	Ohio	10,700
Georgia	8,900	Oklahoma	8,800
Idaho	10,200	Oregon	9,800
Illinois	10,700	Pennsylvania	10,700
Indiana	10,100	Puerto Rico	8,200
Iowa	10,100	Rhode Island	10,300
Kansas	9,800	South Carolina	9,300
Kentucky	9,300	South Dakota	10,300
Louisiana	8,500	Tennessee	8,600
Maine	10,500	Texas	9,100
Maryland	11,000	Utah	9,700
Massachusetts	11,200	Vermont	10,200
Michigan	11,500	Virginia	10,200
Minnesota	10,600	Virgin Islands	10,000
Mississippi	8,300	Washington	10,100
Missouri	9,100	West Virginia	10,000
Montana	10,400	Wisconsin	11,200
Nebraska	10,600	Wyoming	11,000
Hawaii	12,400	Alaska	14,300

APPENDIX F

SUGGESTED SAMPLE LEGISLATION

SUBSIDY AND ASSISTANCE PAYMENTS FOR LOW AND MODERATE INCOME TENANTS

(a) Section 521(a) of the Housing Act of 1949 is amended to read as follows:

"(a)(1) Notwithstanding the provisions of sections 502, 504, 517, and 515, loans to persons of low or moderate income under sections 502,504, or 517 and loans under section 515 to provide rental or cooperative housing and related facilities for persons and families of low or moderate income or elderly persons and elderly families, shall bear interest at a rate prescribed by the Secretary at not less than a rate determined annually by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the average maturities of such loans, adjusted to the nearest one-eighth of 1 per centum, less not to exceed the difference between the adjusted rate determined by the Secretary of the Treasury and 1 per centum per annum: Provided, that such a loan may be made only when the Secretary determines that the needs of the applicant for necessary housing cannot be met with financial assistance from other sources including assistance under section 235 or 236 of the National Housing Act: Provided further, that interest on loans under sections 502,504, or 517 to victims of natural disasters shall not exceed the rate which would be applicable to such loans under section 502 or 504 without regard to this section.

(2) the Secretary may make and insure loans under this section and sections 514, 515 and 517 to provide rental or cooperative housing and related facilities for persons and families of low-income,and may make, and contract to make, assistance payments to the owner of such housing rentals in order to make available to low-income occupants at rates commensurate to income and not exceeding 25 per centum of income. The Secretary shall limit such assistance payments to multi-family housing projects. Such supplemental assistance payments shall be made on a unit basis and shall not be made for more than 60% of the units in any one project, except under Section 514 where such assistance may be up to 100% of units.

(a) The owner shall be required to provide at least annually a budget of operating expenses and record of tenant(s) income which shall be used to determine the amount of assistance for each project.

(b) The project owner shall accumulate, safeguard and periodically pay the Secretary any rental charges collected in excess of basic rental charges. These funds may be credited to the appropriation and used by the Secretary for making such assistance payments through the end of the next fiscal year.

(b) Section 521(b) of such Act is amended by striking out "502 or" and inserting in lieu thereof "502, 504, or".

"(c) There shall be reimbursed to the Rural Housing Insurance Fund by annual appropriations (1) the amounts by which payments made from the fund during each fiscal year to the holder of insured loans described in subsection (a) exceed payments due from the borrowers, and (2) the amounts of assistance payments made under paragraph (2) of subsection (a), during such year. The Secretary from time to time may issue notes to the Secretary of the Treasury under section 517 (h) to obtain amounts equal to such unreimbursed payments, pending the annual reimbursement by appropriation."

APPENDIX G

POSSIBLE AMENDMENT TO PROVIDE LEGAL AUTHORITY
FOR FmHA TO INCLUDE INITIAL OPERATING
EXPENSES WITHIN DEFINITION OF DEVELOPMENT COSTS

DIRECT AND INSURED LOANS TO PROVIDE HOUSING AND RELATED FACILITIES FOR ELDERLY PERSONS AND FAMILIES IN RURAL AREAS

Sec. 515 of the Housing Act of 1949 is amended as follows:

(b)(1) No loan shall exceed $1,000,000 or the development cost of the security, whichever is least.

(b)(5) No loan shall be insured under this subsection after October 1, 1975.

(b)(6) No provision of this subsection shall restrict the Secretary from making loans to acquire members equity interest in cooperative property under (a) of this section.

<u>(d)(4) the term "development cost"</u> means the costs of constructing, purchasing, improving, altering, or repairing new or existing housing and related facilities and purchasing and improving the necessary land, including necessary and appropriate fees, and charges including <u>initial operating expenses of up to 2% of the aforementioned costs</u>, approved by the Secretary. Such fees and charges may include payments of qualified consulting organizations or foundations which operate on a nonprofit basis and which render services or assistance to nonprofit corporations or consumer cooperatives who provide housing and related facilities.

APPENDIX H

SECTION 517 CHANGES NECESSARY TO PROVIDE FOR IMPLEMENTATION OF OTHER PROPOSED CHANGES

INSURED RURAL HOUSING LOANS

Section 517 of the Housing Act of 1949 is amended as follows:

(a)(1)(b) bear interest at a rate not to exceed 5 per centum per annum; but no loan under this paragraph shall be insured or made after October 1, 1973, except pursuant to a commitment entered into before that date; and (b) The Secretary may insure loans in accordance with the requirements of sections 514 (exclusive of subsections (a)(3), (a)(5), and (b)), 515, (exclusive of subsections (a) and (b)(4)), 524, and 526, and may make loans meeting such requirements to be sold and insured. Upon the expiration of ninety days after the original capitalization of the Rural Housing Insurance Fund, created by subsection (e) of this section, no new loans shall be made or insured under section 514 or 515(b), except in conformity with this section.

(j) The Secretary may also utilize the Fund--

(1) to pay amounts to which the holder of the note is entitled in accordance with an insurance or sale agreement under this section accruing between the date of any [prepayment] payment by the borrower to the Secretary and the date of transmittal of any such [prepayments] payments to the holder of the note; and in the discretion of the Secretary, [prepayments] payments other than final payments need not be remitted to the holder until due or until the next agreed annual or semiannual remittance date;

(3) change the period at the end to a semi-colon and add "and"

(4) to make assistance payments authorized by section 521 (a) (2).

APPENDIX I

MID-WEST NEW MEXICO COMMUNITY ACTION
HOUSING/MANPOWER SUBSIDY PROGRAM

The Area

The Mid-West New Mexico Community Action program is a rural CAP Agency serving a four county area which includes Valencia, McKinley, Catron and Socorro Counties. The total population of the area is 95,780. The area covers both rural and urban communities ranging from Belen with a population of 20,000 to smaller rural areas. The area is inhabited primarily by Indians and Spanish surname people.

The major problems of the area are:

1) a high unemployment rate of 7.6% compared to the State rate of 7.2%;

2) poor housing conditions where 31% of the houses are deteriorated with bad roofs, floors and walls;

3) a high incidence of sickness and disease, because of the poor and unsanitary housing conditions.

The Project

In 1972 the Mid-West CAP applied to OEO for a Housing/Manpower Subsidy Grant for the purpose of providing job training in construction skills and to improve the housing conditions of low-income residents.

The attached questionnaire provides some information on the progress of this project over a two year period.

Major Advantages

Some of the major advantages have included:

1) All of the Homes rehabilitated were financed under the FmHA 504 Program with a maximum 1% interest credit.

2) All of the applications submitted to FmHA were approved. The reason for the blanket approval was the existence of a citizens committee headed by the community liaison staff. The committee selected the applicants who were eventually referred to FmHA.

3) Interviews with trainees and the foreman indicate that this program has generated thousands of dollars in donations of material. The donors range from supply houses to relatives of the applicants.

Major Problems

Some of the major problems that arose were:

1) Conflicting guidelines often impeded the progress of the project, because two federal agencies (DOL and OEO) were involved.

2) Within the DOL structure, there was confusion between the regional and national offices. In the beginning the national office attempted to run the program without the regional office's cooperation. Eventually the regional office acquired primary responsibility.

3) The turnover of construction supervisors was very high, due to the inadequate salary scale. This turnover, obviously, slowed progress and had adverse effects on the morale of the trainees.

4) When applications were closed in April, the trainees realized that they would be losing their jobs, since no provisions for continued employment were made. They reacted by moving very slowly on the last jobs, in order to extend their employment.

HOUSING ASSISTANCE COUNCIL, INC.

RURAL REHABILITATION/REPAIR EVALUATION QUESTIONNAIRE

Date June 5, 1973

Name: Nick Carrasco

Position: Community Liaison/ Program Coordinator

Organization: Mid-West Community Action Agency; Grants, New Mexico

Address: Field Office; P. O. Box 538; Main Street

Los Lunas	Valencia	New Mexico	87031
(City)	(County)	(State)	(Zip)

Telephone Number: 505 (Area Code) 865-9697 (Number)

GENERAL

1. Type of Organization?

Government Agency [ ]
Nonprofit [ ]
CAP [X]
Bank [ ]
Other [ ]

2. Geographic area served? County(ies) Socorro, Valencia, Catron McKinley (See Attachment No. 1)

3. What percent of the families in the area are within OEO guidelines? minority? (maximum of $4,200/family of 4; $4,925/ family of 5; $5,550/family of 6; etc.)

(See Attachment No. 1)

RECIPIENTS (Please answer all applicable questions for FY 72 and FY 68 - 72)

4. How many homes have been rehabilitated/repaired in your program?

Thirty (30) Completed - Two in progress. 6/72 to 6/73

5. What was the condition of the homes? (Describe generally)

The homes were in a complete unsafe condition; in almost all cases a complete roof on the dwelling; plumbing facilities in most cases had to be installed and additional rooms because of the over crowded situation.

6. How many of the families served fall into each of the following yearly gross income ranges?

Under 2000? [x] 24 - 75%
2000 - 4000? [x] 8 25 %
4000 - 6000? []
6000 - 8000? []
8000 and above? []

7. What percent of the families served are minority?

99% approximately 15% Indian; the balance spanish surname; one anglo received a rehabilitation loan.

ADMINISTRATION

8. What has been the families' source of funds to pay for the rehabilitation/repair?

FmHA 502? [] only 1
FmHA 504? [x] strictly
HEW 1119? []
Title I ? []
Conventional Bank Loan? []
115 Grants? []
312 Loans ? []
Other (List) []

Where families did not qualify - applications were sent to FmHA for possible 502 loans.

9. What percent of the families have received grants? loans?

All applications submitted to FmHA received loans (100%)

See current report for other statistics

10. Have the loans involved interest reduction? What percent of the families have received interest credit? All 32 approved families have received the 1% interest credit.

11. What security arrangements have been taken for the loans? Problems? Property mortgage - best lein obtainable

FmHA was very cooperative in this aspect, in that clear titles in New Mexico is a problem. Especially in rural areas.

12. What type of work has been done? (Give approximate numbers)

Porch	[]	0	Electrical	[x]	6
Paint	[x]	4	Plumbing	[x]	15
Interior	[x]	4	Heating	[x]	3
Exterior	[]	0	New Rooms	[x]	12
Roof	[x]	24	Other	[]	

13. Who has done the work?

Local Contractors	[x]	Combination of above	[]
Manpower Trainees	[x]	Other (list)	[]

All labor by manpower trainees; plumbing & electrical subcontracted

14. Who has been the sponsoring group other than contractor?

Community Action Program - R&D Grant

15. How have the families known of the program? newspaper coverage, community meetings —

16. Who has supervised the work? Job foreman and construction supervisor

17. Who has monitored the quality of the work? Dwellings are FHA inspected; the project director is a licensed contractor, and he monitors all work performed - FHA inspector.

18. What safeguards have been used to insure good quality work? Job foreman never leaves the job, once foreman is assigned to each crew of trainees.. Job foremen are directly responsible to project director.

19. What has been the average time/unit necessary for completion? Approximately four weeks per unit.

20. **Has there been cooperation between different agencies? Describe (including problems encountered, combinations of loans and grants, etc.)**

The help and assistance the agencies have given has been a tremendous help to the program. Welfare office, FHA, County Clerk's office, County Assessor , Building Inspector's, etc.

COSTS

21. **What have been average total costs/unit?** Actual loan costs have averaged about $2,100 -- $2,500 subsidized labor.

22. **What has the cost breakdown been?**

Materials?	[x]	$ 1,400
Labor ?	[x]	700 subcontractor
Supervision?	[x]	1,300 foreman - project director
Other?	[x]	1,200 manpower trainees

23. **How have overhead costs been covered? How has this effected the cost to the family?** All overhead costs are covered within the grant criteria. There has never been any other additional cost to the family other than the amount of the actual loan.

EVALUATION

24. **What kinds of problems have caused the most trouble?**

The turn-over in staff positions, mainly the contractor's job; $9,000 a year is not nearly enough to attract a general contractor to the position of project director. The total wage structure is difficult to work with. The poor line of communication between OEO & DOL and the

25. **What have been the main advantages of the program?**

No labor costs to the home owner. Providing a sanitary and decent place to live. Providing jobs, and the opportunity to be trained and acquire a skill.

26. **What improvements would you suggest?** A cut down in territory more of a concentrated effort. Better Salaried positions. And restructing of the screening system. Time element in one screening system and than the approval of FmHA is much to long. More of a contribution from public officials.

27. **If larger grants or lower interest rates were available, could more work of an essential nature have been performed, i.e. health, safety, comfort?** With an improvement in our placement of trainees and the capability of having more trainees giving us a larger construction crew would definitely give us a better performance record.

28. **Have others in proximity to those houses repaired been prompted to make repairs?** Yes - This has been the best means of communication that we have had. People just don't want to yield their deed until they see someone else do it.

29. Are there enough contractors operating in your service area to perform the work? Eastern Valencia - yes. In the other three counties; Catron, Socorro, McKinley, it has been difficult to get the plumbing and electrical work done promptly.

30. What level of production are you working at now, compared to what you could if construction capability and funding restrictions were removed? In other words, what are the limits on available units for rehabilitation in your area? At the present time production is very slow due to the fact that because of the balance of only two houses left to complete, the work crews are taking their time for the fear of running out of a job. The construction level would be 100% more effective the second year. The trainees are at the points to where they have become very knowledgeable. The need is there and it wouldn't hurt to look into broadening our services.

RURAL REHABILITATION/REPAIR EVALUATION QUESTIONNAIRE
(Continuation)

31. What is the comparative cost? Manpower vs Contractor?

We have never made a comparative cost analysis.

32. What kind of repairs can actually be made with the amounts of the loans:

$1,500 -- new roof or bathroom

$2,500 -- install new roof, a bathroom with fixtures, plaster, stucco, paint, etc.

Remove the concept of the manpower training program (subsidized labor) and you would have the same effect as the 115 grant or loan. With 150 or $2,500 done by a contractor, not much could be accomplished.

33. How many people are included in the administration costs?

29 manpower trainees	1 community liaison
2 packagers	1 job developer
1 secretary	1 counselor
4 foremen	1 project director (general contractor)

In addition to comments on question #24 of the questionnaire:

Problem: When an elderly family received a loan, many times this caused them to think that they were supposed to have gotten a complete remodeling job. Trainees had difficulty with home owners.

APPENDIX J

June 12, 1973

The Honorable Robert Taft, Jr.
Senator from Ohio
Old Senate Office Building
Room 110
Washington, D.C. 20510

Dear Senator Taft:

At the request of your office, we have reviewed the Home Preservation Act of 1973, which we find to be a very thoughtful piece of legislation.

Our review has been from two vantages. The first is how effectively will the bill serve rural America? (HAC is a national non-profit organization, federally-funded to assist delivery of housing aid to the rural poor.) Secondly, we have addressed the question whether the techniques of the bill will aid rehabilitation efforts generally.

Members of our staff have administered major federally-aided rehab programs and, during its first two years, HAC has assisted several hundred rural housing development organizations - public and non-profit.

Our experience has shown that the programs administered by HUD rarely reach communities of less than 25,000 population. Accordingly, the benefits of the Home Preservation Act (hereinafter called HPA) will not reach rural America, where 2/3 of the country's substandard housing exists. The solution, in our view, is to amend the bill to designate the Farmers Home Administration as the primary agent under the Act for communities of less than 25,000 population or to provide for HUD to re-delegate authority to administer the provisions of the Act in rural areas and small towns.

We believe that one of the most important aspects of your bill is the provision of direct federal loans in titles II and III. In our experience, it is those of limited income who have the problem of obtaining funds for rehabilitation or for meeting housing financial emergencies. This is due, of course, to their low-incomes but is also attributable to the fact that their properties frequently exist in declining areas where private credit is unavailable, costly or restricted. Only direct federal loans are realistically available for such persons. This has been shown in urban areas in the administration of federally assisted conservation and code enforcement programs and in rural areas in the use of 504, which can be obtained only when no other form of credit is available. Moreover, the lower interest rate from direct federal loans: (a) is a significant inducement to rehabilitate and (b) avoids the costliness to the taxpayer of interest subsidies, (see Comptroller Staats testimony before Joint Economic Committee).

However, we feel that such loans are more needed, and more desired, by families who wish to undertake up-grading of their property often with labor of their own, than by the elderly, to whom the coverage of title II is limited. The experience with the 312 rehab loan program in urban conservation and code enforcement programs is that the elderly of limited incomes are reluctant to commit themselves to debt to improve their properties. This was so even when up to $3500 of rehab costs were covered by a grant under section 115. We would strongly recommend that eligibility under title II be enlarged to include families, perhaps limited to those of low and moderate income as defined for purposes of other housing aids, such as for 235 or 236 or for the comparable 502 and 515 programs of the Farmers Home Administration. If rehab is to accomplish comprehensive neighborhood or area preservation or rejuvenation, the federal aid cannot be limited to only certain kinds of residents. The dividing line should be by income, in our view, namely aid for all those who cannot afford to preserve their properties regardless of their age or physical handicaps.

Incidentally, elderly homeowners in those neighborhoods or rural areas, where abandonment and deterioration and substandard housing are prevalent tend to be of very low-income and only grants will bring about needed repair or rehabilitation under authorizations such as 115 and that sought for 504, as discussed above.

Some specific observations on the language of the bill are:

a) Title I, sec. 101, adding sec. 244 (c) (2), appears to exempt structures rehabilitated with the aid of the HPA from meeting building code standards. This, we believe, could be a serious error. The HPA should encourage the adoption of basic rehab standards. Federal aid should not be extended for housing repair which does not relate to improving the structural soundness of a house and/or its safety and healthfulness. Otherwise, the conditions which contribute to abandonment are unchecked.

b) The definition of "neighborhoods and areas" covered by HPA, as contained in the proposed 244 (d) (2), seems urban oriented. So many rural areas could be said not to have "sufficient public utilities and services etc.," that the program's usefulness in rural America would bbe greatly diminished.

We would confine the definition to "reasonably stable" areas.

Past experience with federally-aided rehabilitation programs has shown the need for public agency involvement to police use of the federal aids to insure competent and quality work and sound administration. We believe that, for rural areas at least, state, regional and county housing agencies and authorities should be assigned the role of administering the programs, supervised by FmHA.

We wish to call to your attention an alternative and perhaps simpler way to aid rehabilitation for rural low-income homeowners through improvements to the program provided for in the existing section 504 of the Housing Act of 1949, as amended. Section 504 provides for low interest, direct federal loans with 10 year terms and for grants up to $3500, for rehabilitation, through the Farmers Home Administration. Briefly, lengthening the terms of these loans, thus reducing the size of monthly payments, would enable more rural persons to afford undertaking rehabilitation. Further, if the grant provisions of 504 were funded, truly low income homeowners could undertake property preservation. These changes would put rural areas on a parity with current urban programs, which have 20 year loans and funded $3500 grants under sections 312 and 115, respectively. Then, using these loan and grant aids, separately or in combination, low-income rural families could afford to make desperately needed property repairs. Enclosed is a copy of a study by our staff setting forth these points.

As you know, rehab and repair aids, particularly the grants, are even more important in rural areas where incomes are lower, housing choice more limited and attachment of one's land stronger than in urban and suburban areas.

Your bill, we believe, has a number of new and highly useful provisions and, subject to the above comments, we applaud it. We do think the language of the Act may need closer review and that additional attention should be paid to the relation of the programs in this bill to existing provisions in the national housing legislation, so that adoption of HFA would not add to an already complex situation.

HAC would like to be of further help to you and your office after these comments have been reviewed. I believe further discussions with your staff would be useful.

Respectfully,

Gordon Cavanaugh
Executive Director

Enclosure:

bc: James Neville
Arnold Sternberg
Art Collings
Senior staff (HAC)

APPENDIX K

The Eastern Kentucky Housing Development Corporation is a non-profit housing development corporation operating in Leslie, Knott, Letcher, and Perry counties in Eastern Kentucky.

The area, served by EKHDC, is characterized by a high unemployment rate (over 7%) and a high percentage of families on Welfare or some form of assistance. Both these conditions are attributable to the area's largest industry, coal mining. In recent years, mechanization has sharply reduced the need for workers which has caused an out migration of people in addition to greatly reducing the number of people in the area who are employed.

The housing conditions in the four county area are also very poor with 1/2 of the units being classified as substandard. Over crowding and the lack of essential plumbing facilities are the basis of the substandard rating.

New housing activity in the area has been at a very low level as indicated by the fact that there were only 52 housing starts reported in the four county area for the 5 year period from 1966-1970, and low levels of activity in both HUD and Farmers Home Programs.

With these conditions as a background, EKHDC launched a program which had two goals: first, meeting the housing needs of low income families, and second, to provide work for the many unemployed people in the area.

One of the vehicles used to accomplish these goals was EKHDC's Joint Home Repair program. The unique combination of programs and the end result of these combinations make the EKHDC effort worthy of special mention.

Programs

1) Farmers Home Administration Section 504. EKHDC has obtained an agreement from FmHA to "reserve" at least $100,000 annually in Section 504 loans in the four county area served by them. These loans are used for the purchase of materials.

2) Department of Labor Operation Mainstream. The local CAA receives a grant from DOL for 88 mainstream workers. These workers are assigned to EKHDC and perform all of the labor in the home repair program. The estimated value of this labor is $1,225,000 during the four year period ending in mid-1972.

3) Section 1119 of the Social Security Act. This section provides up to 50% federal government participation in a $500 grant to improve the sanitation, health or safety of a welfare recipient's home. The remaining 50% is to be paid by the state. The state of Kentucky did not option to participate in this program, so EKHDC applied for and received a 100% grant program through another section of the Social Security Act that provided funds for demonstration programs. These grants are used for the purchase of materials. In cases where more than $500 worth of materials are required,

the Welfare Agency has agreed to increase the welfare grants by the amount needed to repay the loans for the additional materials.

4) Funds for the administration of the program are provided by OEO and the Department of Labor.

The result is a program for low income families that provides subsidy for materials in the form of grants or low interest loans, subsidized labor, and federally funded administration.

The success of this program can be measured by the 2300 units repaired to date, the number of people trained and employed, and its significant contribution to improving the housing conditions of low income families in Eastern Kentucky.