



U.S. Department of Housing and Urban Development
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The Local Property Urban Homesteading Demonstration

THE LOCAL PROPERTY URBAN HOMESTEADING DEMONSTRATION

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SUMMARY OF FINDINGS

(1) The Local Property Urban Homesteading Demonstration

The Local Property Urban Homesteading Program (The Local Property Demonstration) was conducted in eleven cities from the spring of 1985 until the summer of 1987. The Local Property Demonstration provided these cities, for the first time, with cash to acquire 1-4 family properties for use in urban homesteading programs. In the regular Urban Homesteading Program (the regular program) cities may acquire properties only from the FHA, VA and FmHA inventories of 1-4 family properties.

A total of \$1,900,000 was allocated to 11 cities at the outset of the Local Property Demonstration and it was expected that between 154-168 properties would be acquired for urban homesteading during the two-year Demonstration Agreements. At the end of the Local Property Demonstration, 129 properties had been acquired and \$1,488,478 of the allocated funds had been used to acquire these properties. Four of the eleven cities (Rockford, Terre Haute, College Station, and Portland) acquired more properties than had initially been expected and each of these cities had its original allocation of funds increased. The more common experience was that cities were unable to acquire as many properties as they had originally anticipated and that the original grant amount was not fully utilized.

Of the 129 properties acquired in the Local Property Demonstration, almost half (58) had been conveyed to urban homesteaders when the Demonstration Agreements came to an end. Of the 58 properties conveyed to urban homesteaders, 37 were occupied and 21 had been fully rehabilitated.

(2) Property Acquisition in the Demonstration

Some, but not all, of the Demonstration cities found it more difficult to acquire properties than they had anticipated. Many cities found it difficult to identify candidate properties and the acquisition process was typically time-consuming and uncertain. Some cities amended their original eligibility criteria, particularly in the definition of 'in the process of tax foreclosure' to enable them to acquire more properties.

Identification of Candidate Properties All but one of the sites (College Station) attempted initially to identify candidate properties by obtaining a list of delinquent properties from the agency responsible for real estate tax collection. Because these lists contain no information on vacancy status, condition, or appraised values, they did not generally prove to be helpful in identifying candidate properties. To address this problem, local officials tried different approaches, including newspaper advertising, windshield surveys, and contacts with utilities, lending institutions and real estate brokers. Of these methods, the use of real estate brokers by Rockford, Terre Haute, Duluth and Columbus was the most productive.

The identification of candidate properties proved to be a more difficult task than most of the Demonstration cities anticipated. Perhaps more used to an essentially passive role in the regular program where HUD routinely supplied lists of vacant, unencumbered properties, the Demonstration cities were forced to seek out suitable properties. This was done with varying degrees of vigor across the cities.

The Acquisition Process The acquisition of candidate properties also proved to be a more time consuming and uncertain process than many of the cities had anticipated. In many cases the owner of the property could not be located. Many of the titles turned out to be encumbered. In Louisville, 53 title searches turned up 9 clear titles and of the 25 properties on Harrisburg's initial list of candidates, all but 2 had title problems.

Once the owner had been located and the title was found to be clear, it was then necessary to negotiate with the owners subject to more or less flexible guidelines as to the maximum purchase price (the Federal reimbursement ceiling was \$15,000 plus closing costs per property). Local officials were often frustrated by owners who would initially agree to sell for a specified price but would then change their minds. Acquiring properties from HUD is a much simpler process.

Eligibility and Selection Criteria HUD required that each property be "in the process of foreclosure" and "not occupied by a person legally entitled to reside there." Each city adopted its own definition of "in the process of tax foreclosure" at the outset of the Demonstration. These ranged from one day delinquent in Rockford to two years delinquent in Portland and Omaha. Confronted with the problem of finding an adequate supply of properties, four cities (Terre Haute, Columbus, Portland and Milwaukee) amended their criteria so that more properties would be eligible. Columbus reduced its standard from one year to six months. Milwaukee reduced its standard from one year to one day and Terre Haute reduced its standard from fifteen months to one month at the time of sale. Portland, with the consent of HUD, acquired tax-exempt properties owned by the State of Oregon. Rockford's initial standard was one day of delinquency which could not be further reduced. —

In Terre Haute, Rockford and Milwaukee which had delinquency standards of 30 days or less, properties could be made eligible for acquisition by failing to make one tax payment. Thus, properties

which were current on tax payments when negotiations commenced could be intentionally rendered delinquent, and therefore, eligible by the time of acquisition. Under these circumstances, the tax foreclosure criterion was essentially meaningless.

All the Demonstration cities, except Terre Haute, interpreted HUD's vacancy criterion as a prohibition against negotiating with the owner of an occupied property. Terre Haute took the position that it was permissible to negotiate with the owner of an occupied property as long as the property was vacant at the time of acquisition.

The Demonstration cities also developed their own criteria for selecting properties. These typically related to the maximum cost of rehabilitation in an attempt to insure the affordability of the property to the homesteader and/or to remain within the Section 312 loan limits. Four cities also had criteria on the size (defined by the number of bedrooms) of the properties which could be acquired.

The average price paid for the acquired properties was \$13,023 and ranged from \$6,126 in Knoxville to \$20,476 in Portland. The average estimated rehabilitation cost was \$29,898 and ranged from \$20,100 in Terre Haute to \$38,268 in Louisville. Overall the combined acquisition and rehabilitation costs averaged \$42,425 per property and ranged from \$28,248 in Terre Haute to \$55,276 in Milwaukee. The average length of tax delinquency was 36 months and the average amount of unpaid taxes was \$1142.

(3) Urban Homesteading in the Local Property Demonstration

The selection of properties is only the first step in the urban homesteading process. Once the properties have been selected, urban homesteaders must be chosen and matched with the properties, the properties must be conveyed to the homesteaders, financing for the rehabilitation must be arranged and the rehabilitation must be planned and carried through. In both the regular program and in the Local Property Demonstration, local governments have considerable latitude in the approach they adopt to each of these steps in the process.

The Selection of Urban Homesteaders Subject to Federal requirements that homesteaders be lower income families (household income not greater than 80% area median income), that they do not own other residential property, and that the cities comply with antidiscrimination and affirmative marketing requirements, local governments are free to select homesteaders as they see fit.

The Demonstration cities have each fashioned homesteader selection in different ways, but each one has approached it with a view to achieving an equitable process. To publicize the program, most cities publish advertisements and legal notices in local newspapers. Some cities use feature stories in newspapers, television and radio and some use press releases and press conferences. Applicants are then screened to insure they satisfy the HUD lower-income criteria and that they will satisfy the Section 312 Loan Program underwriting standards. Some cities have imposed their own additional requirements such as local residency (Portland & Rockford) & U.S. citizenship (Rockford & Duluth).

Most of the Demonstration cities schedule interviews with qualified applicants at some stage in the process. In some cases, the purpose of the interview is to inform the applicant of his or her rights and responsibilities. In some cases, the interview is to help the agency decide whether or not the applicant will be able to handle the responsibilities of homeownership, and in one case (Omaha) it is to assist the agency in final selection. All cities run "open houses" to enable the applicants to view the property, but this event may take place at different stages in the process. Seven of the Demonstration cities use lotteries to make the final selection of the urban homesteaders and some have methods of 'prioritizing' applicants based on such factors as income, residence in the neighborhood and on the substandardness of current housing.

Information on the characteristics of the homesteader households was collected during the evaluation both through examination of applicant records and in-person interviews with those already occupying their new homes. The average age of the homesteader head of household was 34 years. Fifty-three percent of the homesteaders were white, 34% were black and 13% were of other races. Forty-four percent of the homesteader households were headed by a female and 42% had children below the age of 18. The average annual income of the urban homesteaders was \$15,636 and ranged from \$10,972 in Terre Haute to \$17,758 in Rockford. Eleven percent of the homesteader heads of household previously lived in households of which they were not the head.

The Planning and Management of Rehabilitation In announcing the Local Property Demonstration, HUD expressed its wish that "recipients permit self-help and sweat-equity". HUD also noted that "while sweat-equity projects normally involve homesteader participation in the physical rehabilitation and construction work itself, self-help may take other forms such as participation in planning, designing, decision-making or management".

Most of the Demonstration cities allow the homesteader to participate to some degree in preparing the work write-ups. All cities have minimum rehabilitation standards which must be met. In Rockford, Omaha, Harrisburg and Portland, the homesteader has no influence over the work write-up. In Terre Haute, Louisville, Knoxville, College Station and Duluth, the homesteader may make suggestions with respect to minor components of the rehabilitation plan. In Milwaukee, the homesteader is encouraged to contribute to the work write-up. In Columbus, a rehabilitation specialist proposes a "suggested write-up" and leaves the final decisions to the homesteader.

The homesteader is generally allowed to select the contractor provided the cost is within the competitive range and the contractor is qualified. Sweat-equity is allowed, and even encouraged in some cities, but it is uncommon for the homesteader to be both willing

and able to undertake the work. For the most part, the Demonstration cities have maintained a relatively high degree of control over the rehabilitation process, reflecting their stated concern for the quality and timeliness of rehabilitation efforts.

Financing Rehabilitation By the summer of 1987, financing had been arranged for the rehabilitation of 56 of the 129 properties acquired under the Local Property Demonstration. The average amount financed per property was \$29,893. Fifty-seven percent (\$961,824) was provided in the form of 312 loans, 36% (\$601,513) was from CDBG funded loan programs and 7% (\$110,680) was supplied by private lending institutions.

A number of local governments participating in the Local Property Demonstration complained about the delays and uncertainty associated with 312 funding. This led some local officials to spend considerable time on the development of alternative financing arrangements and caused some cities to commit more CDBG funds than they had planned, or wished, to commit. Private financing was used in only two cities (Harrisburg and Terre Haute).

Conveyance of Urban Homestead Properties Homestead properties are conveyed to urban homesteaders either through a sales contract or a conditional deed. Five of the Demonstration cities use a sales contract which obligates the program agency to make a fee simple title transfer when the homesteader has fulfilled the conditions of the urban homestead agreement. The remaining six cities use a conditional deed which includes the major defaultable conditions, such as residency and repair, the right of inspection and a title reverter. The absence or conditional nature of title to the property was an obstacle to private financing in Knoxville and College Station. In Terre Haute, however, the use of conditional deeds did not discourage the participation of a private lender.

Local Administration Seven of the eleven Demonstration cities were already participating in the regular program. In these cities, the Local Property Demonstration was simply assimilated into the existing administrative structure. Day-to-day operating responsibility was typically vested in the department responsible for administering the CDBG program and, within that department, in the division responsible for housing rehabilitation. In two of these cities (Duluth and Columbus) the coordinator for the Local Property Demonstration was not the coordinator for the regular program. In Terre Haute, College Station, Harrisburg and Knoxville, which were not participants in the regular program, the agency responsible for other housing rehabilitation programs became responsible for the Local Property Demonstration.

The administrative costs of the Demonstration at the local level were estimated by local coordinators to be \$441,827 across all sites or an average of \$3425 per acquired property. Average local government administrative costs per property ranged from \$1,265 in Rockford to \$10,709 in Duluth.

(4) The Benefits and Costs of the Local Property Demonstration

The benefits of the Local Property Demonstration were estimated on the basis of in-person interviews with 28 urban homesteaders who were occupying their properties in the summer of 1987. Overall, it was estimated that becoming an urban homesteader reduced monthly housing costs by only \$7 per month. The quality of the urban homesteaders' housing increased substantially, however, and the market value of this increase in housing quality was estimated to be \$157 per month. The monthly benefits of urban homesteading to the homesteader were therefore estimated to be \$164 per month. The sources of these benefits were the write-down in the value of the property (\$51) and the interest rate subsidies which homesteaders receive (\$113).

If it is assumed that these benefits continue throughout the required residency period, and that the homesteader then sells the property for what he or she believes to be its current market value, the capitalized value of the benefits to homesteaders would be \$22,374. The costs associated with the program, including property acquisition costs, interest rate subsidies and administrative costs were estimated to be \$23,604. Leaving aside any external benefits, such as contributions to neighborhood stability, the Local Property Demonstration essentially breaks even on a net benefit basis. This is quite unusual for a government program.

(5) The Neighborhood Impacts of the Demonstration

The Local Property Demonstration was carried out in designated target areas in which other rehabilitation and revitalization efforts were taking place. It was HUD's stated intention that the Local Property Demonstration should complement other activities and should contribute, by repairing and occupying vacant and abandoned properties, to the stabilization and revitalization of neighborhoods.

There is powerful statistical evidence that the neighborhood revitalization objectives of the Local Property Demonstration are being realized. Comparisons of the condition of properties on blocks where urban homestead properties were located between the first and second years of the Demonstration showed statistically significant differences between blocks where the homestead properties were occupied and blocks where the homestead property remained vacant. Where the homestead property was occupied, there were observed increases in the percentage of other houses with no defects, with exterior paint in good condition, with paint trim in good condition and in the percentage of houses which were occupied. This is consistent with the findings of the evaluation of the original Urban Homesteading Demonstration carried out between 1976-80.

(6) Policy Implications of the Local Property Demonstration

The Local Property Demonstration was a test of a new approach to the acquisition of properties for use in local urban homesteading programs. For the first time local governments were given cash to acquire privately-owned 1-4-family properties. These properties had to be in the process of tax foreclosure, vacant and in the need of repair in order to be eligible for the program.

The experience of the Demonstration indicates that the tax foreclosure requirement should be eliminated. The tax foreclosure requirement, when strictly interpreted, severely limits the availability of suitable properties, and bears no useful relationship to the characteristics which make a property a good candidate for urban homesteading. These problems led some Demonstration cities to weaken the tax foreclosure requirement to the point where it was essentially meaningless. Rather than tighten up a requirement which serves no obvious purpose and is open to circumvention, it seems sensible to drop tax foreclosure in future Local Property urban homesteading.

The vacancy requirement should be retained in its current form. It is argued by some that the vacancy requirement might be relaxed for owner-occupants. We do not share this view. Urban homesteading has traditionally been a program designed to create additional units for the occupied housing stock. Affordable housing policy suggests that this objective be retained in future urban homesteading efforts.

Consideration should be given to substituting a Federal-local government formula matching grant for the 100% acquisition grant used in the Demonstration. This would provide more effective incentives for local governments in their selection of properties and would give the Section 810 funds greater leverage.

Leaving aside the issues of property acquisition, the Demonstration provides evidence that urban homesteading is working well. The Demonstration cities are clearly capable of designing and managing urban homestead programs, substantial benefits accrue to the urban homesteaders and the program is achieving desired neighborhood improvement goals. We do not recommend any changes in the way the regular urban homesteading program is being operated.

Chapter 1

THE LOCAL PROPERTY URBAN HOMESTEADING DEMONSTRATION PROGRAM

1.1 Background

The Local Property Urban Homesteading Demonstration Program (The Local Property Demonstration), authorized by the Housing and Urban Rural Recovery Act of 1983, was announced in the Federal Register on September 20, 1984. In early 1985, the U.S. Department of Housing and Urban Development (HUD) entered into a Local Property Urban Homesteading Agreement with each of the 11 cities selected to participate in the Demonstration. The individual agreements were effective upon the obligation of Section 810 funds for each city and each ran for a two-year period. The last agreement expired on July 19, 1987. This report presents the findings of a two-year, Congressionally mandated study of the Local Property Demonstration.

To provide a context for this study of the Local Property Demonstration, it is useful to review briefly the history of HUD urban homesteading efforts over the last 13 years. The first Federal homesteading initiative came with the passage of Section 810 of the Housing and Community Development Act of 1974. In the following year, HUD selected 23 cities to participate in an Urban Homesteading Demonstration. The initial Demonstration was subsequently enlarged to include 16 additional cities, and in 1977, became an operating program of the Department. Later, the Urban Homesteading program (the regular program) was modified to give local governments access to Veterans Administration and Farmers' Home Administration properties. By the end of 1986, a total of 9,710 properties had been homesteaded under the regular program in a total of 144 participating cities.

The regular program conveys 1-4 family properties owned by the Federal Housing Administration (FHA), the Veteran's Administration (VA), and the Farmer's Home Administration (FmHA) through foreclosure action, to units of local government for use in local urban homesteading programs. Local governments are then responsible for selecting urban homesteaders, conveying the properties subject to certain conditions, overseeing the rehabilitation of the properties, assisting with the financing and insuring that the homesteader covenants are being fulfilled. The properties conveyed must all lie within designated neighborhoods where other neighborhood revitalization efforts are being undertaken by the local government.

The Local Property Demonstration provided cities, for the first time, with cash to acquire 1-4 family properties from sources other than the FHA, VA, and FmHA inventories. The properties to be acquired would, however, have to meet certain preconditions:

1. Properties had to be in the process of foreclosure for non-payment of local real estate taxes.
2. Properties could "not (be) occupied by a person legally entitled to reside there."
3. Properties had to be in need of repair.

A total of \$1,900,000 was allocated to the 11 Demonstration cities. The remainder of this chapter will review the status of the Local Property Demonstration at the time, or shortly after, the two-year agreements had elapsed.

1.2 Status of the Demonstration

At the end of the Demonstration a total of 129 properties had been acquired for use in local urban homesteading programs. It was originally estimated that between 154-168 properties would be acquired in the two-year Demonstration¹ (Table 1.1). Some cities were able to acquire more properties than had originally been anticipated. Terre Haute acquired 27 properties compared to an initial estimate of 12 properties. Rockford homesteaded 22

¹HUD News Release, December 22, 1984.

properties when only 13 had been anticipated at the outset of the Demonstration. Portland acquired 21 properties compared to an initial estimate of 15 properties. College Station acquired 12 properties compared to the 10 properties originally anticipated. To accommodate these increases in the number of properties acquired for urban homesteading, HUD allocated additional 810 funds to these cities. College Station received an additional \$100,000, Rockford received an additional \$78,530, Portland and Terre Haute each received an additional \$50,000.

The increase in Section 810 allocations to these four cities was financed by reductions in the allocations to two cities that recognized early that they would be unable to homestead as many properties as they had originally anticipated. Omaha acquired only two properties and its allocation of Section 810 funds was reduced from \$200,000 to \$21,470. Columbus, which homesteaded nine properties, compared to an initial estimate of 15 properties, had its allocation reduced by \$100,000.

A number of other cities were unable to homestead as many properties as had been originally anticipated. These included Louisville, Duluth, Harrisburg, Knoxville and Milwaukee. Although the Section 810 allocations to these cities were not reduced, substantial amounts of these allocations were not utilized. Overall, of the \$1,900,000 originally allocated to the Local Property Demonstration, \$1,488,478 was drawn down for the acquisition of properties and \$411,522 went unutilized.

Property acquisition is the first step in the urban homesteading process. Further measures of progress are provided by counting the number of properties conveyed to urban homesteaders, occupied by urban homesteaders and on which rehabilitation had been fully completed (Table 1.2). Of the 129 properties acquired in the Local Property Demonstration, just under half (58) had been conveyed to urban homesteaders. Of the properties conveyed, sixty percent (37) were occupied and, of these, 21 properties had been fully rehabilitated by the end of the two-year Local Property Urban Homesteading Agreements.

Table 1.1

STATUS OF THE DEMONSTRATION

<u>Site</u>	<u>Originally Estimated Number of Properties</u>	<u>Actual Number of Properties</u>	<u>Original 810 Grant</u>	<u>Revised 810 Grant</u>	<u>810 Grant Utilized</u>
Rockford	13	22	\$180,000	\$258,530	\$244,809
Terre Haute	12	27	170,000	220,000	220,000
Louisville	10	8	140,000	140,000	85,178
Duluth	6-10	5	140,000	140,000	63,970
Omaha	15-25	2	200,000	21,470	21,470
Columbus	15	9	250,000	150,000	108,628
Portland	15	21	250,000	300,000	300,000
Harrisburg	35	8	170,000	170,000	81,140
Knoxville	10	7	130,000	130,000	46,629
College Station	10	12	80,000	180,000	180,000
Milwaukee	13	8	190,000	190,000	136,654
ALL SITES	154-168	129	\$1,900,000	\$1,900,000	\$1,488,478

Table 1.2

PROPERTIES ACQUIRED BY STAGE IN THE URBAN HOMESTEADING PROCESS
BY DEMONSTRATION SITE AS OF AUGUST/SEPTEMBER 1987

<u>Site</u>	<u>Acquired</u>	<u>Conveyed</u>	<u>Occupied</u>	<u>Rehabilitated</u>
Rockford	22	9	7	1
Terre Haute	27	8	8	0
Louisville	8	7	0	0
Duluth	5	5	1	0
Omaha	2	0	0	0
Columbus	9	3	2	0
Portland	21	12	10	10
Harrisburg	8	3	0	0
Knoxville	7	3	3	2
College Station	12	4	4	7
Milwaukee	8	4	2	1
ALL SITES	129	58	37	21

Chapter 2

PROPERTY ACQUISITION IN THE DEMONSTRATION

The Local Property Demonstration was a test of a new approach to acquiring properties for use in local urban homesteading programs. The use of Federal grant monies to acquire properties in the process of foreclosure for non-payment of local real estate taxes had never previously been tried and it is the single feature of the Local Property Demonstration design which distinguishes it from the regular program. The property acquisition experiment is, therefore, of paramount interest in any study of the Local Property Demonstration.

It will be apparent from the previous chapter that the participating cities, as a group, acquired fewer properties and made use of less Section 810 funds than either they, or HUD, had originally anticipated. In terms of properties, the number acquired was between 76%-84% of the range of the number expected to be acquired. Just over 78% of the allocated funds were used by the time the Local Property Demonstration came to an end.

The inability of the Demonstration cities to use up all the allocated funds suggests that they may have found it harder to acquire suitable properties than they originally expected. While this was evidently not the case in those four cities (Rockford, Terre Haute, Portland and College Station) which acquired more properties than anticipated, the overall impression obtained through on-site interviews with responsible local officials is that it proved much harder to acquire suitable properties to homestead than had been originally expected.

Three of the four cities which exceeded their original goals for property acquisition were obliged to adapt their initial approach to property acquisition or to change the criteria for

determining the eligibility of properties. The experiment of trying to acquire properties under the rules of the Local Property Demonstration is the subject of this chapter.

2.1 Identification of Candidate Properties

The most common initial approach to identifying candidate properties was to obtain a list of delinquent properties from the agency responsible for local real estate tax collections. All but one of the sites (College Station) obtained lists of tax delinquent properties as a first step in the process of identifying candidate properties for the Demonstration. For various reasons, however, this approach did not prove particularly fruitful. In Columbus the search for eligible properties from the county assessor's list of delinquent properties yielded only one home for the Demonstration out of over 300 on the list. Typically, these lists do not provide information on vacancy, status, condition of the structure, appraised value, and other information needed to select units for the Demonstration. Many of the local Demonstration managers appear to have been somewhat surprised that so few suitable homesteads could be identified from lists of tax delinquent properties.

Faced with an unanticipated scarcity of candidate properties from what was expected to be the most promising source, local officials in many cases tried different approaches. These included:

- o Local newspaper advertising;
- o Identification of properties through windshield surveys, housing inspections, and referrals from the neighborhood groups;
- o Contacts with real estate brokers;
- o Contacts with lending institutions; and
- o Contacts with other organizations including utilities and government agencies.

Several of the cities advertised their willingness to acquire properties in local newspapers. These included Terre Haute, Omaha and Knoxville. Newspaper advertising was carried out both to solicit offers of properties and to insure that negotiations would only take place if the city's intentions to acquire properties had been duly advertised.

In a number of cases, the city used its own staff or neighborhood groups to identify properties which were vacant and in disrepair within the target neighborhoods. After properties were identified in this manner, checks would then be made to determine if they were delinquent in their taxes. This approach was adopted at the outset of the Demonstration by College Station. Indeed, College Station had already identified the properties to be acquired at the time of its application to HUD, and had negotiated the acquisition price before the funds to acquire them were available. Other sites which used their staff or neighborhood groups to identify possible homesteads from field observation included Columbus, Omaha, Terre Haute, Harrisburg, and Milwaukee.

Another approach which was adopted by four sites was to contact local realtors to advise them of the program and to see if they knew of properties which would fulfill the eligibility criteria for the program. Rockford provides a good example of this method. After sifting through lists of delinquent properties, carrying out title searches and sending letters to 20 owners, only one response was received, although this did lead to an acquisition. In April 1986, Rockford contacted the local Board of Realtors. This resulted in a flurry of inquiries and found many owners in the target area who were interested in selling their properties. By July, ten properties had either been acquired or were about to be acquired from this source. The use of realtors to identify candidate properties was also adopted by Terre Haute, Duluth and Columbus, although not always with such encouraging results.

Two cities (Rockford and Milwaukee) contacted lending institutions which had foreclosed on vacant properties. This method was generally not successful because the tax arrearage was typically cured at the time the lender acquired the property. Milwaukee acquired three properties from this source. In each case outstanding taxes or water and sewerage charges had not been paid by the lender.

Duluth investigated two other potential sources of property referral. Local utilities were requested to provide lists of properties which had electrical, gas or water supply cut-off. These were regarded as indicators of vacancy. Duluth also secured names of senior citizens seeking public housing and having difficulty selling their homes.

In Portland, many of the vacant and acceptable-looking properties identified through windshield surveys turned out to be owned by the Housing Division of the Oregon Department of Commerce. The Portland Development Commission believed that, although these properties were tax-exempt and therefore not technically tax-delinquent, they should be included in the Demonstration. HUD granted a waiver of the tax foreclosure requirement on the grounds that the "State-held properties were acquired in satisfaction of public liens," and that the Secretary was required by Section 810 (1) (2) of the Housing and Urban Development Act of 1974 as amended to give preference to "demonstrations . . . involving the acquisition of properties that become available in satisfaction of public liens such as tax liens." The amount to be paid for these properties was to be limited to the appraised values of the properties, not the full amount of the state-held liens. Most of the properties acquired in Portland came this source.

Once candidate properties were identified, program staff typically performed a site inspection. These inspections served several purposes. First, they were used to verify vacancy status. As suggested above, many of the properties that appeared on lists of tax delinquencies were occupied and therefore ineligible for the program. These inspections were also used to assess the condition and desirability of properties. Local staff would typically prepare a rough estimate of the cost of rehabilitation to determine whether the needed repairs could be afforded by those that qualified for the program.

The identification of candidate properties for the Demonstration proved to be a more difficult task than most cities anticipated. This was especially so for the cities which were also participating in the regular program. These cities were more used to an essentially passive role wherein the HUD Field Office routinely supplied lists of available properties. In contrast the Local Property Demonstration cities were forced to seek out properties in an active manner. The lists of properties available from the local tax collection agency were much less useful than were the lists of FHA, VA and FmHA foreclosures available under the regular program. Accordingly, local officials had to seek out properties from other sources. This was done with varying degrees of vigor across the sites.

2.2 The Acquisition Process

In the regular program, the acquisition process is quite straightforward. Typically, once a property has been selected for urban homesteading under the regular program, the acquisition process consists simply of scheduling the closing. There are no price issues to be negotiated, there are no title encumbrances and no outside appraisals are required. In the Local Property Demonstration, acquisition is a much more uncertain and more time-consuming undertaking.

The first step in the process is to find the owner of the property. Even this proved to be more difficult than most of the local governments had expected. In many cases the owners could simply not be located and were often presumed to have left the area.

In the event that the owner was located and indicated a willingness to sell, a formal appraisal of the property was commissioned and a title search was ordered. Many of the titles of properties seriously considered for the Local Property Demonstration did, in fact, turn out to be encumbered. In Louisville, 53 title searches turned up nine clear titles. Given new tax foreclosure procedures that allow a number of foreclosures to be handled in one court action, staff in Louisville now see tax foreclosure as

preferable to purchase since foreclosure acts to clear the title. Harrisburg had a similar problem. From an initial list of twenty-five properties, all but two had title problems. At one point, Harrisburg applied to HUD to allow them to pursue "friendly condemnation" as a means of clearing titles. HUD took the position that condemnation was contrary to the intent of the Demonstration and denied the application. This problem in obtaining clear titles led some programs to change their approach. Louisville, for example, decided to order title searches before inspecting the properties and attempting to locate the owners.

Given an appraised value not substantially greater than the \$15,000 Section 810 limit of the Demonstration, and clear title, staff would then attempt to negotiate the sale. Local governments were allowed to acquire properties for amounts over \$15,000 using their own funds but they could not offer above the appraised value according to the Demonstration regulations. Program staff were, however, often frustrated by owners who would initially agree to sell for a specified price, only to demand a higher price or to back out altogether before the sale could be completed. In comparing the Local Property Demonstration to the regular program, the Director in Louisville offered that the main difference was that "there are no crazy owners who change their minds in the regular homesteading program."

2.3 Eligibility and Selection Criteria for Property Acquisition

The eligibility criteria promulgated by HUD in its Announcement of the Local Property Urban Homesteading Demonstration Program allowed the Demonstration sites to acquire "any one- to four-family residence that is: (a) 'in the process of tax foreclosure,' (b) not occupied by a person legally entitled to reside there, (c) in need of repair, and (d) designated for use in a local property urban homestead program...¹."

The Demonstration sites have uniformly selected properties in need of repair, and they have acquired them for use in their urban homestead programs. There are, however, some issues that relate to

¹Federal Register, Vol. 49, No. 184, Thursday, September, 1984, page 36931

the requirement that properties be "in the process of tax foreclosure" and that they not be "occupied by a person legally entitled to reside there."

The Tax Foreclosure Criterion

In its discussion of the meaning of "in the process of tax foreclosure," HUD went on to say:

"For the purpose of this demonstration, property in the process of tax foreclosure means property (a) for which taxes are delinquent and constitute a lien on the property, and (b) which is substantially within the tax foreclosure process, although not necessarily subject to judicial foreclosure proceedings. Since it is not possible in this Notice to specify a definition which would work in each community, each applicant shall submit its own proposed definition for HUD approval. Each applicant should review applicable laws and in its application propose an appropriate minimum level of involvement in the tax foreclosure process--suitable for both the demonstration and local procedures and circumstances."¹

The definitions adopted by cities at the outset of the Demonstration are presented in the first column of Table 2.1. The least restrictive initial definition of the "process of tax foreclosure" was that of Rockford, where a unit on which taxes were one day delinquent was considered to be "in the process of foreclosure." In College Station, Harrisburg, and Milwaukee, properties with taxes past due one year or more were considered in the process of foreclosure and in Terre Haute, a fifteen-month period of delinquency was required initially. Of the remaining three Demonstration Programs, two (Knoxville and Portland) required a two-year period of tax delinquency and Omaha decided to acquire only units that were "substantially delinquent" since they had an active program designed to encourage and facilitate the paying of back taxes. In fact, the two properties that Omaha did acquire had taxes that were over eight years delinquent.

¹Op cit. page 36931.

Table 2.1

ORIGINAL AND REVISED DEFINITIONS OF
"IN THE PROCESS OF TAX FORECLOSURE"

<u>Site</u>	<u>Original Definition</u>	<u>Revised Definition</u>
Rockford	Minimum of one day delinquent	No change
Terre Haute	Minimum of 15 months delinquent	Minimum of one month delinquent at time of sale
Louisville	Minimum of 6 months delinquent	No change
Duluth	Minimum of 6 months delinquent	No change
Omaha	Substantial delinquency defined as more than two years	No change
Columbus	Minimum of one year delinquent	Minimum of 6 months delinquent
Portland	Minimum of two years delinquent	Included certain tax-exempt properties
Harrisburg	Minimum of one year delinquent	No change
Knoxville	Minimum of two years delinquent	No change
College Station	Minimum of one year delinquent	No change
Milwaukee	Minimum of one year delinquent	Minimum of one day delinquent

Several of the local programs rely, or relied at the time of their original application, on local tax foreclosure procedures to determine whether or not a property was in the process of tax foreclosure, while others appear to have adopted an arbitrary definition. In Harrisburg, the County Tax Office prepares a list of all properties which have been delinquent for at least one year and are formally in the process of tax foreclosure. In Duluth and Rockford, where tax payments are due semi-annually, properties are formally in the foreclosure process if one semi-annual payment is missed. Terre Haute and Milwaukee initially intended to acquire properties which were tax-delinquent at least 15 and 12 months respectively. After encountering a shortage of properties which met this criterion, both cities changed their definitions in consultation with HUD to include all tax-delinquent properties. Portland, with the consent of HUD, acquired tax-exempt properties owned by the State of Oregon that were tax delinquent at the time they were originally acquired by the State.

Confronted with the problem of finding an adequate supply of suitable properties which met their tax foreclosure criteria, four cities decided to change the criteria so that more properties could become eligible. The revised criteria are shown in the second column of Table 2.1. Columbus reduced its standard from one year to six months of delinquency, Milwaukee reduced its standard from one year to one day of delinquency and Terre Haute reduced its standard from 15 months to one month of delinquency at the time of sale. Rockford's initial standard was a minimum of one day of delinquency which could not be further reduced.

For those cities which adopted delinquency standards of 30 days or less (Terre Haute, Rockford and Milwaukee), properties could be made to qualify for acquisition under the Local Property Demonstration by failing to make one tax payment. Thus properties which were current on tax payments when negotiations commenced could be intentionally rendered delinquent, and therefore eligible, by the time of acquisition. Under these circumstances, the tax foreclosure criterion was essentially meaningless.

It is hard to avoid the impression that the dilution of the foreclosure standard made it much easier for cities to acquire properties for urban homesteading. Three cities (Rockford, Terre Haute and Portland) together accounted for 70 properties, or 54% of all the properties acquired in the Local Property Demonstration. Rockford and Terre Haute both had standards which would qualify properties if one tax payment was missed and Portland was allowed to acquire tax exempt properties from an agency of state government. The Demonstration cities which had more stringent foreclosure requirements, and stuck to them, typically had a much harder time meeting their original goals.

Experience with the Demonstration program raises the question of whether purchasing properties in the process of tax foreclosure is the best way of acquiring tax delinquent, abandoned properties. Properties with non-marketable or encumbered titles, of which there were many, could not be acquired through conventional sales. These properties could be acquired by the use of eminent domain or tax foreclosure authority. In many cities a better solution to the problem of abandoned, vacant properties may be to alter tax foreclosure laws to allow for more expeditious, less expensive acquisition. This was recently done in Louisville, as well as in cities not involved in the Demonstration.¹ There was no indication that the Demonstration itself had any effect on the tax foreclosure legislation or procedures in the Demonstration cities. This is not surprising, however, since the Demonstration provided an alternative to tax foreclosure.

Acquiring properties through tax foreclosure or eminent domain allows properties to be acquired less expensively and would clear encumbered titles that disqualify many properties from being purchased. This, of course, would be a state and local matter that would not require a HUD program.

¹Examples include New York City, Jersey City, and Chicago. For a discussion of this approach, see David Listokin, Housing Receivership & Self-Help Revitalization, Center for Urban Policy Research, Rutgers 1985, pp. 85-100.

The Vacancy Criterion

The criterion that only the properties "not occupied by a person legally entitled to reside there...may be acquired using Section 810 funds..."¹ has been observed by all the Demonstration cities. Indeed, all the cities, except for Terre Haute, interpreted this as a prohibition against negotiating with the owner of an occupied property. Terre Haute took the position that it was permissible to negotiate with the owner of an occupied property as long as the property was vacant at the time of acquisition.

Locally Imposed Criteria

Beyond the eligibility criteria established by HUD, most of the local programs imposed their own criteria. Many of these were changed as the Demonstration progressed. In all the Demonstration cities the condition of the properties and the projected cost of rehabilitation was considered in the decision to purchase. Seven cities established dollar limits on the amount of rehabilitation which could be undertaken. These limits were designed to make the unit affordable to homesteaders, and in some instances, on the maximum Section 312 loan amount. Columbus, Duluth, and Rockford set a \$20,000 limit, Omaha set a \$27,000 limit, and Harrisburg and Knoxville both set a \$30,000 dollar limit. Four Demonstration cities also placed size limitations on the unit to be purchased. In Harrisburg, Louisville, and Terre Haute large, four or more bedroom houses were avoided because the rehabilitation and after-occupancy maintenance cost would be high. Knoxville and Terre Haute avoided one-bedroom houses because demand for these among homesteaders was weak.

Two cities, Duluth and Knoxville, had explicit criteria restricting purchases to single family units. Demand was weak for two- to four-family homes, and local officials felt that landlord responsibilities were more than the homesteaders could handle.

¹Op cit. page 36931

2.4 Profile of Acquired Properties

Tax Delinquency

The averages and ranges of the length of time acquired properties were tax-delinquent at the time of acquisition is presented in Table 2.2. Across all sites, the average length of time of delinquency was 36 months. The length of time of tax delinquency ranged from one day to over 20 years. It is perhaps worth noting that Terre Haute, which had the lowest average length of delinquency and Rockford, which had the third lowest average length of tax delinquency, both used realtors to locate properties.

The averages and ranges of the amount of tax delinquency are also shown in Table 2.2. Across all sites, the average amount of tax delinquency was \$1,142 and the amount of delinquency ranged between \$18 and \$6,900.

Appraised Values, Acquisition Prices and Estimated Rehabilitation Costs

Across all cities the average acquisition price, excluding closing costs, was \$13,023 (Table 2.3). The aggregate acquisition cost for all 129 properties was \$1,680,007. Of this amount, \$1,488,478 was financed from Section 810 allocations and \$191,529 was contributed by local governments. The amount contributed by cities towards acquisition of properties therefore averaged \$1,485 across the 129 properties acquired. The average acquisition price ranged from \$6,126 in Knoxville to \$20,476 in Portland.

In deciding whether or not to acquire a property, cities prepared estimates of the cost of rehabilitating the property to meet local standards. The average estimated cost of rehabilitation was \$29,898 per property and ranged from \$20,100 in Terre Haute to \$38,268 in Louisville.

Aggregate "hard" costs in the Local Property Demonstration are the sum of acquisition prices and rehabilitation costs. Across all cities, these "hard" costs averaged \$42,435 per property and ranged from \$28,248 in Terre Haute to \$55,276 in Milwaukee.

Table 2.2

LENGTH AND AMOUNT OF TAX DELINQUENCY:
AVERAGE AND RANGE

<u>Site</u>	<u>Average Time Delinquent</u>	<u>Range of Time Delinquent</u>	<u>Average Amount of Delinquency</u>	<u>Range of Amount Delinquent</u>
Rockford	13 months	1 day - 36 months	\$ 632	\$ 55 - 2,033
Terre Haute	10 months	6 months - 48 months	146	21 - 1,239
Louisville	60 months	12 months - 96 months	554	45 - 1,056
Duluth	31 months	12 months - 18 months	2,400	1,287 - 4,145
Omaha	114 months	12 months - 132 months	1,659	1,055 - 2,262
Columbus	12 months	6 months - 18 months	587	81 - 1,500
Portland	35 months	24 months - 60 months	2,720	1,062 - 6,900
Harrisburg	30 months	12 months - 60 months	1,260	577 - 3,044
Knoxville	29 months	24 months - 36 months	508	66 - 1,754
College Station	36 months	12 months - 244 months	335	217 - 543
Milwaukee	27 months	12 months - 48 months	1,766	18 - 2,912
ALL SITES	36 months	1 day - 244 months	\$1,142	\$18 - \$6,900

Table 2.3

AVERAGES AND RANGES OF APPRAISED VALUES, ACQUISITION PRICES
(EXCLUDING CLOSING COSTS), AND ESTIMATED REHABILITATION COSTS

Site	<u>Appraised Values</u>		<u>Acquisition Prices</u>		<u>Estimated Rehab Costs</u>		<u>Acquisition Price plus Estimated Rehab. Costs</u>	
	<u>Average</u>	<u>Range</u>	<u>Average</u>	<u>Range</u>	<u>Average</u>	<u>Range</u>	<u>Average</u>	<u>Range</u>
Rockford	\$11,922	\$ 2,500-23,000	\$11,753	\$ 2,500-21,741	\$33,400	\$17,600-56,700	\$45,153	\$32,821-62,812
Terre Haute	14,665	3,000-24,000	8,148	3,000-10,500	20,100	7,360-30,719	28,248	17,200-37,925
Louisville	11,060	6,000-16,300	10,647	6,098-15,000	38,268	30,176-47,114	48,915	40,000-53,114
Duluth	12,500	6,000-15,000	12,500	6,000-15,000	25,100	15,000-35,000	37,600	29,500-47,000
Omaha	10,500	9,000-12,000	10,500	9,000-12,000	28,470	27,491-29,449	38,970	36,491-41,449
Columbus	11,555	6,100-16,000	11,555	6,100-15,000	30,766	22,298-36,000	42,321	37,298-48,000
Portland	20,738	12,500-30,000	20,476	7,245-30,202	26,066	20,000-27,000	46,542	34,245-55,202
Harrisburg	10,150	1,600-24,900	12,556	3,875-25,000	23,866	6,000-50,000	36,422	17,439-62,500
Knoxville	6,014	1,600-16,000	6,126	1,600-16,000	36,704	24,000-55,000	42,830	28,000-71,000
College Station	28,125	24,000-45,000	18,246	15,000-23,000	27,927	25,100-32,000	46,173	38,547-52,600
Milwaukee	17,125	14,500-20,000	17,062	14,500-20,000	38,214	18,500-50,000	55,276	34,500-70,000
ALL SITES	\$14,032	\$ 1,600-45,000	\$13,023	\$1,600-30,202	\$29,898	\$ 6,000-56,700	\$42,425	\$17,200-71,000

Chapter 3

URBAN HOMESTEADING IN THE LOCAL PROPERTY DEMONSTRATION

The acquisition of properties is only the first step in the urban homesteading process. Once the properties have been selected, urban homesteaders must be chosen and matched with the properties, the properties must be conveyed to the homesteaders, financing for the rehabilitation must be arranged and the rehabilitation must be planned and managed. In this chapter, we describe the approaches to urban homesteading which the Demonstration cities have adopted.

3.1 The Selection of Urban Homesteaders

The Federal Program Requirements for the Local Property Demonstration state that homesteaders "shall be 'lower-income families' as defined in Section 3 [b] [2] of the United States Housing Act of 1937." This is essentially a requirement that homesteaders' household income may not exceed 80% of the median income for the area. Local Property Demonstration Programs must also provide "equitable procedures for selecting homesteaders which

1. Exclude those who own other residential property, except as otherwise approved by HUD. . .; and
2. Take into account the prospective homesteader's capacity to make or cause to be made the repairs and improvements required under the homesteader agreement."

Subject to these limitations and to standard anti-discrimination and affirmative marketing requirements, the Demonstration cities were free to design the homesteader selection process as they saw fit.

3.1.1 The Homesteader Selection Process

The homesteader selection process consists of six steps or components: (1) publicizing the program; (2) screening applicants;

(3) verification of application data; (4) interviews with qualified applicants; (5) open house; and (6) selection of the homesteader. Not all these steps are distinct on each of the 11 sites (in some cases the lottery qualifies applicants, and in some cases it selects the homesteader), and the steps do not always follow in the same order. Nonetheless, each site has developed a method of selecting homesteaders which fulfills each of the functions listed above.

Publicizing the Program

The most common method of publicizing the program is the publication of legal notices and advertisements in local newspapers. This is done in Rockford, Terre Haute, Louisville, Omaha, Duluth, Harrisburg, and College Station. In some cases (Rockford and Columbus), no paid advertising is used because past experience has indicated that there is no shortage of applicants. Feature stories in local newspapers and on local radio and television stations were also considered to be effective and were used in Terre Haute, Louisville and Knoxville. In Portland, television coverage of open houses was found to be an effective way of generating applications. Press conferences are held in Rockford and Knoxville, and press releases about the program are issued in Duluth and Harrisburg.

Notwithstanding the variety of methods used to publicize the program, four out of five of the Demonstration homesteaders were first made aware of the program either by word of mouth (45%) or by reading about the program in a newspaper (38%). Newspapers tended to be a more frequent source for better-educated households.

Screening Applicants

Applications are initially screened to insure that applicants satisfy the low-income criterion mandated by HUD together with such other standards as the city has decided to apply. These typically include a requirement that the applicant does not own real property, that he or she has a stable employment record, is a legal resident of the U.S. and, where 312 financing is contemplated, will satisfy

the 312 underwriting standards. Portland requires applicants to be current residents of the City of Portland. Rockford requires applicants to be current residents of Winnebago County and U.S. citizens. Duluth also will only process applications from U.S. citizens.

Certain applicants are "prioritized" in the sense that they will be given a better chance of being selected. Knoxville gives priority to applicants who have demonstrable sweat-equity skills. College Station gives priority to current residents of the urban homesteading neighborhood, and to occupants of substandard housing. Milwaukee also gives priority to occupants of substandard housing and to those spending more than 25% of their income on housing. Portland gives priority to occupants of substandard housing. Interestingly, Louisville, which has established priorities for its regular program, has dispensed with them for the Local Property Demonstration in order to achieve greater flexibility in selecting homesteaders.

Verification of Application Data

Verification of data submitted on the application material consists of confirmation of employment and earnings data from employers and standard credit checks through commercial credit agencies. This is carried out in all the Demonstration cities.

Interviews with Qualified Applicants

Most of the Demonstration cities schedule interviews with qualified applicants at some stage in the process. The purpose of the interview varies according to its timing. Portland and Rockford both meet quite early with the applicant to prepare a more detailed application form. In Duluth the interview is designed to insure that the applicant is fully informed as to the rights and responsibilities of an urban homesteader. In College Station and Knoxville, the interviews are intended to assist the agency in judging whether or not the applicant will be able to handle those

responsibilities. In Omaha, the interview is carried out after three applicants have been selected by lottery and have attended the open house. In this case, the interview is used to arrive at a recommendation as to which of the applicants should be selected.

Open House

At some stage in the process, the applicant is given a chance to inspect the property. This is typically done by means of an "Open House" to which are invited qualified applicants for whose household the size of the house has been judged to be appropriate. The purpose of the open house is to provide the applicant with information on the repairs which will be required and on the estimated cost of carrying out those repairs. Typically, rehabilitation specialists attend the open house and are available to answer questions from prospective homesteaders.

The open house may be used to allocate urban homestead properties to applicants based on their preferences. In Rockford and Columbus, applicants sign up at the open house if they are interested in any property for which their financial resources and family size are appropriate. In other cities, homesteaders are matched to a single property before the open house by the local program staff. In Omaha three applicants are shown each house, and in College Station the "successful" applicant has already been selected and matched to the property before having an opportunity to inspect the property.

Selection of the Homesteader

Lotteries are used in seven of the Demonstration cities to select the homesteader. In Rockford, Columbus, Duluth, Portland, Harrisburg, Louisville, and Terre Haute, a lottery is used to make the final selection of a homesteader for a given property when there are two or more qualified applicants. Duluth also intended to use a lottery to screen applicants to a manageable number, but this has not so far proved necessary.

On the remaining four sites, the final selection of the homesteader is made by the urban homesteading agency. In Omaha, after a lottery is used to reduce the number of qualified applicants to three per property, final selection is made based on interviews. In Knoxville, the dearth of homesteaders has obviated the need for a final selection mechanism. In Milwaukee, its priority system and a first-come first-served rule determines who will be awarded the property. In College Station, the agency selects the homesteader based on its priority system.

3.1.2 Characteristics of the Local Property Homesteaders

Information on the characteristics of the homesteaders was collected by means of in-person interviews with urban homesteaders to whom the properties had been conveyed. At the time of the site visits, properties had been conveyed to 58 urban homesteaders and, of these, 56 were interviewed. In addition, information on the characteristics of the urban homesteaders was acquired from their applications to participate in the program.

The average age of the homesteader head of household was 34 years and ranged from 27 years in Harrisburg to 49 years in Knoxville (Table 3.1). The size of the homesteader household ranged from 2.0 persons in Rockford to 5.4 persons in Milwaukee. Fifty-three percent of the homesteaders were white, 34% were black and 13% were of other races. Forty-four percent of the homesteader households were headed by a female and 42% had children under the age of 18.

All homesteaders were lower-income families in keeping with the statutory requirement. The average annual income of the local property homesteader households was \$17,758 (Table 3.2). Average annual incomes ranged from \$10,972 in Terre Haute to \$7,758 in Rockford. On all but three sites, homesteaders' average annual income was between \$15,000 and \$17,000. Eleven percent of the homesteader heads of household had previously lived in households of which they were not the head.

Table 3.1

Selected Demographic Characteristics of Demonstration
Homesteaders by City and in Total

<u>Site</u>	<u>Average Age of Head</u>	<u>Average Household Size</u>	<u>Race</u>			<u>Percent Female Head</u>	<u>Percent of Households with Children under 18</u>	<u>Sample Size</u>
			<u>Percent White</u>	<u>Percent Black</u>	<u>Percent Other</u>			
Rockford	32	2.0	14%	79%	7%	49%	36%	14
Terre Haute	29	2.8	100	0	0	90	43	14
Louisville	36	2.8	0	100	0	43	57	7
Duluth	32	3.5	100	0	0	0	80	5
Columbus	34	3.7	33	33	33	0	66	3
Portland	31	1.9	79	7	14	54	43	14
Harrisburg	27	2.7	25	25	50	33	50	4
Knoxville	49	2.3	60	40	0	50	40	5
College Station	44	3.8	29	43	28	0	86	6
Milwaukee	32	5.4	43	14	43	80	71	7
All SITES	34	2.6	53%	34%	13%	44%	42%	80

Table 3.2

AVERAGE HOUSEHOLD INCOME

<u>Site</u>	<u>Annual Income</u>	<u>Sample Size</u>
Rockford	\$17,758	4
Terre Haute	10,972	6
Louisville	17,702	7
Duluth	15,600	1
Omaha	NA*	0
Columbus	16,813	3
Portland	15,552	13
Harrisburg	15,288	3
Knoxville	16,471	4
College Station	15,253	3
Milwaukee	16,380	2
<hr/>		
ALL SITES	\$15,636	46

*Homesteaders had not been selected in Omaha at the time of the homesteader survey.

3.2 Planning and Management of Rehabilitation

There has, since the federal urban homesteading program began in 1975, been significant variety in the way in which local governments have approached the planning and management of rehabilitation. At one extreme, cities have exercised complete control over the process by determining the work to be performed, selecting the contractor, and turning over the property to the homesteader after the repairs are complete. At the other extreme, cities have simply conveyed the property to the homesteader and played no role in determining the work to be done and who should do it. The divisions of responsibility in the Local Property Demonstration are summarized in Table 3.3.

In its notice of the program in the Federal Register (vol. 49, No. 184), HUD encouraged that "recipients permit self-help and sweat equity in connection with the demonstration." They noted that while "sweat equity projects normally involve homesteader participation in the physical rehabilitation and construction work itself, self-help may take other forms," such as participation in planning, designing, decision making, or management.

Most Demonstration cities heeded this advice in that they allow at least limited forms of both self-help and sweat equity. However, they have placed enough restrictions on the participation of the homesteader to keep a fairly tight rein on the rehabilitation process.

Among the Demonstration cities, the variation in the degree of control maintained by the city over rehabilitation has been fairly limited. All the cities have minimum rehabilitation standards which must be met and typically exceed local housing code requirements. Milwaukee, for example, has a "modified 20-year standard" which means that with certain limited exceptions, all repairs and improvements must be of a quality which will last for 20 years.

Although each city takes the lead in preparing the work write-up, there are variations in the amount of homesteader input. Three of the cities, Rockford, Omaha and Harrisburg, allow no homesteader modifications. Terre Haute, Louisville, Knoxville and College Station permit homesteaders to suggest minor changes.

Table 3.3

Division of Responsibilities in the Planning
and Management of Rehabilitation

<u>Site</u>	<u>Work Write-Up</u>	<u>Contractor Selection</u>	<u>Sweat-Equity Guidelines</u>
Rockford	City only.	Low bidder.	Subject to skill requirements, certain tasks only.
Terre Haute	City; Homesteader suggestions permitted.	Homesteader; Cost to be within 10% of city estimate.	Encouraged; counseling available to homesteader.
Louisville	City; Homesteader may make minor changes.	Low bidder; Homesteader selects contractors to bid.	Limited to painting and installing floor coverings.
Duluth	City; homesteader suggestions permitted.	Homesteader; Cost to be no more than city estimate.	Painting, insulation and carpentry, only if homesteader has skills.
Omaha	City only.	City; Contractors favored by homesteader may bid.	Not encouraged.
Columbus	City does "suggested write-up" but decisions made by homesteader.	Homesteader; Final choice of 4: 2 selected by city, 2 by homesteader.	Yes, if homesteader is willing and able.
Portland	City only.	Homesteader; Cost to be within 90-110% of city estimate.	Not encouraged.
Harrisburg	City only.	Homesteader; 25% of work done by minority contractor.	Discouraged beyond minor cosmetic changes.
Knoxville	City; Homesteader suggestions permitted.	Homesteader; Reasonable cost and references. Else, low bidder.	With verification of skill, allow "up-front" or "back-end" tasks.
College Station	City; Homesteader may make minor choices.	Low bidder.	Not encouraged.
Milwaukee	City; Homesteader suggestions encouraged, approval necessary.	Homesteader; City offers several selection methods.	Limited to interior work, minor repairs, painting.

Milwaukee encourages input, since final approval by the homesteader is necessary. A rehabilitation specialist in Columbus prepares a "suggested write-up" but leaves all final decisions up to the homesteader, after a lengthy technical consultation.

The homesteader is generally allowed to select the contractor, provided the cost is within an allowed range and the contractor is qualified. Duluth, Terre Haute, Portland and Knoxville require that costs be close to the city estimate. Harrisburg requires that 25 percent of the work be done by a minority contractor. Low bids are accepted in Rockford, College Station, Omaha and Louisville, though the latter two allow contractors favored by the homesteader to bid.

Sweat equity is allowed and even encouraged in several cities, but it is uncommon for the homesteader to be both willing and able to perform the work. In cases where sweat equity was contributed, it was generally limited to interior work on non-code items. Some changes in city attitudes toward sweat equity occurred over the course of the Demonstration. Milwaukee, for example, originally selected homesteaders on the basis of self-help skills. This was changed, however, when officials found that most applicants do not possess such skills and are not interested in performing any work themselves. Louisville, on the other hand, originally did not encourage sweat equity, but found it became necessary to use it to make the repair of badly deteriorated houses affordable.

The approaches adopted by the Demonstration sites to the planning and management of rehabilitation reflect the overriding concern for the removal of blight, as represented by vacant and deteriorated properties, in the target neighborhood. The relatively high degree of control over rehabilitation enables the city to insure that all code violations are removed and that the work undertaken will be performed in conformance with high standards of durability. The limitations on sweat-equity also serve this purpose and help to insure that the repair work is completed in an expeditious manner.

3.3 Financing Rehabilitation

At the time of the second wave of site visits, financing had been arranged for the rehabilitation of 56 of the 129 acquired properties. The total amount financed was \$1,674,017, or an average of \$29,893 per property. Fifty-seven percent (\$961,824) had been provided in the form of Section 312 loans, 36% (\$601,513) was from CDBG-funded loan programs, and 7% (\$110,680) was supplied by private lending institutions (Table 3.4).

In most cities, Section 312 and CDBG loans were used exclusively. Uncertainty and delays associated with the availability of Section 312 funds was cited by several officials as a major problem. Uncertainty regarding the availability of Section 312 funds forced officials to spend time developing alternative financing mechanisms, which went unused when the Section 312 funds arrived. Delay in the arrival of funds caused some cities to rely more heavily on CDBG funds than planned or desired.

The use of CDBG funds in the homesteading program was generally intended only as a supplement to Section 312 or private financing. In Louisville, CDBG deferred payment loans (DPLs) made up the difference between the maximum Section 312 loan amount and full rehabilitation costs. Harrisburg planned to use CDBG DPLs in combination with private short-term financing. Omaha uses CDBG funds to carry out exterior repairs prior to conveyance of the properties. This approach, also adopted in Duluth and Harrisburg, increases the attractiveness of the property and reduces the rehabilitation costs to be borne by the homesteader.

Overall, private financing was not generally available for Demonstration homesteaders. In Harrisburg local officials found that selected homesteaders were unable to secure private loans, and selection criteria were thus toughened. To be chosen, a homesteader now must be able to privately secure the entire rehabilitation amount. Terre Haute was the only city besides Harrisburg to successfully utilize private financing. CDBG funds in Terre Haute were leveraged with monies from local lenders. The city contributed

Table 3.4

AMOUNTS AND SOURCES OF FINANCING

<u>Site</u>	<u>Total</u>	<u>Private</u>	<u>Section 312</u>	<u>CDBG</u>	<u>Number of Properties</u>
Rockford	\$360,542	\$ 0	\$244,400	\$116,142	10
Terre Haute	150,300	90,180	0	60,120	8
Louisville	273,944	0	222,800	51,144	7
Duluth	94,150	0	60,650	33,500	3
Omaha	NA	NA	NA	NA	0
Columbus	44,800	0	0	44,800	1
Portland	304,865	0	116,074	188,791	12
Harrisburg	20,500	20,500	0	0	1
Knoxville	118,568	0	105,400	13,168	4
College Station	168,388	0	157,750	10,638	6
Milwaukee	137,960	0	54,750	83,210 ¹	4
ALL SITES	\$1,674,017	\$110,680	\$961,824	\$601,513	56

¹Includes \$7,000 of Rental Rehabilitation Funds.

40% of the rehab amount, and the bank contributed the remainder. In the other nine cities, homesteaders were unable to gain access to private funds. In most cases, banks noted that applicants were unable to meet the eligibility requirements. In Knoxville lenders cited the conditional deed as the reason for their refusal to participate in the Demonstration. Portland officials noted that while they do creative financing with private monies in other programs, they did not attempt it for the Demonstration because of the need for very low interest rates.

3.4 Methods of Conveyance

As with the regular homesteading program, the Local Property Demonstration requires that homesteaders meet several conditions before they are given clear title to the property. These are:

1. Repair all defects that pose a substantial danger to health and safety within one year from the date on initial conveyance of the property to the homesteader;
2. Make or cause to be made additional repairs and improvements necessary to meet the applicable local standards for decent, safe and sanitary housing within three years from the date of initial conveyance of the property to the homesteader and to comply with any energy conservation measures designated by the recipient as part of the repairs;
3. Occupy the property as principal residence for not less than five consecutive years from the initial date of occupancy, except under emergency conditions making compliance with this requirement infeasible;
4. Permit inspections at reasonable times by employees or designated agents of the recipient to determine compliance with this agreement; and
5. Surrender possession of, and any interest in, the property upon material breach of the Homestead Agreement (including default on any rehabilitation financing secured by the property).

To insure that these minimum conditions will be met, each city must enter into a Homesteader Agreement with the homesteader. This may be done separately or as part of the conditional conveyance.

Demonstration cities rely on two different approaches to conditional conveyance:

1. Condition Precedent, where fulfillment of the homesteaders' obligations must precede transfer of title; and
2. Condition Subsequent, where title is immediately transferred to the new homesteader, but there are reversion provisions in the deed.

The condition precedent approach to conveyance involves the use of a sales contract which requires the local homesteading agency to transfer title to the homesteader when the conditions of the contract are met. If any of the terms of the contract are violated, the homesteader agrees to vacate the property. Homestead properties in Portland, for example, are initially conveyed to the homesteader with a real estate contract of five years. Once the homesteader has met all the conditions of the program as specified in the contract, a deed is signed which conveys title of the property to the homesteader. Duluth and Milwaukee also use this approach. The major advantage of the sales contract approach is that it may effectively be used to exempt the homesteader from paying property taxes until title is transferred and it should be easier to enforce reversion if the terms of the contract are not met. This method of conveyance typically means, however, that the city still has liability for the property, although insurance premiums may be passed along to the homesteader.

The condition subsequent approach to conveyance provides for the city to transfer the deed to the homesteader before rehabilitation work begins. However, the deed includes a reversion clause stipulating that the property will revert to the city if the terms of the sale are not met. The terms of the sale may be included in the deed itself or reference may be made to a homesteader agreement which is filed as an attachment to the deed agreement. In Knoxville, a quit claim deed includes five conditions, the last of which references the homesteader agreement. The homesteader agreement includes a more detailed list of fourteen

conditions covering residency requirements, property repair and maintenance, insurance coverage and inspection rights for the city. The advantage of this approach to conveyance is that liability for the property is transferred to the homesteader. On the other hand, homesteaders immediately assume responsibility for paying taxes and, compared to the sales contract approach, it may be more difficult to enforce reversion if the terms of the contract are not met. Eight of the demonstration programs use this method of conveyance.

The type of deed used may affect the willingness of private lenders to become involved with homesteading programs. Two types of deeds, which differ in the degree to which the city is guaranteeing clear title, are used in the Demonstration. A general or special warranty deed which guarantees the homesteader clear title is used in Terre Haute, College Station, and Omaha. Quit claim deeds, which provide very little guarantee of clear title are used in Rockford, Harrisburg, and Knoxville.

Conditional conveyance was cited as an obstacle to arranging private financing in several of the Demonstration cities. In both Knoxville and College Station, lenders were reluctant to provide financing to homesteaders because the deed was conditional. In Terre Haute, however, the use of conditional deeds did not discourage the participation of a local lender. This was possible because an official of the local lender was on the Homesteader Selection Committee and was, therefore, apprised of all aspects of the Demonstration.

3.5 Local Administration

Administrative Arrangements

In the seven cities which were previously participating in the regular homesteading program, the Local Property Demonstration was simply assimilated into the existing administrative structure. The

tax delinquency criterion was cited as one of the only aspects which kept the two from being operated as one uniform program. The day-to-day operating responsibility would typically be vested in the department responsible for administering the CDBG program and, within that department, in the division responsible for housing rehabilitation. In only two of these cities, Duluth and Columbus, was the coordinator chosen for the Local Property Demonstration different from the coordinator of the regular program.

In Milwaukee, Columbus, Rockford and Duluth, the Demonstration was under the oversight of an independent policy-making entity responsible for establishing policy for the regular program. In Milwaukee, there is the Urban Homestead Board; in Columbus, there is the Neighborhood Services Advisory Council; in Rockford, the Rockford Homestead Board; and in Duluth, the Rehabilitation Advisory Committee. Terre Haute, College Station, Harrisburg and Knoxville had not previously operated homesteading programs. The agency responsible for the administration of other rehabilitation programs in the city generally took charge of the Demonstration.

Local Costs of the Demonstration

During the course of the assessment site visits, information was acquired on the estimated annual cost of local administration of the Demonstration. In all cases, there is no job-cost accounting system for collecting costs attributable to the Local Property Demonstration, but the Demonstration coordinators were able to estimate the percentage of time each person spent on the Demonstration. By combining this information with salary and fringe benefit rates and by adding in non-labor costs, it was possible to arrive at an estimate, for each city, of the annual local administrative costs of the Demonstration (Table 3.5).

In reviewing these cost estimates, it should be remembered that the costs associated with the Local Property Demonstration continue

Table 3.5

Estimated Administrative Costs
Total Salaries, Fringes and Non-Labor Expenses

<u>Site</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Total</u>	<u>Cost Per Acquired Property</u>
Rockford	\$7,789	20,042	27,831	\$1,265
Terre Haute	32,999	34,313	67,312	2,493
Louisville	6,000	25,111	31,111	3,888
Duluth	27,057	26,487	53,544	10,709
Omaha	6,881	2,397	9,278	4,639
Columbus	11,589	21,120	32,709	3,635
Portland	62,400	63,700	126,100	6,005
Harrisburg	17,742	13,020	30,762	3,845
Knoxville	12,697	7,453	20,150	2,879
College Station	13,650	13,930	27,580	2,298
Milwaukee	5,000	10,450	15,450	1,931
ALL SITES	\$203,804	\$238,023	\$441,827	\$3,425

to be incurred after Year 2 as additional homesteaders are selected and properties are rehabilitated. The figures presented in Table 3.5, therefore, represent only partial costs of the Demonstration and, since the Demonstration cities are all at different stages of completion, comparisons based on the costs per acquired property are really not valid.

It is apparent, however, from interviews with local officials, that several of the cities incurred substantially higher per property costs in the Local Property Demonstration than they did in the regular program. Demonstration cities which cited the high costs of search for, screening and acquiring properties were Rockford, Duluth, Portland, and Columbus. In Portland it was judged that acquisition costs could be significantly reduced if the tax delinquency requirement was removed. In Rockford, it was noted that closing costs were higher in the Local Property Demonstration than in the regular program, because of the need to use more highly paid staff. Rockford believes that the use of realtors and title companies would be cost effective. Terre Haute, which was not in the regular program, estimated that around 50% of its costs in the Demonstration were attributable to acquiring properties as opposed to homesteading them.

Not all the Demonstration cities found the property acquisition process to be costly. In College Station, properties were easy to find and Omaha, which only acquired two properties, largely limited its search activities to advertising.

Local Use of Technical Assistance

HUD did not undertake to pay for the costs of local administration, but it did make available the services of a technical assistance contractor, (ICF, Inc.) to the Demonstration cities on an as-needed basis. At least 8 of the 11 Demonstration cities made use of these services.

In Rockford, technical assistance was provided in refining the working definition of tax delinquency, in marketing and streamlining the program. Knoxville received assistance in designing the

homesteader selection process. In Louisville, the technical assistance contractor helped in orienting a newly appointed urban homesteading co-ordinator. Harrisburg, Omaha, and Columbus also received technical assistance.

One aspect of the technical assistance which was widely appreciated was the function it served in informing local officials of the approaches which other Demonstration cities had adopted. This interest in sharing experience was furthered by a conference on the Local Property Demonstration held in Washington, D.C. in February 1987. This conference was felt by many cities, even those who did not request technical assistance, to have been extremely helpful in providing a forum in which those responsible for carrying out the Demonstration could share their problems and solutions with one another.

Chapter 4

THE BENEFITS AND COSTS OF THE LOCAL PROPERTY DEMONSTRATION

There are three basic groups which between them bear the costs and enjoy the benefits of urban homesteading. First, there are the principal intended beneficiaries, the urban homesteaders themselves. An urban homesteader receives real property at substantially below its market value. In return, he or she commits to bear the cost of rehabilitation and to occupy the property for a minimum of five years. Secondly, there are government agencies, both federal and local, which undertake the costs of administering the program and which frequently provide additional subsidies through interest rate write-downs and grants. Thirdly, there are the residents of the urban homesteading neighborhoods. An urban homestead may also generate secondary benefits for its immediate neighborhood by removing the blight of a vacant and deteriorated property and by stimulating higher levels of property maintenance in nearby buildings.

Cost/benefit analysis was originally developed to assist in public investment decisions where, for one reason or another, the return on the investment was not valued, or not fully valued, in the market place. Cost/benefit studies of water resource projects, rapid transit improvements, and so on were thus designed to introduce an element of rational calculation into what had previously been a largely political process. The logical extension of cost/benefit analysis to operating programs, as well as to capital investments, reflects the continuing concern with the valuation of the output of public programs and with comparison of the value of such output with the cost of producing them.

In the context of the Local Property Demonstration, the purpose of cost/benefit analysis is to measure and account for the impacts of the program on those individuals and institutions which are directly and indirectly affected. Those directly affected are the homesteaders, agencies of local government, and the Federal government.

In cost/benefit analysis, as in all formal evaluation, there must be a baseline or reference point against which observed outcomes are to be compared. In developing cost/benefit estimates for the Urban Homesteading Demonstration, the appropriate reference point is what would have happened if the program had not existed. Thus, for homesteaders, comparisons are with the housing experience they would have had if they had not become homesteaders. For local governments, the absence of the Local Property Demonstration implies savings in the costs of administration and, in some instances, a greater availability of local rehabilitation finance for other uses.

In common with many public programs, the Local Property Demonstration gives rise to a series of transfers between agencies and individuals. Some of these transfers, although significant for a category of participants, may cancel out when netted against the impacts on other participants. The aggregate costs and benefits of any program must be estimated net of transfers to assure that they include only real changes in social income. Nevertheless, because public policy is also concerned with the incidence of benefits and costs, it is important to retain the capability to estimate a program's impact on particular institutions or groups of individuals.

In the first section of this chapter, the benefits accruing to the homesteaders, including the net value of improved housing services enjoyed and the discounted capital appreciation available when the residency requirements are fulfilled, will be calculated. These will then be combined with Federal and local government costs to estimate the benefits of the Local Property Demonstration.

4.1 The Benefits to Demonstration Homesteaders

In general, urban homesteaders receive two kinds of benefits (or potential benefits) as a result of participating in the program. In the first place, the homesteader experiences a change in his or her housing circumstances. This change almost always involves an increase in the quality of his or her housing; it may also involve a reduction in housing costs. These benefits accrue to the homesteader in his or her role as a consumer of housing services, and will last for at least as long as the minimum residency period. In the second place, the homesteader will acquire title to the homestead property when the residency period has elapsed. At this point, the homesteader may stand to realize a significant capital gain through the sale of the property then or at some subsequent date. This benefit accrues to him or to her in his or her role as an owner of housing. In estimating the benefits of the program to urban homesteaders, separate calculations of both forms of benefits have been carried out.

The estimation of the benefits to Demonstration homesteaders is not without its conceptual problems. The homesteader may elect to remain in the property after he/she takes title or the homesteader may sell the property and move elsewhere. The data collected during the course of the Demonstration evaluation do not go beyond, or even up to, the end of the minimum residency period and, for this reason, it is not possible to know how long any given homesteader will remain in the property. Furthermore, the future values of individual homestead properties cannot be estimated with any degree of reliability. Thus, as long as homesteaders remain in their properties, a final strict accounting of costs and benefits cannot be performed.

However, by making some reasonable assumptions, it is possible to estimate the value of the benefits that will accrue to the Demonstration homesteaders. To simplify the analysis, we will assume that the homesteader will sell the property at the end of the five year residency period. This is a conservative assumption in

the sense that it will tend to understate the benefits of the program. Since the homesteader has the option of selling the property at the end of the residency period, if he or she elects to stay, it would imply that the consumption benefits exceed the value he or she places on a capital gain that might be realized through a sale.

The monthly consumption benefits to Demonstration homesteaders can be calculated through a comparison of their current housing services with what their housing would have been in the absence of the homesteading program. "Housing circumstances" are defined both in terms of the value of housing services received and the cash outlays made for housing, including loan interest, property taxes, insurance and utilities. All of this information can be derived from the baseline interviews with the Demonstration homesteaders. (To insure a valid comparison, these calculations were only performed on data from homesteaders who were living in the homestead and who had incurred full rehabilitation expenses at the time of the second wave of site visits. This requirement meant that the cost-benefit analysis could not be done in Harrisburg, Louisville and Omaha where homesteaders were not yet in residence.)

The value of the housing services that are received by the Demonstration homesteaders is based on the owner's own estimate of the property value after rehabilitation, and a computation of the monthly cash outlays required had the property been purchased at this price. The resulting estimate of the monthly cost for an owner-occupant of the repaired homestead property, if it were acquired at its market price, is then used to measure the value of the housing services received by the homesteader.

Comparison of the cost and value of the housing services received by the homesteader with what he or she would have received absent the program requires certain assumptions. The simplest approach is to assume that the homesteader would have continued to reside in his or her previous home. In the baseline interviews with homesteaders, detailed information was collected on their

previous housing costs. These housing costs prior to participation in the urban homesteading program were then used to calculate the impact of the program on homesteaders' housing costs and housing quality.

Strictly speaking, the before/after cost comparison may give somewhat misleading results except over the short-term. It cannot be assumed safely that homesteaders would have remained at their previous homes had they not been selected for the program. However, an examination of those who applied for the program and were rejected by a random lottery indicated that nearly all of these persons (95 percent) were still renters when interviewed.

Using before/after comparisons, one can compute the monthly benefits to Demonstrations homesteaders and the constituent elements of housing quality improvement and housing cost reduction with the following simple equation:

$$\begin{array}{rcl}
 \text{Monthly Benefits} & = & \text{Increase in Value of Housing Services} & + & \text{Decrease in Cost of Housing Services} \\
 & & \text{Monthly Market Cost of Homestead} & - & \text{Previous Monthly Housing Costs} & + & \text{Previous Monthly Housing Costs} & - & \text{Actual Monthly Cost of Homestead}
 \end{array}$$

Notice that the previous housing costs do not affect the absolute level of benefits of housing services received by Demonstration homesteaders.

Table 4.1 presents the estimates of monthly benefits, together with their component elements, based on interviews with Demonstration homesteaders. On average, it appears that homesteaders spent a little less (\$7) in monthly cash outlays for housing. They also achieved significant increases in the value of housing services received (\$157). Thus, overall, homesteaders ended up paying just about as much as they did in their previous housing, but received a substantial improvement in the quality of their housing.

Table 4.1

MONTHLY BENEFITS TO DEMONSTRATION HOMESTEADERS*
BY SITE

<u>Site</u>	<u>Savings in Monthly Housing Cost</u>	<u>Increase in Monthly Value of Housing Services</u>	<u>Monthly Benefits to Demonstration Homesteaders</u>	<u>Sample Size</u>
Rockford	110	(3)	107	3
Terre Haute	(19)	82	3	5
Duluth	123	19	142	1
Columbus	(243)	346	103	1
Portland	44	187	231	11
Knoxville	1/	216	233	2
College Station	(71)	236	165	3
Milwaukee	49	212	261	2
ALL SITES	7	157	164	28

*Based on interviews with homesteaders who occupied their homestead as of the second-year site visits and whose rehabilitation costs were known.

4.2 Sources and Uses of Monthly Benefits

The monthly benefits described above can also be viewed in terms of their different sources. In the first place, the homesteaders receive the unrepaid property at no cost to them, so that after repair many of them have received an asset for less than its market value. This is the first, and major, source of the consumption benefit. Secondly, many of the homesteaders received rehabilitation loan finance on a subsidized basis, either through Section 312 or CDBG loans. The contribution of each of these sources to the monthly benefits to the homesteaders are shown below in Table 4.2.

Table 4.2

<u>SOURCES AND USES OF MONTHLY BENEFITS</u>			
<u>Sources</u>		<u>Uses</u>	
Interest Rate Subsidies	\$113	Housing Cost Savings	\$ 7
Property Value Write-Down	51	Increase in Housing Quality	157
<hr/>		<hr/>	
Benefits	\$164	Benefits	\$164

As can be seen, the source of the benefits arises largely from the interest rate subsidies, rather than from the property value write-down. This reflects, in part, the poor quality of the acquired properties, brought on by the necessity that they be tax delinquent and thus more likely to have deteriorated.

4.3 Benefits to Homesteaders from Property Value Appreciation

The monthly benefits to Demonstration homesteaders described in the previous section correspond to the benefits received by the homesteader as a consumer of housing services. By receiving title to the property, however, the homesteader also receives benefits as the owner of a property which he or she can sell after the residency

requirement has been fulfilled. As discussed earlier, a conservative approach to the benefits which accrue from ownership is to assume that the property is sold at the end of the residency period.

There is a two-fold problem which results from the reliance on the homesteader's own estimate of the valuation of his or her property, rather than valid sales price data. In the first place, the homesteader may not be an accurate appraiser of his or her own property. In the second place, the most recent estimates of the homestead property's value may be three or more years prior to the earliest data at which the homesteader could sell the property. These two potential biases appear likely to work in opposite directions. It might be supposed that homesteaders would typically overvalue their properties by some amount; on the other hand, if current, rather than future, property values are used to compute the amount of property appreciation accruing to the homesteader, this will tend to understate the actual value which can be realized through sale.

The benefits which accrue to the homesteader from ownership, assuming a sale at the end of five years, can be modeled in a conventional way like any other cash flow. The homesteader contributes equity at the beginning of the period to defray the costs of rehabilitation. The amount of contributed equity is the difference between the cost of rehabilitation and the amount borrowed. At the end of the period, he or she realizes value from the sale of the property from which he must pay off the outstanding loan balance. The value of this cash flow is therefore equal to the difference between the value of the property, less transaction costs, and the outstanding loan value at the end of five years, discounted back to the time of original occupancy, less the amount of original contributed equity.

4.4 The Aggregate Benefit to Demonstration Homesteaders

The net benefits to Demonstration homesteaders are calculated as the sum of the housing benefits received during the five-year residency period plus the value of the cash flow assuming sale of the property at the end of five years. The aggregate net benefit is substantial, averaging \$22,374 per homesteader. Approximately \$9,000 of this is realized as a consumption benefit during the residency period, with the balance attributable to capital appreciation. The values of variables which enter this calculation are presented by site in Table 4.3.

Table 4.3

AVERAGE PRESENT DISCOUNTED VALUE OF BENEFITS TO HOMESTEADER
(Assumes Sale After Five-Year Residency Period)

<u>Site</u>	<u>Services</u>	<u>Sale of Home</u>	<u>Benefits</u>
Rockford	\$5,832	\$11,749	\$17,581
Terre Haute	216	9,340	9,556
Duluth	7,668	7,269	14,937
Columbus	5,662	18,112	23,774
Portland	12,790	15,180	27,970
Knoxville	12,636	14,598	27,234
College Station	8,892	12,198	21,090
Milwaukee	14,121	16,815	30,936
ALL SITES	9,027	\$13,347	\$22,374

4.5 Consolidated Cost-Benefit Estimates

In Table 4.4, the estimated benefits to urban homesteaders are combined with estimated costs to local and Federal governments to arrive at estimates of the consolidated net benefits per property by site. Across all sites where homesteaders were occupying the properties, the estimated costs of the program was \$23,604 per property. Just over half of this cost (\$12,436) was attributable to the Section 810 reimbursement and a further \$2,511 was accounted for by acquisition costs in excess of the Section 810 reimbursement. The balance of the costs per property were made up of local administrative costs (\$4,041), CDBG interest subsidies (\$3,067) and Section 312 loan interest subsidies (\$1,550).

The net benefits of the program on a per property basis were marginally negative (-\$1,230). This estimate is arrived at by subtracting the estimated costs per property (\$23,604) from the estimated benefits to the homesteader (\$22,374). Viewed simply as a housing program, it is reasonable to conclude that the program just about breaks even, although the sample size on which these estimates are based is not large enough to attach much statistical reliability to these findings.

Table 4.4

THE BENEFITS AND COSTS OF THE LOCAL PROPERTY DEMONSTRATION:
Average per Property by Site*

Site	Local Government Costs			Federal Government Costs					
	Admin- istra- tive	CDBG Inter- est Subsidy	Acquisi- tion less 810 Reimb.	312 Interest Subsidy	810 Reimb. Amount	Total Costs	Bene- fits to Home- steader	Bene- fits Minus Costs	Sample Size
Rockford	1,265	901	4,052	2,437	8,528	17,183	17,581	398	3
Terre Haute	2,493	1,601	0	0	8,520	12,614	12,614	(3,058)	5
Duluth	10,709	0	0	4,811	15,000	30,520	14,937	(15,583)	1
Columbus	3,635	10,150	0	0	6,100	19,885	23,774	3,889	1
Portland	6,005	3,397	4,373	2,022	14,812	30,609	27,970	(2,639)	11
Knoxville	2,879	3,328	0	2,597	8,000	16,804	27,234	10,430	2
College Station	2,298	2,307	3,346	1,283	15,000	24,234	21,090	(3,144)	3
Milwaukee	1,931	7,036	0	0	17,500	26,467	30,936	4,469	2
ALL SITES	4,041	3,067	2,511	1,550	12,436	23,604	22,374	(1,230)	28

*All Cost/Benefit calculations done only on properties which were occupied and for which full rehabilitation expenses were incurred at the time of the second wave of site visits.

Chapter 5

THE NEIGHBORHOOD IMPACTS OF THE DEMONSTRATION

Urban homesteading has traditionally been carried out to serve two purposes. In the first place, it is a housing program designed to confer the benefits of homeownership on lower-income households by making use of the existing housing stock. Secondly, it has traditionally been perceived as a useful tool for neighborhood stabilization. By removing the blight of unoccupied and deteriorating properties, it is hoped that urban homesteading can serve to encourage other neighborhood residents to maintain and improve their properties. In this way, urban homesteading, especially when carried out in conjunction with other neighborhood conservation efforts, may assist in the stabilization of urban neighborhoods. It is for this reason that HUD's urban homesteading efforts have, since the beginning of the program in 1976, required local governments to focus their urban homesteading programs on designated neighborhoods in which other neighborhood stabilization activities are underway.

The evaluation of the original Urban Homesteading Demonstration conducted between 1976-80 dedicated considerable resources to the examination of the neighborhood stabilization impacts of urban homesteading. The findings of that evaluation, based on a three-year longitudinal study of changes in 40 neighborhoods, provided powerful statistical evidence that urban homesteading does indeed contribute to the improvement of properties in the immediate vicinity of the urban homesteading properties. A similar investigation of those 'spillover' effects, albeit on a much more modest scale, was conducted as part of the evaluation of the Local Property Demonstration. The design and findings of this investigation are now reviewed.

5.1 Impact Study

The Impact Study examined changes in properties on the same block as the homestead properties selected for the Local Property Demonstration over a period of 12 months. On each street on which a property had been acquired for the Local Property Demonstration, observations were made on the vacancy status, condition of exterior paintwork and structural condition of 1 in 3 of all the other properties on the same block. These observations were made in the summer of 1986 and again, for the same properties in the summer of 1987.

To examine the effects, if any, of urban homesteading on properties in the immediate vicinity of the homestead properties, comparisons of change were made between blocks where the homestead property was occupied and blocks where the homestead property was unoccupied at the time of the second survey. The reasoning was that it is the renewed occupancy and associated rehabilitation of the urban homestead which might be expected to produce spill-over effects. Statistical comparisons between blocks were made in terms of the percentage of properties occupied, the percentage of properties with no apparent structural defects, and the percentage of properties with exterior paint and exterior paint trim in good condition. The analysis was performed using multiple regression analysis.¹

The results of this analysis were quite striking. The effect of occupancy of the homestead property was positive and statistically significant in each of the four regressions. Occupancy of the homestead appeared to increase the percentage of other homes occupied, the percentage of other homes with no structural defects and the percentage of homes with paint and paint trim in good condition. The size of the effect was larger if the initial condition of the other properties on the block was poor and it was less marked when the initial condition of the other properties was relatively good.

¹The regression results are presented as appendix to this Chapter.

These findings are consistent with the findings of the 1976-80 study of the impacts of urban homesteading properties in the immediate vicinity of urban homestead. The evidence that urban homesteading works both as a housing program and a neighborhood stabilization program is, therefore, quite formidable.

Appendix to Chapter 5

IMPACT STUDY ANALYSIS

To analyze the neighborhood effects of the homesteading process, blocks on which the homestead property was unoccupied versus occupied at the time of the second wave of site visits were compared. The dependent variables (in the four regressions) were the recorded second year percentages for the following:

1. Homes whose Exterior Paint was rated 'Good' (PEG2)
2. Homes whose Paint Trim was rated 'Good' (PTG2)
3. Homes whose Structure was Rated 'No Defects' (PND2)
4. Homes Occupied (POC2)

These variables were regressed on:

1. the dependent variable's recorded wave 1 percentage, i.e., PEG1, PTG1, PND1, and POC1, respectively;
2. a dummy variable for the wave 2 occupancy status of the homestead (1 = occupied, 0 = vacant): OCCUP;
3. an interaction term of the two independent variables, i.e., PEG1 * OCCUP, PTG1 * OCCUP, PND1 * OCCUP, and POC1 * OCCUP, respectively.

Theory would predict a coefficient on the wave 1 percentage variable of close to one, i.e. little predictable change in the condition or occupancy of homes on a block is anticipated from one year to the next. Also, if the homestead program is having an impact, the coefficient on the homestead occupancy dummy should be positive and statistically significant. The regression results are presented in Table 5.1.

Table 5.1

REGRESSION RESULTS FOR IMPACT ANALYSIS
(t-statistics are in parenthesis)

(1) Percentage of Homes whose Exterior Paint Rated 'Good'

$$\text{PEG2} = .92 \text{ PEG1} + 18.21 \text{ OCCUP} - .22 (\text{PEG1} * \text{OCCUP})$$

(14.55) (2.39) (-1.57)

(2) Percentage of Homes whose Paint Trim Rated 'Good'

$$\text{PTG2} = .96 \text{ PTG1} + 17.77 \text{ OCCUP} - .25 (\text{PTG1} * \text{OCCUP})$$

(12.92) (2.11) (-1.58)

(3) Percentage of Homes whose Structure Rated 'No Defects'

$$\text{PND2} = 1.08 \text{ PND1} + 48.34 \text{ OCCUP} - .65 (\text{PND1} * \text{OCCUP})$$

(19.14) (5.11) (-4.86)

(4) Percentage of Homes Occupied

$$\text{POC2} = .95 \text{ POC1} + 67.36 \text{ OCCUP} - .69 (\text{POC1} * \text{OCCUP})$$

(29.82) (3.15) (-3.06)

As anticipated, the coefficient on each of the first year percentage variables is quite close to 1 and significant. This supports the theory that little predictable change in structure or condition occurs on its own. The coefficient on the homestead occupancy variable is always positive and significant. These coefficients lend support to the theory that homes on blocks where the homestead property becomes occupied have undergone more improvement than homes on blocks with vacant homesteads. The coefficient on the interaction term, however, which is always negative, suggests that the occupancy of a homestead had more of an impact on blocks where the ratings were less good in the first wave.

Chapter 6

POLICY IMPLICATIONS OF THE LOCAL PROPERTY DEMONSTRATION

The Local Property Demonstration was a demonstration to test a new approach to the acquisition of properties for use in local urban homesteading programs. The evaluation of the Local Property Demonstration examined how this approach worked and also looked at how the urban homesteading was working after the properties had been acquired. In this concluding chapter, the implications of the Demonstration for ongoing Federal urban homesteading efforts are examined.

Acquisition Policy

Urban homesteading has traditionally served two objectives: (1) to increase the supply of lower income housing through homeownership; and (2) to remove blight and assist in the stabilization of neighborhoods at risk of decline. Both objectives have been well served for over 10 years by making available vacant, foreclosed 1-4 family properties from the HUD, VA, and FmHA inventories for use in local urban homesteading programs.

The characteristics which make a property a good candidate for urban homesteading - typically vacancy and deterioration - are not confined to the inventories of federally insured, foreclosed properties, however. It made sense, therefore, to consider ways in which HUD could assist local governments to acquire other properties for use in local urban homesteading programs. This was the genesis of the Local Property Demonstration.

The Local Property Demonstration provided governments with cash to acquire properties subject to certain limitations:

1. Properties had to be "substantially within the tax foreclosure procedure".
2. Properties could not be occupied "by a person legally entitled to reside there".
3. Properties had to be "in need of repair".
4. The maximum reimbursement by HUD was \$15,000 plus closing costs per property.

It is clear from the experience of the Demonstration that there are significant questions as to the desirability and workability of the tax foreclosure criterion. Strictly interpreted to mean two or more years delinquent in tax payments, the tax foreclosure criterion may limit local governments to properties in such poor condition that they cannot be homesteaded without significant write-downs of rehabilitation costs. Furthermore, it is not clear that tax delinquency is a useful way of identifying those properties which are suitable for urban homesteading.

The experience of the Demonstration also suggests that the tax foreclosure criterion may be unworkable. The dilution of this requirement in some of the Demonstration cities illustrated its potential for unintended consequences, as some would-be sellers qualified their properties by not paying local taxes. Given the widespread reservations about desirability of the tax foreclosure requirement, efforts to make it more workable are probably misplaced. For these reasons it is recommended that the tax foreclosure requirement be eliminated in future Local Property urban homesteading efforts.

This should not be construed to discourage local governments from making efforts to expedite the process of acquiring tax delinquent properties for use in urban homesteading or other programs. To the extent that this can be achieved it will improve the physical condition of the properties that are acquired and make them better candidates for urban homesteading.

The requirement that properties be vacant found general acceptance and proved workable in the Local Property Demonstration. Some local officials believed that the vacancy requirement should be waived for owner occupants, but no one believed that urban homesteading should be undertaken in situations where statutory relocation assistance payments would be required. Given that one of the goals of urban homesteading is to return unoccupied properties to the occupied housing stock, thereby increasing the supply of housing, we believe that the vacancy requirement is a sensible one. Relaxing the vacancy requirement for owner occupants might permit rehabilitation of some run-down properties, but would not create additional housing units.

No issues arise relating to the criterion that properties acquired for homesteading be in need of repair, but there are some questions as to the reasonableness of the \$15,000 limitation on Section 810 reimbursement amounts. It was certainly the experience of some cities that \$15,000 was not enough to get control of a property in good enough condition to homestead and accordingly several of the Demonstration cities contributed their own funds to supplement the Section 810 acquisition dollars. The willingness of these cities to do this suggests that the \$15,000 limitation did not significantly impede the Demonstration.

In reviewing the experience of the Demonstration it is worth remembering that any city is at liberty to use its CDBG funds to acquire properties for use in urban homesteading. The Local Property Demonstration increased the incentive to homestead properties not held by HUD, VA, or FmHA by heavily subsidizing their acquisition through the use of Section 810 allocations. The issue for future Local Property urban homesteading is whether a 100% subsidy with a \$15,000 ceiling is a more effective incentive than a lower percentage subsidy with a higher ceiling. Conventional wisdom suggests that some form of matching grant arrangement, such as a 75:25 Federal - Local Government sharing arrangement, might increase the number of properties homesteaded through more efficient leveraging of Section 810 dollars.

There is no question that the extension of urban homesteading to include privately owned 1-4 family properties is a good idea. What makes a property a good candidate for homesteading is its physical status (the need for, and cost, of repairs), its vacancy status and the condition of its immediate neighborhood. None of these criteria are usefully related to whether it is publicly or privately owned or, indeed, to whether the owner is or is not delinquent in the payment of local taxes. For these reasons, strongly supported by the experience of the Demonstration, it is recommended that Local Property urban homesteading should be a continuing element of HUD's urban homesteading efforts, but that the tax delinquency requirement be eliminated. Consideration should be given to converting the current 100%, \$15,000 maximum grant to a formula matching grant with increased ceiling amount.

Design of the Regular Program

The study of the Local Property Demonstration provided an opportunity to evaluate the workings of the regular Urban Homesteading Program for the first time since 1980. Seven of the eleven Demonstration cities were already participating in the regular program and the remaining four cities designed Local Urban Homesteading Programs which satisfied the regular program regulations.

The findings of the evaluation on urban homesteading program operations are generally consistent with the findings of the earlier study. Cities typically exercised considerable discretion with respect to the way in which homesteaders and properties were selected and with respect to the extent of the homesteader's involvement in the planning, management, and performance of the rehabilitation. The freedom which local governments enjoy in the design of their urban homesteading programs continues to operate to the benefit of the program. Urban homesteading is evidently working both as a housing program and as a neighborhood stabilization program, at least in the eleven cities which participated in the Local Property Demonstration. We therefore have no recommendations for changes in the regular program, which is working well.

APPENDIX

CASE STUDIES

ROCKFORD, ILLINOIS

1.0 Background to the Program

The City of Rockford has been a participant in the Urban Homesteading Program of the U.S. Department of Housing and Urban Development (HUD) since the program began in 1974. In 1984, a development specialist, previously in charge of the Regular Homesteading Program, responded to the announcement for the Local Property Urban Homesteading Demonstration in the Federal Register. The application was prepared with the help of the then senior finance specialist. The Demonstration was overseen from its inception by this development specialist who, at the time of the first visit in August 1986, was also acting neighborhood development coordinator. The current neighborhood development coordinator, who had worked on the program as the department's senior finance specialist, took charge of the Demonstration in the fall of 1986 when the development specialist left.

When the Demonstration ended on July 17, 1987, Rockford had spent \$244,809 to acquire 22 properties. By August 1, 1987, the city had selected 14 Demonstration homesteaders and had finalized homesteader agreements with nine of them.

2.0 Administrative Arrangements

The Neighborhood Development Division of Rockford's Department of Community Development operated both the regular urban Homesteading Program and the Demonstration. The two programs, regular and local, were thought of by most staff as one unified program after the properties were acquired.

The departmental staff involved at the conclusion of the demonstration were the neighborhood development coordinator, who had overall responsibility for both programs (formerly the responsibility of the development specialist/acting neighborhood development coordinator); the construction specialist, who was in charge of property inspections and the rehabilitation process and management (formerly the responsibility of a senior construction specialist who moved to the building department); and the finance specialist. However, because the finance specialist was new in her position, the neighborhood development coordinator (previously the senior finance specialist) continued to arrange the closings of property acquisitions, review applications, and work with homesteader applicants until the end of the Demonstration in the summer of 1987.

The Demonstration was operated by the DCD under the guidance of the Rockford Homestead Board which sets the major policies under local control for the regular Urban Homesteading Program. The Board was composed of one city alderman, two local bankers, one attorney from the Office of the Public Advocate, and one local realtor.

Rockford's Demonstration and its regular Urban Homesteading Program experienced a great deal of personnel turnover. In the last 12 months virtually everyone directly involved in administering the program left the city's employment or switched jobs within the department of the city. (The neighborhood development coordinator, development specialist, finance specialist, and construction specialist were all new to their positions since the first visit.) These personnel changes and a perceived shortage of departmental staff in general caused some staff to feel that the large number of regular program properties and Demonstration properties that the city had acquired in the past year had seriously strained if not overwhelmed the staff's resources.

3.0 The Urban Homesteading Neighborhoods

At the time the city applied for the Demonstration, the development specialist responsible for the regular Urban Homesteading Program chose as the Demonstration target area a part of the city's Community Development Block Grant (CDBG) area in which he thought there was the highest concentration of residential homes and of boarded-up homes, that is, an area in which he thought the funds for property acquisition could be most quickly and effectively spent. The neighborhoods he designated were approved by the Urban Homestead Board and the Rockford City Council. The area chosen for the Demonstration was smaller than that for the regular program because the development specialist's intention was to concentrate the program's resources for property acquisition and rehabilitation in the neighborhoods with the most dilapidated housing.

The neighborhoods chosen for the Demonstration had higher unemployment rates, lower incomes, and worse housing conditions than city averages. The estimated vacancy rate in the Demonstration area was about 10 to 15 percent.

4.0 Homesteader Selection

As mentioned above, the current neighborhood development coordinator was in charge of screening potential homesteaders during most of the Demonstration. She was assisted in this task by another finance specialist and a secretary. In 1986, there were 199 applicants for the Urban Homesteading Program in Rockford, out of which 27 were found to be eligible for the lottery. The lottery, held at least annually, was the final selection process for homesteaders. Two homesteaders had been awarded Demonstration properties as of August 1, 1986, and 14 had been selected by August 1987.

It should be noted that the city handled the Demonstration properties and the regular program properties identically after acquisition. Applicants applied for them in the same way and the city awarded them in the same lotteries. As far as homesteader selection was concerned, no distinctions were made between the Demonstration and the regular program.

4.1 Stages in the Selection Process

Publicity: The program's application period was advertised in the local newspapers and a form to request an application packet was included in an ad in the local free paper. This newspaper is distributed to all homes in the target area. The application period was also advertised via radio and a press conference about the city's overall Urban Homesteading Program which is held every March by the Mayor of Rockford for this purpose.

Pre-screening: Applications received during the two-week acceptance period were pre-screened for obvious problems that would disqualify the applicant, such as bad credit, insufficient income, or lack of employment.

Interview: Applicants who passed the pre-screening were then interviewed by a staff member who filled out another more detailed application based on information provided by the applicant. The applicant then submitted a \$25 fee for the required credit check.

Verification: The final step in the process was to verify the applicant's employment and savings information with his or her employer and financial institution, and to verify the applicant's credit history based on the credit bureau's report. If the investigation yielded positive information, resulting in an acceptable debt-to-income ratio, the applicant became eligible for the lottery.

Open House: Eligible applicants were invited to an open house for any home for which they qualified. If the applicant attended and indicated interest by adding his or her name to a list available at the open house, the applicant was included in the pool for the lottery on that home.

Lottery: At least one lottery was held annually and more often if it was needed to satisfy the requirement that properties be conveyed within 90 days of acquisition. The lottery was a good publicity tool as well as a fair selection method. The publicity value was enhanced by the presence of the Mayor of Rockford, who drew the winning names.

4.2 Definition of Criteria Used

There were a number of criteria used to select homesteaders. The degree to which these of criteria were used by the Urban Homesteading Program staff in Rockford and the definitions of those criteria are presented below.

- o Financial capability: An applicant's financial status was checked via the methods mentioned in Section 4.1 to determine whether the applicant would be able to pay off his or her loan. Two general standards used by the city staff for the Urban Homesteading Program were that the ratio of the applicants' housing costs to income should not exceed 28 percent and their debt-to-income ratio should not exceed 35 percent.
- o Previous housing characteristics: These were considered only if the applicant lived in substandard housing and met the other criteria.
- o Personal characteristics: All urban homesteading applicants were required to be U.S. citizens, residents of Winnebago County, Illinois, and at least 18 years old.
- o Matching family size and house: Large families were eligible only for homes in which they would not be overcrowded. Families with more than one child were encouraged to apply for three bedroom homes.

5.0 Property Acquisition

5.1 Property Acquisition Techniques

The staff of Rockford's Department of Community Development tested several methods to acquire properties for the Demonstration, the last of which was the most fruitful. The staff first selected tax-delinquent, financially-feasible properties from its inventory of boarded-up structures in the target area. Of the initial 20 properties for which title searches were done and letters to owners were sent, one response was received. This resulted in Rockford's first Demonstration property acquisition. Although Rockford had difficulty meeting the requirement that it had to acquire title to at least one property within 45 days of the date of the letter of credit from HUD, two other properties were acquired shortly after the first through unsolicited inquiries.

The program then attempted to acquire properties from the local banks that held mortgages on many of the boarded-up properties. This failed, as the development specialist found, because the property taxes were always paid up as soon as the financial institutions took control.

A third approach, begun in April 1986, was to contact the Rockford Board of Realtors for leads on potential properties. The development specialist called this the "Terre Haute tactic" because he learned that the Demonstration in that city had had success with contacting realtors directly. The first letter brought a flurry of inquiries and many owners interested in selling their vacant properties in the target area were identified. In Rockford, if a property owner failed to pay either of the semi-annual property tax payments, the property was considered to be tax delinquent and was technically in the process of tax foreclosure. Thus, if owners interested in selling did not pay their taxes by June 21, and many did not, the city could then make the offers to buy the properties. This method allowed Rockford to acquire almost all of its 22 Demonstration properties.

5.2 Problems

According to the neighborhood development coordinator, the most serious problem over the course of the Demonstration was finding eligible properties that were tax delinquent. As was the case in other cities, the homestead staff found that most homeowners, even owners of deteriorated and boarded-up houses, pay their property taxes on time. In Rockford, if either of the semi-annual tax payments (due June 1 and September 1) were late, the property was considered eligible for the Demonstration. Even using this definition of "in the process of tax foreclosure," the city was able to acquire as many properties as it did only because it negotiated with owners of vacant properties and told them that if they happened not to pay the next installment of their property taxes, the city could buy their properties.

The other major problem, which was experienced by most of the Demonstration cities, was to find houses inexpensive enough to acquire and which could be rehabilitated for about \$20,000. However, the tax delinquency requirement seemed to cause greater concern to the neighborhood development coordinator.

5.3 Property Acquisition Process

According to the "tracking sheet" provided by the development specialist, the steps in the process of acquiring properties for the Demonstration in Rockford were:

- o identify property;
- o contact owner;
- o inspect property;
- o draft preliminary commitment letter;
- o send letter to HUD Environmental;
- o order appraisal;
- o order title commitment;
- o meet with seller to formalize offer;
- o order payoff figures for liens;
- o close; and
- o send all documents to HUD.

6.0 Property Conveyance

The City of Rockford Homestead Board uses an agreement for deed to convey fee simple title to all homestead properties to homesteaders once they are selected. For conveyance of Demonstration properties, the board signed a quit claim deed and, because all the Demonstration homesteaders received Section 312 loans, an option agreement that stated the board's requirements and the Section 312 mortgage encumbrance. State law authorizes the homestead board to convey properties to homesteaders for no consideration. The development specialist estimated that, during the first year the average cost associated with conveyance of a property was \$225.

7.0 Rehabilitation Financing

Three sources of rehabilitation loan financing, all Federal in origin, were used for the Demonstration program in Rockford. Primarily, Section 312 funds and the city's Urban Development Action Grant fund were used during the first year. These were supplemented on a case-by-case basis with funds from Rockford's Community Development Block Grant. The development specialist estimated that, in year one, 50 percent of the rehabilitation financing came from UDAG funds, about 35 percent from Section 312 monies, and about 15 percent from CDBG funds. The finance specialist who was interviewed during the second visit stated that to her knowledge all the Demonstration loans in the second years had been Section 312 loans.

Two local banks contributed to Rockford's UDAG fund, which is used for many purposes other than urban homesteading, so that Federal matching contributions could be received. One of the banks also lent to homesteaders under the regular program but did not do so for the Demonstration. All staff agreed that the low incomes of the homesteaders made them ineligible for loans from non-public sources.

8.0 Planning and Management of Rehabilitation

According to the Department of Community Development's senior construction specialist, the major objectives of the Demonstration program's rehabilitation process were to provide safe, sound, sanitary housing to homesteaders and, secondarily, to increase property tax revenues in the city.

8.1 Specifying the Work Needed

Once a house had been located and designated by the development specialist as a potential Demonstration home, the construction specialist would briefly inspect it to assess whether it would be financially feasible to rehabilitate. If so, a city Building Department, Building Inspection Division inspector would conduct a

structural and mechanical inspection and send a list of recommended repairs to the DCD. The DCD also sent two construction specialists to the home to do a complete exterior and interior inspection and recommend any additional items to be repaired or replaced. From the results of these inspections, a scope of work was written which specified all work required to rectify code violations and any other recommended improvements.

The homesteader was allowed to add or delete non-code items from the scope of work but had to be willing and able to pay for any additional items. If the rehabilitation planned in the scope of work was more costly than the homesteader could afford, certain non-code items were withdrawn if possible. The senior construction specialist estimated that about two thirds of the changes homesteaders made to the scope of work during the first year were additions and that less than a third were deletions.

During the first visit, the senior construction specialist said that the Demonstration homes were generally in better condition than the regular program homes because they had been vacant for shorter periods and had not been boarded up. This observation was contradicted, however, by other homestead staff who agreed at the termination of the program that Demonstration houses were in worse condition when acquired than were the FHA or VA houses and thus cost more to rehabilitate.

The repairs most commonly needed in Demonstration properties were, in descending order of frequency:

- o mechanical -- electrical, plumbing, heating;
- o interior -- flooring, carpet;
- o exterior -- painting, roof, gutter, siding, storm windows, steps, driveways; and
- o structural -- severe ones usually made rehabilitation too costly.

8.2 Managing the Rehabilitation

After the recommended work had been specified, a contractor was selected. Rockford's DCD maintained a list of over 50 local licensed general contractors who were each sent a letter informing them of upcoming lotteries to choose homesteaders and contractors. They were also invited to attend open house nights for each of the properties. Contractors expressing interest in bidding on the work for a particular house were entered in the lottery pool from which a staff member drew three names (or as many as were needed to get three contractors who agreed to bid). These names were then asked to submit written bids and at least two had to be received before any could be opened. A contractor could submit bids for one lottery only. In Rockford, cost was the only criterion for contractor selection; low bidder always won. Once the contractor was selected, the homesteader signed a bid acceptance, and work commenced.

Although sweat equity can decrease the cost of rehabilitation, it was allowed only if the homesteader could demonstrate sufficient self-help skills and then only for certain kinds of repairs. At minimum, qualified and willing homesteaders were allowed to do minor carpentry and all the painting they wanted. More skilled homesteaders could do other tasks if the DCD staff believed they had enough cash or credit to buy the material needed, could make the work meet accepted building standards, and could finish it on schedule.

9.0 Other Neighborhood Conservation Activity

According to the development specialist, there were not many strong or active neighborhood groups in Rockford during the Demonstration, but the city has been the beneficiary of a range of Federally-sponsored neighborhood conservation and improvement programs during the last two decades. Of course the block grant monies mentioned above (CDBG and UDAG) have been used for many purposes besides urban homesteading that have improved neighborhoods. Two of the city-administered programs include the single-family housing rehabilitation program and the rental rehabilitation program.

TERRE HAUTE, INDIANA

1.0 Background to the Program

The City of Terre Haute operated a number of programs aimed at rehabilitating properties before they became unsalvagable. However, because the Terre Haute housing market was so depressed, the cost of buying and rehabilitating many of these properties often exceeded their market values.

When HUD invited Terre Haute to participate in the Local Property Urban Homesteading Demonstration, the City believed that the program would provide the needed acquisition funds to rescue such properties. The Department of Redevelopment was designated by the city to administer the Demonstration, and, although Terre Haute never ran a substantial homesteading program, they believed that the experience gained by the city and the Department of Redevelopment in operating the rehabilitation programs in the past 5 years would provide the insight and capabilities needed to do so.

HUD awarded Terre Haute \$170,000 in Section 810 funds for acquisition of 12 properties. In the second year, because of their progress, they were given an additional \$50,000 in 810 funds. At the termination of the Terre Haute Demonstration on May 20, 1987, the city had acquired 27 properties, leading all eleven Demonstration cities in the number of properties acquired.

2.0 Administrative Arrangements

The Department of Redevelopment was designated by the City of Terre Haute to administer the Demonstration. This Department was controlled by 5 appointed Commissioners under the Redevelopment Agency laws of the State of Indiana and had been administering rehabilitation programs in the city for 5 years.

The Demonstration was managed by the Real Estate Administrator in the Department of Redevelopment. He was certified by the National Association of Housing and Redevelopment Officials (NAHRO) as a rehabilitation finance and construction specialist and was also a registered appraiser and real estate broker. The Demonstration Manager was assisted by a rehabilitation specialist who performed the property inspections and work write-ups, and by two other persons who assisted in property selection and in helping homesteaders with rehabilitation-related questions. In the second year, the rehabilitation specialist assumed some of the functions of the manager, although the Real Estate Administrator continued to direct the program.

The success of the Demonstration was partly attributable to the autonomy the manager had in directing the program. The Department of Redevelopment was very supportive and the Demonstration manager indicated that he did not face the bureaucratic red tape that many programs managers often deal with.

3.0 The Urban Homesteading Neighborhoods

Two neighborhoods in Terre Haute were selected for participation in the Demonstration: Central Eastside and Highland, both of which were designated as CDBG eligible. As a result, they had been the focus of many rehabilitation efforts which complemented the aims of the Demonstration. In addition to meeting HUD's criteria for low and moderate income areas, they were both eligible for the Department of Redevelopment's Deferred Payment Loan Program, Low Interest Loan Program, Rental Demonstration Program, and Rental Rehabilitation Program.

The general infrastructure of these neighborhoods was also being improved as part of the CDBG activities. These activities included street repaving, curb and gutter repairs and sidewalk improvements.

However, no properties were acquired in the Highland area over the course of the Demonstration. The program manager attributed the lack of success in Highland to the smaller size of the neighborhood, lower property turnover rates and the increased rate of private rehabilitation taking place.

Although the program manager indicated that the Demonstration had a positive influence on Central Highland, he did not think it had a significant impact by itself. However, he did believe that this program, in concert with all the other rehabilitation programs in the neighborhood, did have a significant influence.

4.0 Homesteader Selection

Publicity for the Demonstration was provided through advertisements and stories in the local newspaper and in letters sent to real estate programs and local churches. The information provided through these sources consisted of background about the Demonstration, eligibility requirements and assurances regarding equal opportunity and affirmative action.

Interested individuals were asked to contact the Department of Redevelopment to receive more detailed information regarding conveyance conditions, including residency requirements and rehabilitation time schedules, interim liability clauses, financing information and available technical assistance.

Persons who submitted an application were evaluated against eligibility requirements, and were subjected to credit checks. Some of the basic eligibility requirements included income not exceeding 80% of the median area income adjusted per the Section 8 program, and no other current residential property ownership.

The Homesteader Selection Committee was comprised of the Demonstration manager from the Department of Redevelopment; a staff person from the City Housing Authority who was selected for the Committee because of her experience in selecting Section 8 participants; and a representative from Terre Haute First National Bank, the local lending institution which was, with the city, jointly funding the rehabilitation loans for the homesteader. Each candidate was evaluated and their bankability assessed.

Once the Homesteader Selection Committee reviewed the applicant's qualifications and determined that the person was eligible for the program, these individuals received notices about the homestead properties as they were acquired.

These notices provided a description of the rehabilitation work necessary for the property and indicated when it was available for inspection by interested families. At the inspection, a staff member from the Department of Redevelopment was available to answer questions regarding the property.

Families that were interested in acquiring and rehabilitating the property notified the Department of their interest. When there was more than one family wishing to acquire a property, a drawing was held. This was necessary for only a few properties. If the Department approved the homesteader's choice, the homesteader would speak to the rehabilitation specialist to obtain a more detailed inventory of what was necessary to rehabilitate the property. The rehabilitation specialist and the homesteader discussed which repairs would be made by the contractor and which would be the responsibility of the homesteader. The homesteader then submitted an application to Terre Haute First National Bank for a rehabilitation loan.

In the first year of the Demonstration, five homesteaders were selected for properties, and in the second year, ten more were selected. The Demonstration manager indicated that the city believed their homesteader selection process was successful. He felt that one particularly important element was the presence of the bank officer on the Homesteader Selection Committee.

5.0 Property Acquisition

Property selection and acquisition were functions performed almost exclusively by the Demonstration manager. Criteria used for property selection were ranked as follows:

- o Condition of Property: the property must have been in a condition such that a family meeting the Demonstration income guidelines could afford to make repairs and operate the property.
- o Property Tax Status: The property selected must have been tax delinquent for at least one month at the time of acquisition.

- o Occupancy: The property may not have been legally occupied at the time of acquisition.
- o Owner Negotiation: Only properties which the owner had voluntarily agreed to sell and for which merchantable title could be passed were selected.

In their proposal, the city indicated that they intended to acquire properties which owed taxes for more than 15 months. These tax delinquent properties had already been identified in a list prepared by the County Auditor, and were available for the delinquent tax sale. However, it became clear in the early months of the Demonstration that this strategy was not successful. The city requested additional clarification from HUD as to how early in the tax foreclosure process properties could be acquired. HUD's response was interpreted as meaning that properties were eligible as soon as they were delinquent by one payment.

The Demonstration Manager then amended the process used to acquire the homes. The Demonstration Manager interpreted the requirement that homes need be only one tax payment delinquent to mean one tax payment delinquent at the time of acquisition, but not necessarily at the time when they were selected for acquisition. Two of the properties that were acquired were actually tax exempt. The city submitted advertisements in the newspaper and contacted real estate offices for properties which would meet their criteria. These included a maximum \$15,000 acquisition price, two or more bedrooms, a voluntary sale, and no occupants at the time of sale, although the property could be occupied when initially identified. At the same time that the Department was seeking properties through these channels, staff toured the neighborhoods to locate additional properties. Letters were sent to the owners of these properties to determine whether they were willing to negotiate for sale.

From these sources and contacts, a list of potential properties was developed. The list was reviewed to eliminate homes that were outside the target neighborhoods, homes in areas where the Demonstration manager felt there would be no interest on the part of the homesteaders, higher priced or very large properties, and houses that were "too good". Through these eliminations, a second list was

developed. A windshield survey of these properties was conducted to remove homes which were not well sited, required extensive rehabilitation, or had serious structural defects.

The final list of eligible properties was developed after on-site inspections. The Demonstration manager then negotiated a price with the owner based on his informal appraisal of the property. If the parties agreed, a purchase agreement was drawn up and deed preparation and title examination began.

Initially, the city requested a formal appraisal of each property before negotiating with the owner. However, in several instances, while waiting for the appraisal, the owner decided against sale to the city. Since the Demonstration Manager had credentials as a registered appraiser, he felt that he could make a bid based on his informal appraisal, and that a formal appraisal could be conducted after property acquisition.

Once a property had been selected as suitable for acquisition, the process itself usually took 45 days. In the first year of the Demonstration, fourteen properties were acquired by the Department, with average acquisition costs of approximately \$8130, excluding closing costs. Thirteen properties were acquired in the second year, with average acquisition costs of approximately \$8200. Outstanding liens were reimbursed with the proceeds from the sale.

At termination of the Demonstration, it appeared that only one property acquired in Terre Haute would not be conveyed to a homesteader. This property, which was one of the first two properties acquired, was located across from a neighborhood bar, which at the time of the acquisition, was closed. A few months later, the bar was reopened, and two people were killed during two separate brawls at the establishment. As a result of the publicity these incidents received, none of the homesteaders were willing to take this property. Terre Haute received permission from HUD to remove the property from the Demonstration.

Although pleased with the property selection process, the Demonstration manager indicated that in retrospect he would have made two changes. First, he would have concentrated his efforts

with only one real estate agent, rather than dealing with a number of them. After adopting this change in the second year, he felt that this approach was more productive in locating properties.

Secondly, the manager strongly believed that the tax foreclosure requirement for property selection should be waived. Not only was this a substantial hinderance in acquiring properties, but the manager indicated that there was no relationship between this condition and the other aims of the Demonstration. He cited situations in which a property in need of rehabilitation could not be homesteaded because of this restriction (e.g., properties belonging to the elderly or veterans), or situations in which, because the penalty for non-payment was less than the interest accrued on the money if held in the bank, the property was tax delinquent, but not necessarily in need of rehabilitation.

6.0 Conveyance of Properties

In conveying the property from the City of Terre Haute to the homesteader, a general warranty deed was used which included the homesteader agreement. Some conditions of the homesteader agreement were that all health and safety repairs be made within 3 months of conveyance, that city code compliance be met within 12 months, and that the homesteader must agree to live in the property for at least 5 years. At termination of the Terre Haute Demonstration, these conditions had been met in all cases. This method of conveyance did not preclude the homesteader from obtaining private financing. It should again be noted that the bank officer from Terre Haute First National served on the Homesteader Selection Committee, and was fully apprised of all aspects of the Demonstration.

The actual cost of property conveyance was approximately \$35, which consisted largely of deed preparation costs.

7.0 Rehabilitation Financing

As mentioned earlier, the City of Terre Haute operated a number of rehabilitation financing programs which consisted of CDBG funds leveraged with monies from local lenders. This same arrangement was used for the Demonstration. The local lender participating with the

city in the Demonstration was Terre Haute First National Bank. The city contributed 40% of the estimated rehabilitation costs of the unit, which averaged about \$20,000 per unit, and the bank contributed the remaining 60%.

The effect of leveraging these funds was to buy down the interest rate on the loans, so that homesteaders were offered a fixed, below-market-rate loan for the full rehabilitation amount, which could not exceed 110% of the after-rehabilitation appraised value of the house, or \$20,000, whichever was less. The interest varied by term. Maximum term (20-year) rates were 8.53%; 15-year rates were 8.45%; and 10-year rates were 8.38%. The city originally committed \$96,000 in CDBG funds for the Demonstration, based on acquiring 12 properties. However, at the Demonstration's termination on May 20, 1987, the city had acquired more properties and so revised the estimate of CDBG funds which would be needed to approximately \$216,000. This was to be leveraged with the Bank's contribution of approximately \$300K-\$400K.

Homesteader applicants were reviewed for credit worthiness before selection by the Homesteader Selection Committee, one member of which was the Assistant Vice President of the Mortgage Loan Department at Terre Haute First National Bank. If homesteaders passed the initial financial screening provided by this Committee, the loan application became more assured. However, each loan applicant was required to undergo an additional, more extensive credit check by the Bank, which, for the most part, applied standard loan requirements. The criteria included a stable working history (2 years on the current job); 3 credit references; and a 25% gross income/outgo on the mortgage amount with all obligations, including mortgage, not to exceed 33% of the homesteader's gross income.

In general, credit requirements were somewhat looser for the homesteader than for the other Bank loan applicants. For example, if a past bankruptcy was discovered, the Homesteader Selection Committee investigated the circumstances under which it occurred. If it appeared due to extenuating circumstances, (e.g., overwhelming medical bills), an exception was often made in granting the loan to the homesteader, regardless of the bankruptcy.

Both the Demonstration manager and the Loan Officer from Terre Haute First National were pleased with the homesteader selection process. At the end of the first year, 7 loan applications from homesteaders had been approved by the bank. In the second year, 7 or more were approved. None of the homesteaders had defaulted on their loans, although some who had been approved declined their loans at the last minute.

8.0 Planning and Management of Rehabilitation

The Demonstration manager, defined three objectives of the rehabilitation process:

- o To assist in neighborhood development;
- o To increase homeownership possibilities for families who might otherwise never own property, and
- o To generate economic development in the neighborhood.

The city required that all defects which posed a substantial danger to health must be repaired within three months of the initial conveyance and before the homesteader could occupy the property. The balance of items required to meet applicable local standards for decent, safe and sanitary housing had to be completed within twelve months of initial conveyance. The homesteader had to agree to occupy the property for five years.

The Demonstration manager viewed these work completion schedules as guidelines as opposed to deadlines. If a homesteader was continually working on the property and making every effort to comply, but for some reason fell behind schedule, the program manager did not feel that he should be "punished". He also expressed some misgivings about the 5-year residency requirement. If the intent of this regulation was to deter speculators from participating in the program, he believed that a two-year residency would have been sufficient. He could envision a situation in which the homesteader, after rehabilitating his home, was offered a better job opportunity in another city. The residency requirement would hinder the homesteader under these circumstances.

Determining what property repairs were necessary was primarily the function of the rehabilitation specialist. Homesteaders were allowed to suggest additional cosmetic repairs, the arrangement of rooms, etc.

The decisions regarding who was responsible for various repairs was ultimately left to the homesteader. However, the Department of Redevelopment attempted to counsel these individuals against undertaking more than their skills or past experience would dictate. Whereas homesteaders were encouraged to paint and perform other minor repairs to save money, they were discouraged from attempting electrical, roofing or furnace repairs unless they or their families had specific skills in that area.

Contractor selection was also the responsibility of the homesteader. The Department of Redevelopment maintained a list of contractors who had done acceptable work for the city. However, property owners were free to select contractors not on that list. In order for the homesteader's choice to be approved by the city, the contractor's estimate for cost of the work had to be within 10% of the city's estimated cost. In addition the contractor was required to post a \$1000 cash performance bond. The advantage of this method of contractor selection was that it allowed homesteaders to choose people they felt were trustworthy and with whom they were comfortable working.

Monitoring the rehabilitation was the joint responsibility of the Demonstration manager and the rehabilitation specialist. Work had to meet standards exceeding the general city housing codes and Section 8 codes. The purpose of the rigidity of these standards was to assure longevity of the rehabilitation work; materials purchased and work performed had to be of a quality to last at least 10-20 years.

Two problems arose in the course of the rehabilitation work. First, it was often difficult to get the homesteaders to complete the last 5% of the work. As an incentive, the city planned to withhold some of the rehabilitation funds until all work was completed. Also, some homesteaders mismanaged their funds, spending it on things other than their subcontractors.

To solve this problem, the city planned to require that the homesteaders present itemized invoices. The Department of Redevelopment could then issue two-party checks to each of the supplier/contractors based on the itemization.

9.0 Other Neighborhood Conservation Activity

A number of conservation activities in the homesteading neighborhoods were underway. Streets, curbs, gutters and sidewalks were being improved as part of the CDBG activities. A number of loan programs were also available to improve homes for low income occupants.

The Deferred Payment Loan Program was available to low income owner occupants, 60 years or older or handicapped. This was a zero interest loan used for rehabilitation, with payment deferred until the property tax was transferred to another owner. The maximum loan available under this program was \$16,000.

The city also made available low interest loans by leveraging city CDBG funds with monies from private lenders in the area, operated in the same manner as the 60/40 leveraged loans available to landlords for purchase and rehabilitation of properties, as well as loans for rehabilitation of already owned properties. Interest rates were set at 8.53% for 20 years or 8.43% for 15 years. Properties rehabilitated through these loans had to be available at a rent affordable by Section 8 guidelines.

LOUISVILLE, KENTUCKY

1.0 Background to the Program

When Louisville received notice from HUD of the existence of the Local Property Urban Homesteading Demonstration, the administrator of the Regular Urban Homesteading Program submitted an application to participate. In preparing the application she consulted with the city's real estate and legal offices. They were particularly interested in the program since there were a significant number of abandoned properties in an area in which they were working. Since many of these properties were not owned by HUD, they could not be acquired through the regular Urban Homesteading Program.

The original proposal requested \$150,000 for the acquisition of ten properties at an average cost of \$15,000. At the first site visit in the summer of 1986, only one unit had been acquired, and it had not been conveyed to a homesteader. They had options on thirteen properties and were waiting for title reports. Lack of commitment to the program by the previous city administration and lack of staff time to work on the program contributed to the slow start. At the time of the second site visit, however, eight properties had been purchased, four were being rehabilitated, and rehabilitation was to begin shortly on three others. Seven homesteaders had been selected, but none was in a unit.

Several problems slowed program progress in the Demonstration, the biggest of which, according to staff, was the acquisition of properties that met all the criteria established by the program. Properties had to be in the target areas, tax delinquent, have clear title, be in good enough shape to rehabilitate, yet be affordable to moderate income people. Title problems in particular eliminated many properties from consideration.

2.0 Administrative Arrangements

The Department of Housing and Urban Development was the agency designated with ultimate responsibility for administering the program. The Rehabilitation Division was selected as the operating agency because they had been administering the regular Urban Homesteading Program. The city's Real Estate division handled the acquisitions. The Urban Homesteading Coordinator, in consultation with the department head of the local HUD Field Office, was responsible for setting policy.

Because of the slow start, first-year administrative costs were low. Approximately \$5,000 was spent, \$4,000 for staff time and \$1,000 for legal, advertising and appraisal services. During the second year, administrative costs were approximately \$25,000, \$23,000 for salaries and \$2,000 for other expenses.

Property acquisition under the Demonstration was much more difficult than under the regular program. In the Demonstration, locating properties and negotiating purchases were added burdens. According to the Director, "there are no crazy owners who change their minds in the regular homesteading program". Moreover, the income guidelines were stricter in the Demonstration than in the regular program in that the homesteader's income could not exceed 80% of the median income of the area. This meant that it was harder to find homesteaders who could afford to rehabilitate the properties acquired in the Demonstration, because properties were typically in much worse shape than those acquired from HUD under the regular program. Staff estimated that the houses acquired under the Local Property Demonstration cost between \$5,000 - \$15,000 more to rehabilitate than houses acquired through the regular program.

3.0 The Urban Homesteading Neighborhood

The three target areas for the Demonstration were chosen by staff of the Housing and Rehabilitation Department. They began by including the neighborhood designated for the regular program and then added two new areas through a two-step process. The first step was to examine census data, code inspection records and abandonment rates. Areas which had a 3 percent or greater abandonment rate, a

median income of 80% or less, and a higher than average number of code violations were identified. In the second step, positive attributes that would make the area conducive to revitalization were identified. These positive attributes included historic district designations, and major commercial revitalized areas. Staff felt that this process worked well for them and were pleased with the neighborhoods chosen.

The neighborhoods selected for the Demonstration all have higher abandonment rates and lower median incomes than the city as a whole. These rates are shown in the following table.

<u>Neighborhood</u>	<u>% abandoned</u>	<u>% median income</u>
Parkland	5.5%	55%
Russell	14.0%	34%
Shelby Park	8.0%	45%

Source: 1980 Census

No new data were available at the time of the second site visit to assess the impact of the Demonstration on these neighborhoods. Since most units were still in the rehabilitation process, it was too early to gauge impacts in any case. Neighborhood organizations did not play a role in the program.

4.0 Homesteader Selection

Homesteader selection in the Demonstration and the regular program were handled the same way. The programs attracted participants through joint efforts, beginning with advertising the availability of units through newspaper articles, legal notices and radio spots. Respondents were added to the mailing list and then sent applications. A total of 996 applications were sent and 375 were completed and returned. These were screened for city residence, income eligibility, prior property ownership and bankruptcies, reducing the number of applicants to 117 qualified families. Each time a homesteading unit became available, letters were sent to all those on the mailing list with the appropriate family size and sufficient income to afford the unit or units

period and, if they were interested in acquiring it, to drop their names in a locked box at the house. After the inspection period was over, a lottery was held at the house, and three names were chosen. The first chosen was the winner and the other two were alternates. The first lottery was conducted by the mayor and had good television coverage.

Later, more emphasis was placed on selecting homesteaders able to afford the maximum Section 312 loan (\$33,500). Because the cost of rehabilitating the units often exceeded this amount, the city began to provide homesteaders with grants or deferred interest loans from CDBG monies. In order to stretch the public dollar further, the city chose homesteaders needing the minimum subsidy.

5.0 Property Acquisition

The selection of properties for acquisition was done by the Urban Homesteading Coordinator in consultation with a person from the Real Estate Division and the Assistant Director of Housing. Their criteria for selecting units included tax delinquency, a desirable location, three-bedroom units and reasonable rehabilitation costs. In the regular Urban Homesteading Program, the city had found that three-bedroom units were in the greatest demand, and that the rehabilitation costs for them were lower than for the larger units they were acquiring, and so more affordable to homesteaders.

Tax delinquency for the purpose of the program was defined as taxes that were six months delinquent. This did not change during the course of the Demonstration.

The original process of selecting properties proceeded as follows:

1. Data were obtained from the Urban Land section of the department that allow the identification of tax delinquent, vacant units in the target areas.

2. A site inspection was conducted to insure that the unit was vacant and to assess its condition. The condition of the surrounding structures was also examined to be sure that the property was not located next to other abandoned or very deteriorated structures that were not going to be acquired and rehabilitated.
3. The real estate section then located the owners of units they wanted to acquire, and set up meetings.
4. At the meeting with the owner, negotiations on selling price took place. Once an offer was made and accepted, a 90 day option on the property was obtained in exchange for a \$1 payment.
5. A title search and appraisal were ordered.
6. If the title was found to be marketable, a rehabilitation specialist estimated the cost of rehabilitation.
7. If the rehabilitation costs were reasonable, a closing was set.

This process changed over the course of the Demonstration, however. Too much time and money were being spent on inspections and on locating owners, only to find that a title was encumbered and could not be acquired. The staff person responsible for acquisitions ordered fifty-six title searches, only nine of which had clear titles. At least in Louisville, most vacant, tax delinquent properties have encumbered titles. The process was therefore changed so that a title search was conducted first, before inspecting the property and contacting the owner.

Contacting the owners was also difficult since many lived outside the area. The Demonstration staff also discovered that formal options on properties were not being respected by the owners. They began instead to offer the owner the appraised value for the unit and walk away if the offer was not accepted.

The staff person responsible for acquisition felt that foreclosures were a better way to acquire these properties. By foreclosing, the properties can be acquired at lower prices and

title problems are not an issue. Changes in the foreclosure laws allowing multiple foreclosures to be handled in one court action made this financially feasible.

The units cost between \$6,000 and \$16,000, averaging \$10,000. Time involved in acquiring units was said to range from one to three months.

6.0 Conveyance of Properties

A conditional deed conveyed units to the homesteaders. The conditions included five-year occupancy, right of inspection and proper maintenance of the unit.

7.0 Rehabilitation Financing

The bulk of the funds for rehabilitating the units came from Section 312 loans acquired by the homesteaders. CDBG deferred payment loans were issued to make up the difference between the maximum Section 312 loan and the actual cost of between \$38,000 and \$42,000 to rehabilitate units, well above the Section 312 loan limit. Homesteaders begin payments on these deferred payment loans after their Section 312 loans are paid off.

Deferred payment loans are made based on the recommendation of a loan committee, a group of administrators in the City's Housing Department. Some delays in transferring units to homesteaders were attributed to the deliberations of this committee, which was also responsible for cutting out some of the improvements that the staff and homesteaders wanted to make to the units.

Section 312 loans rather than FHA or conventional loans were used because they were easier to get and because they carried the lowest interest rates. With Section 312 loans, appraisals and underwriting criteria are not as strict, resulting in more people qualifying for loans.

During the course of the Demonstration, other financing mechanisms were explored because of the uncertain availability of Section 312 monies. These included mortgages from the Kentucky Housing Finance Agency and from MISCO, a corporation owned by four

local banks and involved in lending in high risk areas. Mergers and high foreclosure rates caused MISCO to become inactive, however. The uncertainty of Section 312 monies remained a problem, causing staff to spend time researching alternative financing mechanisms that were not always needed.

8.0 Planning and Management of Rehabilitation

The objectives of the rehabilitation process were to bring units up to local codes and to make them attractive and desirable. Because of the \$15,000 limit on the purchase price, the properties acquired were in very bad shape, much worse than the units typically acquired through the regular program. Most needed all new mechanicals (electric, heating, plumbing), new roofs and energy conservation improvements.

Most of the repairs made to units were determined by the rehabilitation specialists. The homesteaders had some say in deciding improvements beyond those specified by the staff if they could afford a larger loan. In most cases, however, homesteaders were involved only in choosing layouts and colors.

Originally homesteaders were not to be encouraged to take on sweat equity projects since most of them were working full time. The staff preferred to present homesteaders with completely rehabilitated units. Some sweat equity, such as interior painting and laying floor covering, was eventually encouraged however, in order to make units more affordable.

Repairs were based on the local housing code and a set of rehabilitation and construction standards developed by the Department of Housing. Homesteaders were responsible for selecting contractors. They were given "bid packages" which in turn, they distributed to contractors, who submitted their bids by a specified date. The Department then screened contractors for capability and selected the low bid from those qualified. The screening of contractors was particularly important since general contractors in Kentucky are not required to be licensed. In the past, the

Department provided homesteaders with a city-approved list of contractors. However, homesteaders could then hold the city responsible for any problems that developed so this process was discontinued.

The only problem encountered in the rehabilitation process, according to staff, has been slowness, attributed to Section 312 funds not being available at times and to slowness in loan processing.

Technical assistance was provided to homesteaders informally. The program coordinator would explain the process of becoming a homesteader, and then help applicants through the process as needed. The rehabilitation advisors also provided assistance by discussing needed improvements and how to select and deal with contractors. No formal training sessions were offered.

Monitoring work performed by contractors was the responsibility of the rehabilitation specialists, who inspected the work when the contractor applied for his first payment and prior to all subsequent payments. Over the course of the demonstration, they became stricter in monitoring the work of contractors before payment. Contractors were later required to complete a "schedule value" which detailed the amount of work performed on each line item of the work order before partial payment was authorized. The city's building inspectors were responsible for inspecting mechanicals.

The work was to be completed 90 days from the day the loan on the property is closed. Contractors were selected before the actual closing, and the contractor was expected to begin work immediately.

Plans for monitoring post-purchase occupancy and the other conditions in the conditional conveyance included mailing letters to homesteaders each year with a form to be returned.

9.0 Other Neighborhood Conservation Activity

Virtually all other rehabilitation programs in Louisville are targeted to the homesteading neighborhoods. The CDBG program is targeted to these areas and so is their rental rehabilitation program. A home repair program for owner occupants is also being developed for these areas, and the city plans to use newly granted authority to condemn property to acquire and rehabilitate properties in these areas.

DULUTH, MINNESOTA

1.0 Background to the Program

In 1984 the rehabilitation director at the Duluth Housing and Redevelopment Authority (HRA) received an invitation to apply, on behalf of the City of Duluth, for the Local Property Urban Homesteading Demonstration. The rehabilitation director decided to make the application because Duluth had begun participating in the regular Urban Homesteading Program the year before, and there were many properties eligible for the Local Property Demonstration available in Duluth. The application was approved by the Duluth City Council and eventually chosen for funding by HUD.

HUD awarded the city \$140,000 in Section 810 funds for acquisition of six properties. At the termination of the Demonstration, \$63,969 had been spent for five tax delinquent properties.

The two Urban Homesteading programs -- regular and Demonstration -- were initially operated identically after properties were acquired. Later changes slightly altered the program operations. Because Demonstration properties tended to be less desirable in terms of location and quality of construction, separate lotteries were held for regular and Demonstration homesteaders.

Overall, the staff of HRA believes that the Demonstration has had very little impact on the neighborhoods, since only five properties were acquired in its first year. The homestead director believes that more properties could have been acquired if more than \$15,000, perhaps as much as \$30,000, could have been spent on each property and if tax delinquency had not been a restriction.

2.0 Administrative Arrangements

The Duluth Housing and Redevelopment Authority is responsible for the operation of both the regular Urban Homesteading Program and the Demonstration. The HRA is, in turn, administered by seven commissioners reporting to the city council.

The Demonstration was the charge of the rehabilitation director at the HRA's Department of Rehabilitation. Also involved were HRA's housing rehabilitation specialists and loan officers. The HRA worked closely with the staff of the city's Planning and Development Department in the Community Development and Housing Division.

The primary policy-making body for the Urban Homesteading Program was the Rehabilitation Advisory Committee. This ten-member committee was comprised of a representative of the building contractors, a member of a community action agency, one at-large member, one city building inspector supervisor, a senior planner with the city's Planning and Development Department, and one representative of Neighborhood Housing Services (a non-profit CDBG grantee). The HRA rehabilitation director provided support to the committee. Certain recommendations of the committee needed the approval of both the HRA commissioners and the city council.

3.0 The Homesteading Neighborhoods

The neighborhoods chosen for the Demonstration were those originally designated as the CDBG areas by the Rehabilitation Advisory Committee of the Duluth HRA. This area was chosen in 1983 as the site in which the regular Urban Homesteading Program would operate. The choice was approved by the seven-member HRA Board of Commissioners and the Duluth City Council.

In initially designating the urban homesteading area, additional neighborhoods (approximately one and one-half census tracts) were added to the CDBG target area to eliminate what were seen as artificial boundaries. The CDBG target area was chosen as the Demonstration site because the neighborhoods within it had the

highest concentrations of low and moderate income households, they contained the oldest housing stock (76 percent of it built before 1940 as opposed to 56 percent citywide), they had most of the city's FHA and VA foreclosures, and other neighborhood improvement programs were concentrated there.

The Demonstration manager doubted that the Demonstration alone made a discernable impact on the neighborhood. The city viewed the program as a complement to its other revitalization efforts, all of which worked together to improve the area.

4.0 Homesteader Selection

Publicity. The selection process began with publicizing properties two weeks in advance of upcoming open houses. Advertisements were placed in local daily and weekly newspapers, including at least one paper of general circulation, and copies of the print ad were sent to 20 to 25 community service organizations. In addition, press releases were sent to all local electronic media.

Application Process.

Open house: Open Houses were held for prospective homesteader applicants, building contractors, and others. Applicants were not required to attend these events in order to apply for properties.

Application deadline: Applications were to be received by HRA 14 to 16 days after an open house.

Property inspection: Applicants were able to inspect a property and apply before or after the open house.

Eligibility screening: Applicants whose incomes exceeded the program standards, whose incomes were extremely low, who were minors, or who were not U.S. citizens were disqualified.

Lottery. A two-round lottery system was originally planned. In the first round, 21 names would be drawn from the pool of eligible applicants. Of those 21 names, four would be drawn in the second round, one winner and three alternates. But, because of an insufficient number of applicants - only nine to eleven per

property - this system was never put into effect. Later in the Demonstration, applicants were restricted to bidding on only one home per lottery, since many homesteaders had been winning properties they did not want, usually ones with extraordinarily high rehabilitation costs.

Financial Check. A credit report and financial verifications were obtained for the homesteader chosen for each property in the lottery. If the results of the investigation were positive, an interview was held between an HRA loan officer and the new homesteader at which loan terms and the homesteader's rights and responsibilities were discussed. The contractor selection process was also begun at this time. If the selected applicant did not pass the credit and financial checks, the first alternate chosen in the lottery was brought in for the same process.

Criteria for Selection

Financial: Applicant income could be no higher than 80 percent of the median income for the area. The annual costs associated with the homestead (actual debt service) could be no more than 40 percent of the applicant's income.

Personal: Applicants were required to be at least 18 years old, U.S. citizen (if co-applicants, at least one must have been a citizen), and could not currently own a home.

Family size appropriate for house: No overcrowding was allowed, even if an applicant with a large family requested a smaller home.

5.0 Property Acquisition

The Duluth HRA had problems acquiring properties for the Demonstration with fair market values less than \$15,000 and estimated rehabilitation costs of \$20,000 or less. The advisory committee had decided to limit property acquisition to single-family homes to avoid burdening new homesteaders with the responsibility of being a landlord as well as being a homeowner in a multi-unit building and to minimize the rehabilitation costs per structure.

However, rather than change this policy to make duplexes eligible (as was done in 1985 for the regular Urban Homesteading Program), the committee and the rehabilitation director decided that the base for referrals of potential single-family homes should be expanded.

Property taxes in Duluth are payable twice yearly. If the first payment is in arrears, a property moves technically into the tax foreclosure process. The rehabilitation director contacted the county auditor's office to identify tax delinquent properties. The properties were then visited to determine vacancy or abandonment status. Most tax delinquent homes were found, however, to be occupied, since evictions for tax forfeiture were not rigorously pursued in this economically depressed area. In addition, locating owners of the few tax delinquent properties that were found to be vacant was very difficult. As a result, few properties were successfully acquired through this process.

Several other methods were tried with limited success. Lists of properties which had had electric, gas, or water services disconnected were obtained from the municipal utilities. These lists were then compared to the county assessor's list of tax delinquent properties in hopes of finding vacant eligible properties. The HRA's leasing and occupancy specialist also provided the rehabilitation director with a list of several senior citizens seeking public housing who were having difficulty selling their homes. Neither of these methods were terribly productive.

When the HRA staff involved the local board of realtors in the search for Demonstration properties, they were very much more successful. Most properties required for the Demonstration resulted from realtor referrals or independent inquiries from private parties. In the first year, the average acquisition cost of these properties was \$12,000, and in the second, \$13,000.

The authority to acquire properties rested with the HRA commissioners. However, the actual selections, as recommended by the rehabilitation director, were first reviewed by the Rehabilitation Advisory Committee and then sent to the commissioners for approval at one of their regular meetings. Before recommending properties for selection, the rehabilitation director used his judgment and relied on the building inspector's opinion. He also checked the zoning for the area in question and reviewed the most recent building inspection report done by the housing inspection staff.

The major steps in the acquisition process, which together usually took about 60 to 90 days, follow in chronological order.

- o HRA received a referral from a realtor or notice from the assessor's office that a property seemed to qualify for the Demonstration.
- o The rehabilitation director inspected the property and, if it looked acceptable, attempted to contact the owner to determine interest in selling according to the program requirements.
- o If the owner was willing to sell, the rehabilitation director arranged for the Rehabilitation Advisory Committee to inspect the property.
- o The rehabilitation director ordered an appraisal by a fee appraiser of the property before (if it looked good) or after (if it looked questionable) the committee saw it.
- o Once the appraisal was received, the committee met and recommended to the HRA commissioners whether or not to buy the property.
- o If the committee approved, HRA made an offer to buy the property from the owner for the appraised fair market value.
- o The owner accepted the offer by signing an option agreement which stated that the owner intended to sell the property to HRA, within a given time period, but which did not obligate the HRA to buy the property.
- o The HRA Board of Commissioners approved the purchase of the property.

- o A title examination was ordered and, once received, the HRA staff attorney checked the title to find what liens or other payments must be made in order to buy the property.
- o HRA requested money from HUD; HUD transferred the funds. HRA closed with the seller, who signed the deed, distributed checks to the seller and others necessary to clear title, and collected receipts for the monies distributed.

Problems

As mentioned, the difficulty locating eligible properties was the main obstacle the city faced in implementing the Demonstration. The homesteading director stated that \$15,000 was not sufficient to purchase homes that fit HUD criteria, that it was impossible to rehabilitate most of these homes for the \$20,000 limit set by the city, and that it would have been better for the city to have the option to demolish some of these structures and have a vacant lot than to have vacant, deteriorating, tax delinquent houses which are not cost-effective to rehabilitate. It was recognized, of course, that while the City always has the option to demolish properties, the acquisition costs for properties which are not homesteaded cannot be defrayed from Section 810 funds.

6.0 Conveyance of Properties

The method of conveyance used in the homestead program in Duluth was a land contract or contract for deed. This method was used for both the regular and Demonstration programs. The rehabilitation director said the cost of conveyance (deed preparation) was negligible.

If HRA bought a property and did not transfer it to a homesteader before October 1 of a calendar year, the taxes were due on that property for the following year. The property remained tax-exempt until the homesteader moved in and the homesteader could apply for the property tax abatement for up to four years.

7.0 Rehabilitation Financing

All but one of the rehabilitation loans for the homesteading program in Duluth were financed with Section 312 funds. This source was sufficient and there have been no problems with this financing arrangement, although it was sometimes difficult to get the Section 312 funds in a timely fashion, so that rehabilitation was sometimes delayed.

In general, no local lenders participated in the Demonstration because applicants for this program had incomes no greater than 80 percent of the median for the area (e.g., two-person household maximum was \$17,050) and thus could not qualify for private loans. However, because of the excessive rehabilitation costs estimated for one of the properties, HRA arranged to use private lender funds and CDBG monies to have some of the needed work done on that property before placing it in a lottery. Although the rehabilitation on the property was incomplete at the termination of the Demonstration, it appeared that the private lender, who originally held the mortgage on the property, would provide part of the funding for the homesteader's portion of the rehabilitation costs as well.

8.0 Planning and Management of Rehabilitation

HRA's primary goals for the Demonstration were to bring standard houses up to code - i.e. make them safe and sanitary -- and to make further improvements to produce a home to be proud of.

Once a homestead property was located, the rehabilitation specialist inspected the house with a city building inspector, and they drew up a preliminary scope of work. The building inspector wrote up the code violations, and they agreed on any other improvements including those which would halt further deterioration. The homesteader for the property was given an opportunity to make suggestions regarding non-code item additions, substitutions, and occasionally deletions to the document. These suggestions usually concerned the choice of materials, fixtures, or design details. If any of these changes increased the cost of the job, they were paid for by the homesteader.

Most Demonstration homes in Duluth were older than the city average. The most commonly needed repairs were, according to the rehabilitation specialist: heating system problems (including those necessitating system replacement), interior plaster cracks, and dilapidated window frames and moldings.

Initially, HRA was involved in the contractor selection process, but as the program evolved, it was usually left to the homesteader to select a licensed and bonded contractor whose bid was equal to or less than the price estimate for the work. As explained the first year by the rehabilitation specialist, the bid information for each property was posted on a bulletin board at the HRA offices for review by contractors interested in bidding on these properties. The bid acceptance period was two weeks, and the rehabilitation specialist would review the bids received with the homesteader to select the best one. In some cases, the homesteader requested names of contractors from which to choose and HRA would provide these. In other cases, according to the rehabilitation specialist, he would refer homesteaders to the yellow pages of the telephone directory to find contractors.

Sweat equity, or labor by the homesteader, could decrease the cost of rehabilitation, but the rehabilitation specialist said that homesteaders generally did not have the skills necessary to perform most of the required work. Contractors did all electrical and plumbing work, but homesteaders were allowed to paint, install insulation, or do carpentry if they could demonstrate ability to do so. Overall, sweat equity was not encouraged unless the homesteader was extremely interested and able.

9.0 Other Neighborhood Conservation Activity

Among the many activities other than urban homesteading which conserved or improved neighborhoods in Duluth, the senior planner of the city's Planning and Development Department mentioned the following:

- o Neighborhood Housing Service: An agency in Duluth that uses CDBG funds to purchase vacant homes and transfer them to community groups.

- o Rental Rehabilitation program: Operated by HRA.
- o Property Rehabilitation program: Operated by HRA with CDBG funds.
- o Section 312 Loan program: Operated by HRA.
- o MHFA Loan program: State funds administered directly by the Minnesota Housing Finance Agency (formerly through HRA and local lenders) for lower income borrowers.
- o CDBG capital improvement projects: Improvement of streets, sidewalks, and storefronts.
- o Single Room Occupancy (SRO) housing: Funded through CDBG funds and grants from foundations.

OMAHA, NEBRASKA

1.0 Background to the Program

The City of Omaha was granted \$200,000 in Section 810 funds for the acquisition of 20-25 tax delinquent properties. With more than 25,000 delinquent or foreclosed properties available through the Land Revitalization Authority, the City felt confident it could achieve this goal.

It was believed that the Local Property Urban Homesteading Demonstration could be folded easily into the regular Urban Homesteading Program. This program began in 1979 in a four- or five-block area called Erskine Park and has been quite successful, conveying about 40 properties a year.

Several problems arose in acquiring and disposing of properties which caused the Demonstration to be less successful than the Regular Urban Homesteading Program:

- The tax foreclosure process is lengthy and was unsystematic when the Demonstration began.
- A large proportion of the delinquent properties surveyed were occupied and thus ineligible for the program.
- Many homesteads could not be rehabilitated for under \$27,000 and, of those that could, post-rehab appraised values were often less than projected rehab costs.
- The needs and desires of potential homesteaders were not met by the two homesteads that were acquired.

These problems led the City to agree to relinquish \$100,000 in August, 1986, and \$78,530, the remainder of its grant, in February, 1987. These funds were then distributed to other areas where they could be better utilized. At the time the City stopped looking to acquire tax delinquent properties, it had utilized \$21,470 of its Section 810 Grant to acquire two homesteads.

2.0 Administrative Arrangements

The Demonstration program in Omaha is managed by the Community Development Division of the Planning Department, along with a Homestead Selection Committee made up of uncompensated employees. One interesting feature of the Omaha program is the role of the Land Revitalization Authority (LRA). The LRA is a tripartite organization which includes Douglas County, the Omaha Public School District, and the City of Omaha. It functions as owner of properties acquired by its member organizations, and has a standing bid on all foreclosures by the county in the amount of foreclosure costs and tax arrearages. The LRA was therefore a logical source of properties for the Demonstration. However, the LRA is unable to sell acquired properties for two years (because of redemption rights), and has no authority to secure or maintain the properties it owns. The director of the Demonstration program is also the director of the LRA.

No problems were cited in the administrative aspects of the homesteading program.

3.0 The Homesteading Neighborhoods

The Erskine Park area was selected as a target area after a block-by-block housing survey was conducted. The area had the lowest incomes, highest unemployment, and the greatest number of foreclosures and vacancies.

The Demonstration neighborhoods were selected before the Demonstration began. They were selected in 1982 when the regular program was expanded beyond the Erskine Park area, and two contiguous areas were designated. The Urban Homestead Area North is predominantly black. The Urban Homestead Area South, which borders the Missouri River, is predominantly ethnic European, with a significant Hispanic community and some blacks. The housing stock in both areas is primarily single-family homes, and both areas include some commercial and industrial regions.

Officials wanted to expand the area still further, but found that they were utilizing all areas that met the necessary criteria.

The coordinator noted that, even if conveyed, there was little possibility of the Demonstration properties affecting the neighborhoods since there are only two of them. He indicated that average incomes, number of tenant-occupied homes and other relevant statistics in these areas remained exactly the same during the past two years. The areas have not experienced a large problem with abandoned homes.

Many of the houses in the expanded Erskine Park area were undesirable to potential homesteaders. They are quite small, about 750 square feet, and built on concrete slabs. Built during WWII, the workmanship is fairly shoddy, and maintenance costs are high.

One of the two acquired homes lies in a neighborhood which is a bit rough, with all adjacent homes tenant occupied. Such areas are found to have much higher crime rates than areas of home ownership.

All homestead properties to date have been located within low and moderate income census tracts, and this trend was expected to continue.

4.0 Homesteader Selection

Homesteads in Omaha are packaged in groups of about eight homes, known as increments. Advertisements were placed in the Omaha World Herald and the Omaha Star and included photographs and brief descriptions of each house. Applications were then reviewed and, of those that qualified on credit and employment grounds (two years consecutive employment were required), three were selected at random to attend the open house. Only those three applicants were allowed to see the inside of the house and to receive a work write-up and a cost estimate. Interviews with each of these candidates by loan and rehab specialists determined final selection.

The two acquired properties have not been conveyed. The coordinator feels this had little to do with the selection process itself, as about 40 homesteaders per year are selected in this manner in the regular program.

The homestead coordinator instead cited several other reasons that these homes had not yet been conveyed:

(1) Expectations of applicants regarding condition of the houses were high and coupled with a lack of vision and an unwillingness to commit to repaying the rehabilitation loans. Many said they simply didn't like the houses.

(2) An increasing demand for larger houses could not be met by the Demonstration homes nor, by most of the homes in the regular program.

(3) Homesteaders chosen to attend the open house for a particular Demonstration home may not have expressed an interest in that house. This occurred when the home they listed as their first choice was unsuitable for the size of their family, in which case they were reassigned to another property.

(4) Demonstration homes, typically vacant for many years, suffered in comparison to other HUD homesteads, often remodeled and recently occupied.

5.0 Property Acquisition

The LPA was the planned acquisition ground for tax delinquent properties. Several problems arose:

1. Many of the properties which had undergone tax foreclosure were already vacant lots by the time they were surveyed because of the City's aggressive condemnation procedure regarding vacant or abandoned homes.
2. Many of the delinquent properties were still occupied, making them ineligible for the program. When the program began, the process of tax foreclosure was very slow and the City was far behind in processing delinquent homes. No systematic procedure for dealing with delinquencies was in place. Tenants or owners felt free to stay until evicted.
3. By the time many homes were processed, rehabilitation was prohibitively expensive. The Tax Assessor's Office finally began to process the City section-by-section but, even if no longer occupied, homes were often as much as 14 years delinquent by the time they were reached, and significant deterioration had taken place.

The officials were adamant about maintaining the original HUD definition of "substantial tax delinquency." They noted it was not uncommon for whole blocks of homes to be more than a year delinquent and felt it would be unfair to subject such occupants to eviction. A variety of community development programs work to assist in and facilitate the repayment of back taxes instead of encouraging the owners to sell.

When attempting to locate properties through means other than the lists provided by the LRA, the City of Omaha was particularly careful not to trigger the Relocation Assistance Act. Their ads stressed the importance of a voluntary sale by the owner. (They did get around this by approaching some owners directly when they learned that they were willing to sell.) They relied on windshield surveys, as well as tips from inspectors and community groups, to determine which homes might be available.

When finally locating an unoccupied, tax delinquent home, they were faced with a \$27,000 rehabilitation limit, imposed by the City Council, which was often insufficient to bring the homestead in question up to Property Rehabilitation Standards.

Two final acquisition problems arose once a potential homestead had passed all preceding tests:

1. The City was unable to give a tax-delinquent owner a windfall profit by offering more than the appraised value. Yet some owners were not willing to sell their properties at or below fair market value.
2. The post-rehab appraised values were sometimes less than the rehab costs. Since under Section 312, homesteaders can only borrow up to the post-rehab appraised value amount, conveying such properties would require that the City dig into its already over-demanded CDBG funds. Considering that rehab loans are often written down even further depending on income, conveyance of such properties would have diminished available CDBG funds.

To deal with these problems, the coordinator made three requests of HUD, all of which were turned down for regulation reasons:

-Allocation of additional Section 312 funds to write-down rehab costs rather than digging into CDBG funds.

-Permission to offer tenants minimal relocation assistance, thereby freeing them to consider occupied homes while not triggering the Relocation Assistance Act.

-Permission to acquire tenant occupied homes, giving tenants first priority at homesteading.

A new county attorney has overhauled the tax foreclosure system, instituting foreclosure proceedings against all properties delinquent six months. This resulted in a rate of 120 parcels per week being processed. With Nebraska's two-year redemption plan, these homes could be acquired at the Sheriff's auction in 1988.

6.0 Conveyance of Properties

The Demonstration properties are conveyed to homesteaders in the same manner as the regular program properties. The city executes a "Section 810 Homestead Agreement" with the selected homesteader under which the homesteader agrees to repair the property, occupy it within 90 days of loan closing, and reside on the property for five years. Title to the property is then conveyed by a warranty deed which provides for title to revert to the city in the event that the homesteader defaults on the terms and conditions of the Homestead Agreement.

7.0 Rehabilitation Financing

All Omaha urban homesteads were financed using Section 312 loans. Section 312 loan processors participated in the homesteader selection to insure that the homesteader met Section 312 underwriting standards. In some cases, depending on the homesteader's income and post-rehab appraisal value of the property, local CDBG funds were used to write down the financing costs. In all cases, the city was willing to write down the loan amount to the post-rehab appraised value.

No rehabilitation occurred on the acquired Demonstration homesteads, but the coordinator has contracted for \$20,000 of exterior repairs. These repairs, financed entirely through CDBG funds, lower the rehabilitation cost and make the homes more attractive to homesteaders.

When conveyed, the City will offer 20-year mortgages, as well as Deferred Payment Loans (DPLs) to qualified applicants. With a DPL, the loan is forgiven if the homesteader occupies the property for 10 years.

No state or private funds have been used in the homesteading program. Federal funds are not earmarked for the rehabilitation of the Demonstration homes but will be available if the homes are conveyed.

8.0 Planning and Management of Rehabilitation

Sweat equity was not encouraged in Omaha as it is strongly felt that the necessary work is too extensive to be left in the hands of the homesteader.

When homestead properties are conveyed, the major repairs (those necessary to bring the homestead to minimum health and safety standards) will have to be completed by contractors within 90 days. Contractors favored by homesteaders would be welcome to enter bids, but the final choice is made by the Planning Department.

9.0 Other Neighborhood Conservation Activity

There exists a variety of other Community Development Programs, including:

The Reinvestment Area Program (RAP): This program was created to encourage home improvements in older neighborhoods. It is financed through FHA insured, Title I home improvement loans, which are written down using CDBG funds.

Neighborhood Housing Services: This is a self-help program which stimulates reinvestment and rehabilitation of homes in North and Central Omaha through local funds and DPLs.

Elderly-Handicapped Program: This program provides assistance to families with elderly or handicapped members by modifying their homes to make them accessible and usable. It is financed by loans and DPLs, based on ability to pay.

Also in operation are the home handyman, emergency repair, energy conservation, rental rehabilitation, and various economic development programs. The coordinator stressed that all programs are operated in the same areas as the two as-yet unconveyed properties.

COLUMBUS, OHIO

1.0 Background to the Program

When considering whether to apply for the Local Property Urban Homesteading Demonstration, the City of Columbus staff, who were already operating the regular Urban Homesteading Program, referred to the results of a survey concerning the city's residential tax base that had been performed by the regional office of the U.S. Department of Housing and Urban Development (HUD). Since the survey results concerning the viability of operating the Demonstration in Columbus did not appear favorable, the city staff decided to look at other sources of information. A list of tax delinquent properties from the county showed what appeared to be a sufficient number of tax delinquent houses with assessed values of less than \$15,000 in the priority neighborhoods (where the regular Urban Homesteading Program was already operating) to warrant an application for the Demonstration.

Columbus was awarded \$250,000 in Section 810 funds for the acquisition of 15 properties. This was later decreased to \$150,000. Upon termination of their Demonstration on July 17, 1987, they had utilized \$108,627 of this award to acquire nine tax delinquent properties.

2.0 Administrative Arrangements

The agency in Columbus which operated all city housing programs, including both the regular and Demonstration programs, was the Neighborhood Services Division (NSD) of the city's Department of Human Services. Because of budget cutbacks, the position of urban homesteading director was eliminated and the regular and Demonstration programs were supervised by two different NSD staff

members. The person in charge of the daily operation of the Demonstration was the division's assistant administrator. She was assisted by the rehabilitation and loan staffs in her office and by the staff of other city offices, including the Office of Management and Budget and the Real Estate Division of the City Attorney's Office.

After properties were acquired under the Demonstration and regular programs, they were operated in the same way. The NSD's operation of the program was guided by the Neighborhood Services Advisory Council. This body was responsible for granting initial approval of the city's Demonstration application, which then was approved by the city council. All funding for the program was administered through the city's Office of Management and Budget (OMB). The staff of the OMB also executed the actual property acquisition for the Demonstration after the assistant administrator at NSD directed them to do so, and after the city council authorized the acquisition.

3.1 The Homesteading Neighborhoods

Most of the Demonstration neighborhoods existed administratively before the program began. The areas were originally defined in 1978 as part of a study that Ohio State University conducted for the city to define its Community Development Block Grant (CDBG) zone. Before applying for the Demonstration, the staff member in charge worked with a member of the city's Neighborhood Information and Planning Office to use local planning and U.S. Census demographic data broken down by neighborhood and the city's 1983 application for the CDBG to help define which neighborhoods would be appropriate for the Demonstration. Also involved were city planners in the city's OMB who had data from community surveys and contributed to the designation of the Demonstration target areas. The result of the neighborhood selection process was that the regular Urban Homesteading Program was expanded but, in order to concentrate

homesteading efforts, the Demonstration priority neighborhoods (as defined in the Columbus application) were ones in which the regular program was operating.

The neighborhoods selected were those in which most residents had low incomes (mean was 80 percent of Columbus average), the unemployment rate was slightly higher, and the housing stock was older and more deteriorated. However, abandonment had not been a major problem in these neighborhoods with many of the tax delinquent properties occupied. Because many of the eligible properties and applicants were found in the same areas, it had been the hope of city staff that people who were already residents of the area would apply for Demonstration homes in their neighborhoods.

The Demonstration Manager did not believe that the program had any real impact on the neighborhoods because of the small number of homes which were acquired and rehabilitated during their Demonstration.

4.1 Homesteader Selection

Homesteaders were chosen by a loan officer of the Division of Neighborhood Services who was assisted by various NSD staff including rehabilitation specialists. Initially, the Demonstration homesteaders were chosen in the same lottery as for the city's regular program. However, this was later determined to be inappropriate because of the differences in the properties acquired for the Demonstration and those acquired in the regular program.

Steps in the Process

Publicity: Because the number of applicants far exceeded the number of properties available in each lottery, paid media publicity efforts were not made. Inquiries were answered by telephone and those requesting information were sent an application, brochure, and form letter.

Application Process: Applicants returned their applications with a \$5 payment to defray the cost of a preliminary credit check,

and to discourage submission of frivolous applications. NSD staff verified each applicant's employment information and, if employment, income, and credit information was acceptable, the applicant was interviewed.

Open House: Applicants found to be qualified through the above process were invited to inspect available properties. They could then sign up for the lottery for any property for which their financial ability and household size were appropriate.

Lottery: One applicant per home was chosen to be the homesteader in a public drawing.

Winner's Conference: Rights and responsibilities of the homesteader and the city were explained, conditional conveyance documents were signed, and contractor selection was initiated.

Criteria for Selection

Financial:

- o Income -- at least \$800 per month and no more than 25 percent of income needed for housing costs.
- o Debt and Credit -- a debt-to-income ratio no greater than 35 percent and an acceptable credit history (no bankruptcies or collection service problems).

Personal: Applicants were required to be 18 years old, U.S. citizens or registered aliens and could not own real property.

Family size appropriate for house: No more than two people per bedroom. About half of all homesteaders were single people without families, so this was not often a problem.

One of the homesteaders selected in Columbus was later disqualified. According to her application, she had three dependents. However, it was later discovered that one dependent was 23 years old, and her income level exceeded that allowable with two dependents.

5.0 Property Acquisition

The major problem which hindered Columbus throughout the Demonstration was locating properties which could be acquired for

\$15,000 or less and rehabilitated for less than \$20,000, an amount imposed by the City. By the end of the first year, only four properties had been located. The city was somewhat more successful in the second year, acquiring five more.

A number of methods were used to find these properties. The search for eligible properties from the county assessor's list of delinquent properties yielded only one home for the Demonstration out of over 300 on the list. Other strategies used to discover vacant or abandoned homes that might be tax delinquent included newspaper ads, asking the rehabilitation specialists to report any such properties they might see while in the neighborhoods, and arranging with the various neighborhood groups in the target area to give the city lists of homes in their areas that appeared to be abandoned. The NSD staff also received advice from the Demonstration program staff in Terre Haute to look for houses with "For Sale" signs in the neighborhoods and to contact local realtors to inform them of the terms of the program.

These attempts resulted in a number of responses, but again the recurring problem with these and other properties considered was that very few could be purchased for \$15,000 or less or could be fully rehabilitated for \$20,000 or less. Many of the vacant tax-delinquent homes in Columbus were large woodframe duplexes which had been neglected and whose rehabilitation costs would have run \$40,000 to \$60,000, making them unaffordable for low or moderate income people.

As a result of the higher than expected rehabilitation costs, the city altered the required payments on the CDBG rehabilitation loans, based on a reasonable monthly payment, usually based on the homesteaders previous rent.

Responsibility for the acquisition process for the Demonstration was divided between two offices, the Neighborhood

Services Division and the Real Estate Division of the City Attorney's Office. The basic steps in the process follow.

- o Intake: The NSD Assistant Administrator responsible for the Demonstration located a property and referred it to the NSD loan officer who had major responsibility for the regular program as well.
- o Inspection: The loan officer and a rehabilitation technician inspected the property and filled out a form indicating the work needed and its estimated cost.
- o Recommendation: Based on these inspection results, they recommended to the assistant administrator whether or not to acquire the property. If acquisition was recommended, the assistant administrator at NSD transferred the relevant information to the real estate projects manager in the City Attorney's Office who pursued acquisition.
- o Appraisal: The real estate projects manager requested the services of a review appraiser. It often took several weeks before the appraisal was performed because the appraisers often had a considerable backlog of requests.
- o Preliminary Title Commitment: After this was issued, the appraisal results were reviewed and the fair market value of the property was determined.
- o Offer: An offer was made to the owner to buy the property for its fair market value.

The longest portion of the acquisition process was obtaining the appraisal. An attempt was made to shorten this step of the acquisition process, which often took up to 40 days. First, the city attorney requested that appraisers perform a preliminary review of the house to determine if it was in the \$15,000 range. This allowed the elimination of many homes. Second, the city sought additional appraisers, generally minority ones. Third, they instituted the short narrative HUD appraisal form as opposed to the longer form typically used by the city. Application of all of these changes shortened the approximately 40 day waiting period to about 15 days.

In attempting to discover ways in which to solve this problem, the attorney in the city attorney real estate division indicated that she contacted many other program managers in other cities, as well as HUD officials. She indicated that this networking was quite helpful for other cities as well in developing ways to streamline the acquisition process.

As in other Demonstration cities, the officials in Columbus found the tax delinquency criterion for properties to be a major stumbling block. The city felt that the primary goal of the program should have been to save neighborhoods, and that this goal would have been better served if the city could have concentrated its efforts by acquiring several properties on a block, rather than only the one house on a block which met this criterion.

6.0 Conveyance of Properties

Homestead properties in both the regular and Demonstration programs in Columbus were conveyed to the homesteaders in a deed agreement. It was a conditional agreement, in that all program requirements were specified and the homesteader could not receive full title to the property until the five-year residency requirement (and all others) were met. The disposition process was handled by the city's purchasing agent in the City Attorney's Office.

7.0 Rehabilitation Financing

All funds for rehabilitation loans to Demonstration homesteaders in Columbus have been from the CDBG three-percent loan program. Initially, the city hoped to utilize funds from the Section 312 program and possibly private funds from the Ohio Housing Finance Agency, although this assistance never materialized. Columbus required all prospective homesteaders to seek private financing but homesteaders were unable to utilize these sources. According to the NSD assistant administrator, the availability of private loans through the state's finance agency for Demonstration homesteaders was not likely because, unlike the regular program participants who

qualified for and used this source more than 90 percent of the time (the remainder use Section 312 funds), the Demonstration homesteaders' incomes, credit ratings, and job histories would not allow them to meet the financial institutions' eligibility criteria.

8.0 Planning and Management of Rehabilitation

According to the NSD's development and rehabilitation supervisor, the major objectives of the rehabilitation process in descending order of importance, were to eliminate deteriorated property, to create more safe and sanitary housing, to give opportunities to low income people who could not otherwise afford to own a home, and, to increase property tax revenue.

The process used by the city to specify repairs began with a rehabilitation technician visiting the house and, in a "suggested write-up," identifying the code violations and specifying how they should be fixed. The technician and the homesteader then visited the home together for three to five hours and examined every surface in every room. The technician asked the homesteader how he or she wanted the code violations rectified and explained various repair options with associated costs. The technician used the homesteader's input to draft detailed contractor specifications which may have (if the homesteader was willing and able) included a homesteader work proposal explaining what jobs were to be done by the homesteader as sweat equity.

Rehabilitation contractors were selected through a combination of a homesteader-initiated and a random bid process. The homesteader was asked to choose two contractors from a list maintained by the NSD of local building contractors who were licensed, bonded and screened (city staff had examined an example of their previous work). City staff then added to the two names selected by the homesteader two more names from a "rotated list" of contractors whose names were arranged alphabetically. Bid specifications were sent to all four contractors and when the bids were received, copies were sent to the homesteader who met with the technician to review them. The homesteader could choose any of the four, but the low bid was normally chosen.

The amount of the rehabilitation loan to be financed was then determined by adding to the bid amount the cost of materials for any sweat equity work to be performed and a contingency of about \$1,000 to \$1,500 for possible replacement of gas and/or water lines (which often became necessary but could not be predicted).

Sweat equity was encouraged but rarely feasible. Because the homesteader was required to occupy the property within one year of conveyance, and because occupancy could not occur until all mechanical system code violations (which made up about 80 percent of the repairs needed in most homestead homes) were fixed, a contractor was needed to do this work in almost all cases. Homesteaders were encouraged to do work such as painting and wall-papering.

There were two difficulties faced by the Columbus Demonstration officials. First, the properties which were acquired for the Demonstration were in greater disrepair than predicted, making it difficult to keep the rehabilitation costs within the homesteaders' means. The extent of the work involved, combined with rehabilitation deadlines, precluded extensive use of sweat equity as a cost-saving device. The most common problems were mechanical -- electrical, plumbing, and heating -- followed by roof system problems and general kitchen and wall repairs.

Secondly, in retrospect the city officials felt it would have been advantageous to develop a method for making specifications on the houses more consistent among rehabilitation technicians.

As of termination of the Columbus Demonstration, one homesteader had begun rehabilitation.

9.0 Other Neighborhood Conservation Activity

Other antiabandonment and neighborhood improvement efforts active in the Demonstration neighborhoods included:

- o Housing Rehabilitation Program
- o Rental Rehabilitation Program
- o Emergency Repair Fund
- o Self-help Program (mobile tool and paint-up)

- o Chores Program
- o Nuisance Abatement Fund
- o Environmental Blight Abatement Program
- o 312 Special Project
- o Abandoned Housing Program
- o Neighborhood Incentive Program
- o Vacant Housing Program
- o Beautification/Landscaping Program
- o Operation Weatherbeater

PORTLAND, OREGON

1.0 Background to the Program

The Local Property Urban Homesteading Demonstration in Portland is operated by the Portland Development Commission (PDC) for the City of Portland. The coordinator of the regular Federal Urban Homesteading Program saw that the Demonstration could be integrated into the operation of the regular program, which had been running for six years. However, the main reason for the decision to apply for the Demonstration was that there seemed to be a sufficient number of properties eligible for acquisition. The PDC requested \$500,000 in its Demonstration application and received \$250,000.

The two-year minimum tax delinquency restriction proved to be the most serious barrier faced by the staff. An inability to obtain clear title to such properties prevented the Demonstration from operating as smoothly as the regular Urban Homesteading Program. However, the PDC successfully requested a waiver to obtain tax exempt properties owned by the Housing Division of the Oregon Department of Commerce, which greatly facilitated the location and acquisition of eligible properties. In fact, most of the twenty-one properties were acquired using this technique, and the staff worked exclusively with the Housing Division in the second year of the program.

2.0 Administrative Arrangements

The PDC is the agency specified by the City of Portland for urban renewal and, as such, operated the Demonstration. The City, through its Bureau of Community Development, transferred CDBG funds to the PDC. These funds are then used to operate programs,

including the Demonstration. The Demonstration was administered by a project coordinator (the homestead coordinator) in the PDC's Housing/Special Projects Division who reports to the Board of Commission of the PDC. The board, in turn, is accountable to the Portland City Council.

The only administrative problem was encountered before the waiver was approved, when it was difficult to allocate the staff necessary to locate, acquire and close on properties. Once the waiver was obtained, the Demonstration ran smoothly, in a manner almost identical to that of the regular program.

3.0 The Homesteading Neighborhoods

The neighborhood areas for the Demonstration were the same as those for the regular program. These neighborhoods were first designated by Portland's Bureau of Development as its Block Grant target area. To apply for participation in the Housing and Community Development (HCD) Program, neighborhoods had to be organized and represented by a neighborhood committee. The City's Bureau of Community Development then administers its CDBG funds through the HCD. However, neighborhoods could be removed from the HCD program but remain in the regular or Demonstration program.

The only formal criterion for acceptance into the HCD program was that at least 51 percent of the households in the neighborhood have incomes of no more than 80 percent of the poverty level for the region. If the entire neighborhood did not meet this criterion, then only those parts of it that did were accepted.

The HCD coordinator noted that rather than using additional absolute criteria, they generally approach selection by comparing one neighborhood to the next. She also mentioned that while in earlier years neighborhoods had been added specifically because of their housing needs, the focus had shifted to areas in need of street improvements. Overall, neighborhoods remained fairly constant in the past six years, with only minor adjustments.

The neighborhoods selected for the Demonstration program had the following characteristics, as compared with the City of Portland:

	<u>Demonstration Areas</u>	<u>City Totals</u>
% Black Population	56.7 %	7.5%
Median Family Income	\$12,216	\$19,522
% of Families Below Poverty Level	25.5 %	8.4 %
% of Housing in Fair/Poor Condition	24 %	8 %
Median Rent	\$156	\$206
% of Unemployment		
White	5.8%	6.1%
Black	12.3%	15.2%

The staff found that the homesteading process works best in neighborhoods in transition--ones that have become neither too deteriorated nor too gentrified. HUD encouraged them to narrow their target areas. They sensed, however, that re-establishing target zones would create bad feelings in those areas which were consequently denied homesteading assistance. They also hesitated to limit their open options by narrowing current boundaries.

The two main areas chosen for homesteading have fairly different characteristics:

- (1) The Inner Northeast: An area of high-quality housing but with the worst crime statistics in the city. Because of substantial crime, drug traffic, and prostitution, property values are quite low.
- (2) The Southeast: An area of fairly low-quality housing, built on concrete slabs during the post-WWII era and not necessarily built to code. The neighborhood, however, does not have the same stigma of crime associated with it as does the Northeast. For this reason, property values are much higher and homeowners seem willing to pay much more for much less.

One particular benefit of the Demonstration is that it allowed the PDC to acquire property in the SE that was previously inaccessible. Although cited as a region which would benefit from the regular program, the area was not one in which HUD foreclosures were frequent. Tax delinquent and tax exempt properties, however, exist in this area, and some were acquired through the Demonstration.

4.0 Homesteader Selection

Steps in the Process

Publicity: The PDC's office of Public Administration staff worked with the Demonstration coordinator to obtain good media coverage on at least two events per year. A new Manager of Communications began in May, 1987. She made two changes aimed at better marketing the program:

- (1) A direct mail firm was used to reach 14,000 apartment dwellers on the east side of the city who didn't know of the program. Previously, the mailing went out only to those who had attended an open house but had not been awarded a home or to those who had called to express an interest. The pamphlet was changed to be more attractive and less bureaucratic.
- (2) An advance news release was sent to an expanded group of broadcast and print media. Three of four major radio stations advertised the event and three TV stations covered the open houses. Individual ads for the Demonstration homes were also placed.

Applicant Inquiries: Potential applicants calling PDC for more information were provided detailed eligibility requirements by the program secretary, who was also available to answer any questions about the program.

Open Houses: At these events, a list of needed improvements and their estimated costs was provided, along with a list of all other homesteading properties available at the time. Preliminary application forms were also available so that potential homesteaders could submit them then or mail them in later. These were then sorted by the PDC into priority and non-priority groups.

The publicity changes caused the last batch of open houses to be a big success, yielding 1,463 drawing slips and many more calls requesting information. This batch was held on a Sunday with 15 houses open for viewing. It was felt that this approach attracted more attendees than earlier open houses in which only 5 houses were open on a weekday evening.

Lottery: This drawing determines the order in which the priority applicants for each property were arranged on a list.

Credit Check: The first five names on the randomly ordered list were selected for credit checks. The first applicant in the order that passed the credit check was then selected as the homesteader, contingent upon loan determination. (About 45 percent of homesteader applicants checked had unacceptable credit ratings.)

Financial Application: The selected applicant was then interviewed by the program secretary who filled out a full financial application based on the applicant's responses.

Loan determination: The application was then sent to the finance supervisor at the Single Family Housing Section of the PDC's Housing/Special Projects Division who did the loan underwriting. If the applicant was found worthy of the loan, he or she was notified of approval.

Criteria for Selection.

Financial: Applicants had to qualify for a loan under the Section 312 guidelines. Specifically, the applicant's household income could not exceed 80 percent of the median income for the region--\$900 per month was the minimum gross monthly income requirement. Priority consideration was given to those using 30 percent or more of their incomes to pay for housing.

Previous Housing: Priority was given to applicants living in sub-standard housing (as indicated on the preliminary application) and having little chance of improving their situation on their own. In prior years, applicants could not have previously owned a home. The restriction was changed to preclude only those who owned real estate at the time of application, allowing elderly residents on fixed incomes and single parents who may have been homeowners with former spouses to qualify for the program.

Personal: Applicants had to be at least 18 years old, legal residents of the U.S. and of the City of Portland.

Family Size Appropriate for House: In most cases, families with two or more children had to have a home with three or more bedrooms.

Although applicants in the Demonstration were not required to go through the priority screening, PDC imposed these qualifications in order to keep the processing the same as that in their regular program.

PDC found the screening process cumbersome and felt that the targeted population could be reached by requiring only that applicants have income less than 80 percent of the median. Applicants who satisfied all of the priority qualifications often could not meet the cash flow necessary to satisfy underwriters and were not up to the responsibilities of owning a home. Lobbying was underway to eliminate these priority restrictions from the regular program regulations.

The PDC discovered that attempting to pre-screen applicants and then offering them houses as they were acquired was a less successful method of conveyance than the use of open houses. Potential homesteaders were less likely to accept a property in which they had not already expressed an interest.

Education courses in homeownership were offered to those interested. Officials indicated that the emphasis at PDC was in teaching interested persons to become homeowners rather than in trying to screen them out.

5.0 Property Acquisition

The PDC staff originally attempted to find properties through "windshield surveys" of homes with assessed values of less than \$30,000 and over two years of back taxes owed. A list of such properties was obtained from the Multnomah Tax Assessor's Office. If the property was acceptable, an attempt was made to contact the owner. If he or she was willing to sell for the appraised value, an option agreement was then executed which committed the owner to sell.

As mentioned, locating properties which were at least two years tax delinquent was difficult. This excluded from consideration at least two categories of homes:

- (1) Those vacant homes owned by elderly persons living in care facilities who were willing to sell, but who hadn't allowed their properties to become delinquent.
- (2) Those homes just under two years delinquent, vacated either by owners willing to sell or by owners looking to avoid payment as long as possible. Often these homes would not become technically delinquent before the tax period (July 1-June 30) was up.

Many of the vacant and acceptable-looking properties located during the selection process were owned by the Housing Division of the Oregon Department of Commerce. Although these properties were not technically tax delinquent because their state ownership made them tax exempt, the homestead coordinator felt they were definitely appropriate for inclusion in the Demonstration. The PDC successfully requested a waiver from HUD since the properties were originally tax delinquent at the time they were foreclosed on by The Housing Division of the Oregon Department of Commerce. HUD granted the waiver allowing Portland to purchase these properties for fair market value.

As stated earlier, most of the 21 acquired properties were bought from the Housing Division. Excluding the first property acquired, the average acquisition price was about \$20,000. Average acquisition time was four to six weeks.

The PDC officials attributed much of their success in the acquisition and conveyance of Demonstration homes to their staff and their experience with the regular program. When the Demonstration began, many of the necessary documents had already been approved. All methods used were carefully formulated to comply exactly with Federal law, and thus were easily transferable to other sites. In fact, other cities in Oregon have called for advice and adopted methods used in Portland.

The following changes were suggested by officials involved with the property acquisition process:

- (1) Delinquency requirements should be relaxed to allow owners willing to sell, but not necessarily tax delinquent, to take part in the program.
- (2) Purchase price should be determined by neighborhood. Loans should be based on an appraisal of as-is values, rehab costs, and post-rehab values. This would allow benefit to neighborhoods like the SE, which could use the assistance but are priced out of the market. It was felt that an additional \$5,000 leeway would make a big difference.
- (3) Additional funds should be provided. The allotted \$250,000 amount reportedly just scratched the surface. Though the formal ending of the program was in May of 1987, the city had used all available funds by March of 1987.

Without additional Federal funds earmarked for this program, officials do not expect to deal any further with tax delinquent properties. As long as so many foreclosed properties are on the market, they see no need to continue to obtain tax delinquent ones, especially if they must use scarce Block Grant funds to do so.

6.0 Conveyance of Properties

Homestead properties in the Demonstration in Portland were initially conveyed to the homesteader with a real estate contract of five years. Once the homesteader has met all the conditions of the program set forth in the contract, including the residency requirement of five years, a deed is signed which conveys title to the property from the PDC to the homesteader. The cost of conveyance, excluding that of a little staff time, was approximately \$250, for the owner's title insurance policy.

The Real Estate Coordinator suggested changing the residency requirement back from five years to three years, noting that the five year requirement seemed unrealistic and noted that it put additional responsibility on the agency to ensure that the property was being adequately maintained. The homestead coordinator pointed out, however, that this requirement had a positive stabilizing influence on the neighborhood.

7.0 Rehabilitation Financing

Funds from two Federal sources were used to finance all Demonstration rehabilitation loans in Portland. These sources were the CDBG (three percent interest) and HUD's Section 312 (four percent interest). Officials reported that 312 funds were clogged during the early part of the Demonstration, but then flowed more freely.

The maximum loan amount that could be financed was \$27,000. According to PDC's finance supervisor, most loans were for this amount since a rehab easily required it. A 20-year mortgage was used in all cases and the homesteader's monthly payments were usually about the same as their previous housing rent.

Although PDC does creative financing with private money in other programs, it did not use such methods with the Demonstration program. Leveraging or blending would necessarily cause interest rates to be higher than the current use of straight-out subsidies.

The homestead coordinator noted that it was difficult for the PDC to monitor the timeliness of Section 312 payments and would prefer more frequent feedback on the status of payments on the loans. With their own Block Grant funds, they have a tight rein on servicing, and if an applicant is two months delinquent on payments, a serious counseling session is arranged.

8.0 Planning and Management of Rehabilitation

The rehab process did not change in the last year, though the rehab staff attempted to increase the number of participating contractors. Homesteaders were not required to choose a contractor recommended by PDC, but bids had to be within 90 to 110 percent of the PCD's cost estimate for the job to be eligible for selection. Homesteaders were encouraged to solicit at least three bids. If they chose not to do so, they were required to sign papers indicating that no collusion was taking place and that the contractor was being selected on the basis of workmanship.

Since 44 percent of the homesteaders were single mothers working one or two jobs, sweat-equity was generally not encouraged. Unlike some other cities, Portland did not allow occupancy until all work was completed. Officials noted that, because of this restriction, homesteaders may wind up paying rent at their old residence over a longer period if they do the rehabilitation themselves because the whole process is likely to take longer.

In general, the homestead process is staff-intensive at the front-end in Portland. PDC's officials believe that the benefits from the technical assistance and education provided at this stage far outweigh the costs, yielding a longer lasting finished product, as well as a responsible homeowner.

9.0 Other Neighborhood Conservation Activity

There are a number of programs run by both the PDC and the City's Bureau of Community Development, for rental and owner-occupied single and multi-family housing, which complement the urban homesteading programs in the same neighborhoods. These include the Code Enforcement Program which forces landlords to maintain their buildings to meet minimum standards and thereby decreases the number of structures that the city is forced to demolish each year.

Other programs include the Economic Development Program, which assists fledgling businesses in the heart of major homesteading neighborhoods, and the Street Rehab/Public Facilities Program.

Two proposals for spin-offs of the homesteading program have been submitted to the Bureau of Community Development:

- (1) Homestead Support Program: Proposal requests Block Grant funds to purchase five houses in very targeted areas to support the homesteads already in place.
- (2) Special Needs Homesteading Program: Proposal requests Block Grant funds to purchase property from any source to serve as a halfway house, a group home for the mentally infirmed or a home for the elderly. They propose ownership by a non-profit organization or by capable individuals falling into one of the above categories who will declare themselves a family. They plan to use CDBG funds to acquire these properties and hope to receive 312 funds to rehabilitate them.

HARRISBURG, PENNSYLVANIA

1.0 Background to the Program

The large number of vacant properties available at the Sheriff's sale in Harrisburg each year was the incentive for the City of Harrisburg to respond to HUD's invitation to participate in the Local Property Urban Homesteading Demonstration. The Department of Community and Economic Development (DCED) had, for several years, operated a Vacant Property Program in which the Harrisburg Redevelopment Authority (HRA) acquired properties and worked with DCED to rehabilitate and sell them. The State established a Harrisburg Property Reinvestment Board which could pass resolutions citing a property as blighted and notifying the owner that he or she must rehabilitate it. If the request was not met, the case went before the Planning Commission. If the Commission concurred with the decision of the Reinvestment Board, HRA was authorized to appraise the property and negotiate for its purchase or to take the property through eminent domain. CDBG funds were then used to acquire and rehabilitate the property for sale to low income families.

Given their experience with this program and the various mechanisms in place for its operation, DCED believed it could successfully implement a Demonstration program. HUD awarded Harrisburg \$170,000 in Section 810 funds for the acquisition of twenty-five properties.

However, the condemnation process used in the Vacant Property Program and which Harrisburg hoped to use for the Demonstration was unacceptable to HUD. As a result, DCED and HRA had to develop new ways to acquire properties for the Demonstration. By the end of the Demonstration, they had acquired eight properties, utilizing \$81,140 of their original Section 810 award.

2.0 Administration Arrangements

DCED was designated the subgrantee and policy-making agency for the City of Harrisburg's Demonstration. DCED managed all the city's CDBG programs, as well as all other housing programs. DCED was initially proposed to administer the Demonstration, actively participating once the rehabilitation process began.

The city designated the Harrisburg Redevelopment Authority (HRA) to implement the Demonstration. In the first year of the Demonstration, HRA's functions included all activities up to and including the acquisition of properties and selection of homesteaders. HRA was selected for this responsibility since it was their function to handle all other land purchases undertaken by the city, including those for the Vacant Property Program. Also, HRA had been the recipient of more than \$40 million in grants in the past seven years. Their neighborhood renewal projects included acquisition, management, sale of more than \$20 million of land and buildings, design review, and construction inspection. HRA also had extensive experience with homesteading projects for lower income families, such as the Discovery Homeownership Program. Under this program, the vacant properties acquired through the Vacant Property Program and rehabilitated by the city were sold to low and moderate income families for the cost of the rehabilitation.

However, in the second year of the Demonstration, DCED gradually assumed more of HRA's functions, including homesteader selection. They also took a more active oversight role in property selection, since DCED considered some of the properties and homesteaders selected by HRA as unsuitable for the Demonstration. In retrospect, despite HRA's expertise in property acquisition, the project officers indicated that DCED should have also implemented the Demonstration, with HRA handling only the acquisition mechanics.

Harrisburg also faced another administrative problem. The city's Project Officer for the Demonstration was located in DCED. In the first year of the Demonstration there was a high turnover

rate in project officers. Over the first year and a half, there were five project officers, between which were several gaps when the program was inactive. However, this problem was alleviated in the second year with the DCED assigning two project officers.

3.0 The Homestead Neighborhoods

In their proposal, the City of Harrisburg proposed the Schreinerstown section of Harrisburg for implementation of the Demonstration. This neighborhood had experienced scattered structural deterioration of existing residential buildings, progressively more instances of substandard housing, and minor deterioration of streets, curbs, sidewalks, sewers and alleys. Unlike many other parts of the city, this housing abandonment and disinvestment was a relatively recent phenomenon. The area still had many structurally sound, owner-occupied structures, needing only minor repairs. But since Schreinerstown had an adequate supply of minimally substandard, vacant properties with "as is" values of \$15,000, the Demonstration was viewed as a vehicle which could assist in stabilization of the area.

However, once the Demonstration was underway, property values in the target area increased and the owners of many of the eligible properties decided against sale to the city in favor of private rehabilitation and sale on the open market. In addition, many of the homes which were available were quite large (3 stories), increasing the cost of acquisition as well as of rehabilitation. These problems, coupled with difficulty in obtaining clear title to properties, further depleted the inventory of tax delinquent properties in Schreinerstown.

As a result, two requests were made to expand the target area, neither of which resulted in any properties for the Demonstration. The first request included expansion into areas adjacent to the Schreinerstown neighborhood and to another area west of it, but these areas were dropped shortly after inclusion. A second expansion was proposed into Census tracts 7 and 8. When determining what new areas could be used for implementation of the Demonstration,

several factors were taken into consideration:

- o high vacancy rates (13% in Census area 7; 26% in area 8);
- o large number of properties in the Sheriff's sales;
- o solid neighborhood with a fundamentally sound housing stock; and
- o adequate number of 2 story properties suitable for small to average size homesteader families.

Despite the fact that each of these areas met these criteria, no suitable properties were acquired within the Census tracts. In general the homes located there were too deteriorated and the costs of rehabilitation were prohibitively high for low and moderate income families. Consequently, all eight of the properties acquired for the Demonstration were located in Schreinerstown.

The project officers indicated that they did not feel that the Demonstration itself had a significant impact on the neighborhood, especially since, at termination of their program, only three properties were undergoing rehabilitation. However, they did think that as a part of all the rehabilitation activity that was occurring in the neighborhood, it would have an effect.

4.0 Homesteader Selection

A number of channels for publicizing the Demonstration were utilized. Advertisements were placed in the Patriot News, and in the DCED newsletter, Community Ink. The Mayor's office held several press conferences and issued press releases. Mailing lists were maintained of individuals who expressed interest in the Demonstration. Later on, flyers were placed in the break rooms of large employers in the area, including hospitals and several State offices.

Interested individuals were required to fill out an application form and to submit a \$10 application fee which was used for conducting a credit check. This credit check was instituted as a way to eliminate an excessive number of applicants, as well as obviously unbankable ones. The applicant was evaluated based on the results of this credit check and other application information. Criteria used in addition to the results of the credit check were

compliance with Demonstration guidelines regarding income levels and other regulations, and a stable employment history and housing tenure. If qualified, applicants were placed on a list from which lottery participants were drawn.

In year one, as homes were acquired by HRA, notices were placed in a number of media and also sent to the list of eligible participants. For each property, HRA and later DCED, reviewed the list of eligible participants and selected families which appeared suitable in terms of size. In the first year of the Demonstration's operation, lotteries were conducted to choose among these eligible participants. In the lottery for the first property, there were approximately 24 eligible individuals. In year two, eligible applicants were matched to available houses based on their needs and resources; lotteries were only used when there were two or more applicants for whom the property would be appropriate.

One major problem which Harrisburg experienced throughout the Demonstration was finding homesteaders who were able to obtain financing for the rehabilitation. The city attempted to resolve this problem in several ways. First, the above-mentioned credit check was instituted. Secondly, the city required that homesteaders selected in the lottery must obtain the first \$5,000 for financing the rehabilitation prior to receiving any additional funding from the city. In year two of the Demonstration, the city began to require that homesteaders obtain all of the rehabilitation financing rather than using the deferred payment loan originally proposed in the City's application. By having the homesteaders provide their own financing, the city believed that the Demonstration participants would have a greater commitment in the rehabilitation process of their investment. At the time of the second round of site visits, private financing had been secured for 1 of the 3 homesteaders to whom properties had been conveyed.

A second problem which occurred in the first year, but was later resolved, also stemmed from the financing problems. In order to grant homesteader rehabilitation loans for the properties, banks required that homesteaders have insurance on the property. However,

insurance companies refused to insure the properties until there was some rehabilitation activity taking place. The solution was to insure the properties under City policies until the homesteaders could arrange for financing.

5.0 Property Acquisition

To identify potential properties for the Demonstration, several criteria were used. Initially HRA searched for properties which were:

- o in the process of tax or mortgage foreclosure;
- o vacant; and
- o in sound condition, but requiring repairs.

As the Demonstration progressed, it was determined that two other criteria were needed. Three of the initial properties acquired needed in excess of \$30,000 worth of rehabilitation work. DCED felt that this was more than a low-income family could pay. Consequently, they instructed HRA to search for properties in which the amount of rehabilitation did not exceed \$25,000. To assure that these criteria were met, DCED project officers inspected the property with a rehabilitation specialist.

Secondly, it was decided that the initial properties selected were too large for the average homesteader applicant. DCED directed HRA to locate smaller properties. However, this was difficult given the general character of the housing stock in the Schreinerstown area. This problem continued throughout the Demonstration.

HRA utilized two sources to locate properties meeting the criteria. The County Tax Office prepared a list of properties that had been tax delinquent for at least one year and therefore were in the process of tax foreclosure. In addition, visits were made by the HRA staff to the homestead neighborhoods to identify other properties that appeared vacant and were possibly tax delinquent. Properties meeting all these criteria were inspected by an HRA rehabilitation specialist as to their suitability for rehabilitation. If they were suitable, they were added to a list submitted to DCED for approval.

If DCED approved a property for acquisition, HRA contacted the owners and asked them to provide information about the home, including whether the property was in tax foreclosure and whether the owner was willing to negotiate for its sale. Obtaining owner cooperation was another stumbling block throughout the Demonstration. Once the city expressed an interest in a property, the owners often hesitated to negotiate, believing that they could command a higher price.

For homes in which the owners were willing to negotiate, a work write-up was performed by the DCED rehabilitation specialist while HRA staff undertook the title search and appraisal. If the liens on the property were less than \$15,000 and the city could acquire clear title, an offer was made to the owner. Assuming the owner signed, a settlement date was established and the money was requisitioned from the city by HRA for the purchase of the property. A printout was obtained from the tax claim bureau on the amount of taxes and penalties owed, which were paid at settlement when the city acquired the property. When the amount of liens exceeded \$15,000, attempts were made to negotiate the liens or to obtain forgiveness for the amount owed over the acquisition price. In their proposal for the Demonstration, the city indicated that municipal taxes might be forgiven, but this was later determined to be impossible. HRA held the property for the city until it was conveyed to the homesteader.

As mentioned earlier, the city hoped to use the procedures developed for the Vacant Property Program for acquisition of Demonstration properties. These procedures would allow the city to acquire properties through eminent domain. When the city submitted its application, it had developed a list of 25 properties through these channels. However, HUD objected to using this process, since use of condemnation went against the intent of the Demonstration, which was acquisition through negotiation. From this initial list of 25, only 2 were actually acquired because of the problems obtaining clear title. The remaining homes were indentified and acquired through the process described above.

One of the major criteria in the property selection process which the city would eliminate should they redesign the Demonstration was the tax delinquency element. The project officers indicated that this was one of the most difficult criteria to meet, and that it was a significant hinderance in Harrisburg's property acquisition.

In the first year of the Demonstration, the city acquired three properties. The average cost of acquiring these properties was \$10,330, excluding closing costs. In year two, five more were acquired. The entire process from identification to acquisition took an average of four months.

6.0 Conveyance of Properties

The method of conveyance used by the city for the Demonstration was condition subsequent. The homesteader signed a quit claim deed at settlement, paying \$1 plus 2 percent transfer tax and recording fees, which was the cost of the conveyance. The property was then held in escrow.

At the end of the required five-year residency period, if the homesteader has met all the conditions of the homesteader agreement, they will receive a completion certification and the city will sign a quit claim deed to their claim on the property.

7.0 Rehabilitation Financing

In their application, the city indicated that it would use \$400,000 of its CDBG Year X Entitlement funds slated for the Vacant Structure Rehabilitation Program for major systems repair on the Demonstration properties. This amount was later reduced to \$350,300, and was to be set aside for future amortizing deferred payment loans (DPL) of \$15,000 per property to the homesteaders for financing a portion of the rehabilitation work. These loans were to be used for repairing or replacing all major systems and/or facade restoration, including electric, plumbing, heating plants and roofs and all other defects that posed a substantial danger to the health and safety of the family.

It was the city's intent that these DPLs would be used in the combination with private term financing. Repayment of the DPL would be tagged on to the end of the payment period of the private financing being leveraged. The city would subordinate its position behind the source of the private financing. However, for every year that the homesteader occupied the property, the DPL would be reduced by 20%, so that at the end of the 5-year residency period, the loan would become a grant. If the homesteader was not able to secure private financing, DCED agreed to provide and service additional loans not to exceed \$10,000, which would be payable at 6% a year over a 7-year period.

In addition to these loans, all homesteaders would be eligible for the city's Tax Abatement Program. Briefly, this program allowed a five-year abatement on the full increased realty taxes due because of the major improvements made to the properties.

However, over the course of the Demonstration, certain features of the city's financing plan were changed. Initially, a major problem in the city's Demonstration was the inability of the homesteaders to secure private loans for financing the rehabilitation. For one homesteader, the property had already been conveyed before this problem was discovered. Subsequently, the city added an additional requirement that, before a homesteader selected in the lottery could receive any property or city rehabilitation loans, they were to raise the initial \$5,000 for rehabilitation through their own resources. Later the city further amended this requirement so that the entire rehabilitation loan had to be privately secured.

In addition to this change, the acquisition costs for two of the homes acquired were \$25,000. The city utilized their CDBG funds to pay the excess. Also, three of the homes acquired needed in excess of \$30,000 worth of rehabilitation work. The city felt that rehabilitation loans for this size would be unmanageable for low and moderate income families. Consequently, DCED planned to do a portion of the rehabilitation work prior to assigning the properties to homesteaders, so that the rehabilitation costs would be more manageable.

8.0 Planning and Management of Rehabilitation

According to the City of Harrisburg, there are two objectives of the Demonstration rehabilitation process which are ranked below:

- o To eliminate health and safety violations, and
- o To bring the property up to city code.

All minimum health and safety standards were to be met by the end of the first year, before the homesteader could occupy the property. All city housing code violations were to be met by the end of the third year.

At the time of property acquisition by the city, a DCED rehabilitation specialist inspected the home to determine what work would need to be performed to bring the home to Section 8 and city code standards. These specifications were divided into two parts: repairs required for health and safety violation, and other repairs. It was the responsibility of the homesteader to secure financing and to select a contractor for the repairs.

DCED provided homesteaders with a list of contractors who had been used in the past. Homesteaders could, however, select contractors not in the list as long as 25% of the work was performed by minority contractors, and the contractors selected held the minimum amount of insurance and had no outstanding violations. Homesteaders then selected bids for the rehabilitation work, with assistance provided by the City if requested.

The city discouraged homesteaders from making any other than minor repairs. However, as long as city code violations were addressed and the conditions of the homesteader agreement were met, the city did not feel that they had much control over the remainder of the repairs. The project officers indicated that it would be have been useful to have a separate self-help agreement which would be pursuant to the homesteader agreement. This agreement would outline exactly which repairs the homesteader agreed to undertake.

In addition, the project officers indicated that they would have liked to have one rehabilitation specialist specifically assigned to the Demonstration to provide the intensive assistance that was often needed by the homesteader.

At the end of the second year of the Demonstration, three homes were in the process of rehabilitation.

9.0 Other Neighborhood Conservation Activities

There were a number of other programs available in Schreinerstown and in Census tracts 7 and 8.

- o Neighborhood Rehab Grant Program (NRG): This program provides a \$10K-\$15K grant to low- and moderate-income owner occupants to repair major systems. The objective of this program is to stabilize the property by bringing it up to minimum Section 8 requirements.
- o Entitlement Rental Rehab Program: This program provides a 50 percent match for investor landlords who will repair their properties for rent to low- and moderate-income families. Owners must agree to bring their properties to Section 8 standards and to maintain affordable rents. The maximum amount of the match is \$5000 per unit; the minimum is \$600.
- o Dauphin County Home Improvement Loan Program: This program provides subsidized loans for owner occupants.
- o Basic Systems Repairs Program: This program is only available for low-income owner occupants for repairs to their basic systems - roof, electrical, heating and plumbing.

KNOXVILLE, TENNESSEE

1.0 Background to the Program

The City of Knoxville became involved in the Local Property Urban Homesteading Demonstration after the Housing Rehabilitation Manager read about the program in the Federal Register. City staff were in the process of developing a rehabilitation plan for the Mechanicsville neighborhood, which had a substantial amount of abandoned housing. The Demonstration was seen as providing an important element of an overall neighborhood revitalization strategy.

The original proposal was developed by the Housing Rehabilitation Manager and reviewed by a task force consisting of neighborhood representatives and key city agency personnel. They also discussed the application with the city's delinquent tax attorney. A local Neighborhood Housing Services program was contacted, and the city decided to propose that area, Parkridge, as a second target area.

The city of Knoxville proposed to acquire ten properties at a total cost of \$130,000. As of the last site visit in early August of 1987, seven properties had been acquired with \$46,628 of Section 810 funds. The remainder of the original allocation of funds was returned to HUD, as the City's authority to draw down on the letter of credit expired on July 17, 1987. Five homesteaders were selected, four of whom had acquired rehabilitation financing, and the fifth of whom had a pending application. Two more homesteaders will be selected. Three homesteaders are in units with most of the rehabilitation complete.

2.0 Administrative Arrangements

The City of Knoxville's Department of Housing and Urban Affairs is the agency designated with the overall responsibility for the Demonstration. The task force described above was responsible for helping design the program but has not been involved since that time. The Housing Rehabilitation Division is responsible for managing the program. Since this agency is primarily responsible for neighborhood improvement activities, it was seen as the logical unit to administer the Demonstration. The city council is also involved in approving all property purchases, although this was said to be a technicality.

The administrative costs associated with the program were estimated at \$12,300 during the first year of operation, of which approximately \$400 was spent on advertising. During the second year, administrative costs were \$6,563, with advertising costing approximately \$1,000. These costs were not allowable under the Demonstration and were covered from other sources. The legal work associated with closing was also covered by the city, but no separate cost accounting is kept to allow the value of this service to be established.

The major administrative problem encountered was staff turnover. During the course of the program, the senior rehabilitation specialist responsible for property acquisition left, resulting in delays in acquiring other properties. Staff time allocated to the project was also said to be more than expected because of assistance provided to those homesteaders doing sweat equity work.

3.0 The Urban Homesteading Neighborhoods

The Demonstration neighborhoods were selected by the staff of the Housing Rehabilitation Department in consultation with a task force of neighborhood representatives and city officials. Staff acquired a printout of tax delinquent properties from the Tax

Department and, upon inspection, one area emerged as having the highest concentration of delinquencies in Mechanicsville. The program was also discussed with the NHS board, and it was decided to designate the NHS area as a second target area. Thus, both areas existed administratively before participation in the Demonstration was solicited and no formal criteria were developed for selecting neighborhoods. Knoxville does not participate in the regular Homesteading Program.

The following table compares selected social characteristics between the city values and those of each of the target areas.

	<u>CITY VALUES</u>	<u>PARKRIDGE</u>	<u>MECHANICSVILLE</u>
Unemployment	7%	10.5%	11.1%
Family Inc.	15,676	12,479	8,230
% below Pov.	20%	25.0%	38.8%
Pre 1939 housing	22%	34.5%	57.4%
Other vacant	1.5%	2.6%	9.5%

Source: 1980 Census

It is clear from these figures that Mechanicsville is the worse off of the two areas, but they are both well below the city values on all the variables presented. No more recent data are available to assess the impact of the program on these areas.

In the course of the Demonstration, however, the city asked for, and was granted, permission by HUD to acquire properties in a third target neighborhood. This was designed to solve a problem locating qualified properties in the original target areas. Due to a subsequent policy decision to concentrate rehabilitation activities in the Mechanicsville area, however, no properties were acquired in the new area.

4.0 Homesteader Selection

Program staff handpicked homesteaders from the list of applicants. According to staff members, it takes an unusual family to make a good homesteader. They must have commitment, skills to

participate in sweat equity and meet the income limits. The first criterion for selecting homesteaders is that they meet the income requirements. Next, it was determined if the family could afford the payments. Given the costs of rehabilitating the homestead properties, the monthly payments were too high for many of the applicants. Furthermore, the staff policy was that the less Federal money put into a property, the better, so that they could spread the available resources as far as possible. This meant that homesteaders who did not need as much subsidy got priority. In considering financial capability, however, they also considered sweat equity skills. Greater skills and contributions of personal labor helped offset lack of income by lowering monthly costs.

Once the ability to handle the payments was established, credit checks were conducted. Applicants were also asked to specify which neighborhoods they preferred, and the staff assessed the applicant's sincerity in wanting to stay in the area. They also asked for references since they wanted to improve the area.

After this screening was completed, prospective homesteader families were matched based on family size to available units. They were taken to inspect the unit, typically in very bad shape, and were also shown a home that had been rehabilitated. Given the neighborhoods and the condition of the units before rehabilitation, many prospective homesteaders lost interest at that point. Others dropped out because they did not like the conditions in the quitclaim deed.

Knoxville went through two application periods. The first was when the program first got underway. First, application materials were developed (e.g., informational brochures, application forms, etc.). Then a meeting was planned to explain the program to prospective participants. A newspaper article was written, and other publicity was disseminated. A total of 89 applications were reviewed in this first round. At that point in the program, only one property had been acquired and was available for homesteading.

After reviewing the applications and sorting by neighborhood of interest and family size, several families were interviewed. One woman was interested; she became the first homesteader.

A second round of applications was solicited by holding a press conference. They received a total of 28 applications in the second round, and were in the process of reviewing them at the time of the second site visit.

5.0 Property Acquisition

Property selection was handled by the senior housing rehabilitation staff member with the help of the task force which brought certain properties to his attention. The process was:

- 1) Identify delinquent properties in the target area by looking through a computer printout received from the tax office.
- 2) Advertise the program and the desire to purchase tax delinquent properties through newspaper articles and leaflets.
- 3) Contact prospective sellers by letter containing information about the program, including information on seller's rights;
- 4) Talk with prospective sellers to see if they will be willing to sell for between \$1 and \$15,000;
- 5) Order appraisal and send rehabilitation specialist to inspect units owners are willing to sell;
- 6) Talk with the owners after appraisal to see if they are willing to sell for the appraised value, and;
- 7) Search title if owner is willing to sell for the appraised value and, if all is well, proceed with the purchase.

In some instances owners who wanted to sell would simply stop paying taxes so their properties would qualify for the program.

No objective criteria were originally used to screen potential properties, since locating properties that qualified for the program and which the owners were willing to sell was very difficult.

Essentially, the City went after all properties that qualified for the program unless the prices were too high or the structures were too dilapidated. After their initial experience, however, they decided not to acquire any more one bedroom houses or duplexes, because the demand for these units was weak. They also decided to acquire only properties that needed under \$30,000 of rehabilitation work. Section 312 loans could then be used to finance most, if not all, of the rehabilitation costs.

They had several problems acquiring properties. First, given the way they originally defined tax delinquency, they had to wait for approximately two years after non-payment before they could acquire properties. In consultation with HUD, however, they changed their definition for the purpose of this program. Program staff would have preferred to be able to acquire any property, not just those that were tax delinquent. In one instance, a deal fell through when one prospective seller, without understanding the consequences, paid his tax bill at the last minute. The \$15,000 limit on purchase price was said to limit them to the purchase of properties that were in very bad shape. Almost all the units acquired required "gut rehab," involving the replacement of all mechanicals and much of the structure itself. Rehab specialists questioned the economic wisdom of fixing these houses rather than tearing them down and building new ones, although they saw some benefit in maintaining the architectural integrity of the neighborhood. The high rehabilitation costs also meant that only those with incomes very close to the income limit would be able to afford them.

6.0 Conveyance of Properties

Knoxville used a conditional conveyance described as a quitclaim deed to transfer properties to homesteaders. This quitclaim deed was blamed for the reluctance of the local financial institutions to get involved in lending to homesteaders. The banks would become involved only if the city held a junior lien, giving

the bank the first lien. This reluctance on the part of the local financial institutions meant that public funds had to be used for financing, and this, according to the director, unnecessarily tied-up public funds. The average cost of conveying a property was said to be approximately \$400.

7.0 Rehabilitation Financing

Most of the rehabilitation financing has been done through Section 312 rehabilitation loans. As mentioned above, local banks refused to participate in the program, because of the conditional deed. The banks in Tennessee have recently had some problems, and there is a general attitude of conservatism at this time. The uncertain availability of Section 312 loan money also inhibited the smooth operation of the program. It was the Section 312 loans, according to the director, that made the program a success. They have also taken advantage of a TVA-sponsored program that provides low interest loans for insulation and other energy conservation improvements. One homesteader received a supplemental CDBG loan on top of his Section 312 loan.

Staff did report one problem with the use of Section 312 loans. When the rehabilitation work took longer than anticipated, homesteaders had to begin making payments before they moved in, yet they were still paying rent on their apartments. Also, the time it took to get approval on Section 312 loans was said to be a minor problem.

8.0 Planning and Managing Rehabilitation

The major objective of the rehabilitation process was total code compliance. Work write-ups were prepared to meet all codes and energy standards. Substantial rehabilitation of the homestead properties typically included a new foundation, all new mechanicals, insulation and new windows and doors. The rehabilitation process began with a rehabilitation specialist doing a work write-up on a property. The future homesteader was then given the opportunity to review the work write-up and negotiate any changes with the rehabilitation specialist. The staff had a problem, however, with homesteaders wanting what were considered to be luxury items.

The possibility of sweat equity was then discussed. Homesteaders interested in sweat equity were asked to verify that they possessed the skills necessary to carry out the work. Their ability and motivation to do the work was difficult to assess. In general, the Demonstration staff allowed homesteaders to do up-front (e.g., foundation work or tear-out) or back-end work (e.g., cabinets, floor covering or paint). Homesteaders were generally not allowed to do repair work in the middle stages of the process, since the staff felt that would slow down the rehabilitation process. Three of the five units that have been repaired or were in the process of being repaired at the time of the second site visit involved sweat equity.

In the last two Demonstration homes, little or no sweat equity will be done as a result of past experience in which one homesteader did not do the agreed upon work. The city had then to provide a CD loan to have the work done by a contractor. The staff now feels that since homesteaders typically have full-time jobs, there is not enough time for them to do the work. The staff also saw some problems with the quality of the work done by homesteaders.

Once the needed repairs were identified, contractors were selected in one of two ways. The homesteader could recommend a contractor who was checked out and, if his cost estimate was reasonable, he was awarded the job. Or jobs were bid out to contractors on a list compiled by the rehabilitation department, who then selected the lowest qualified bid.

Rehabilitation specialists inspected the work throughout the rehabilitation process. Final inspection, covering contract, quality and code compliance, was then conducted by the senior housing rehabilitation specialist. Inspections were also done, in many instances, by appraisers and HUD inspectors.

The plan for verifying occupancy and compliance with the terms of the conditional deed is to make periodic home visits to verify that the homesteader is living in the house. There was some doubt,

however, whether there would actually be enough time to do this. Concern was also expressed over how difficult it would be to enforce the homesteader agreement if a violation were detected.

A problem they ran into in the rehabilitation process was obtaining insurance on the house during the rehabilitation period. The local insurers would not insure a property that had been vacant for so long. Eventually CMS, the company in charge of administering the Section 312 program, provided insurance.

9.0 Other Neighborhood Conservation Activity

Both neighborhoods have other neighborhood improvement efforts underway, but Mechanicsville has the most by far. Mechanicsville has a housing rehabilitation program for owners, a rental rehabilitation program, a code enforcement and demolition program, an infill housing program and a business incubator project in an old school. Parkwood has a Neighborhood Housing Services program and is a Rental Rehabilitation target area.

COLLEGE STATION, TEXAS

1.0 Background to the Program

The Director of Community Development in College Station first heard about the Local Property Urban Homesteading Demonstration from HUD's Regional office. They were in the process of revitalizing an approximately ten block area, and they saw the Demonstration as an important supplement to the activities already planned and implemented. In particular, they saw the program as a means of rehabilitating abandoned housing and increasing the homeownership rate in this primarily rental area.

The proposal was developed by the Director of Community Development with the assistance of the Area Office. The town of College Station has a Housing Committee composed of three citizens, but they had little to do with preparing the application. College Station does not have a regular Urban Homesteading Program, but they had experience with purchase-rehab-sell programs, and they saw the Demonstration as an extension of these activities.

The original proposal called for \$80,000 to be spent in purchasing ten houses for homesteading. At the time of the first site visit, in the Summer of 1986, five properties had been acquired, three of which had been rehabilitated and were occupied by homesteaders. The purchase prices of those homes averaged \$16,000, twice that anticipated. Thus, the full \$80,000 was exhausted on these five acquisitions. College Station was allocated an additional \$100,000 to acquire seven more units. At the time of the second site visit, in the Summer of 1987, they had acquired a total of twelve properties. Five of these properties were occupied, three more had been rehabilitated, and four were yet to be rehabilitated.

2.0. Administrative Arrangement

The City of College Station was the designated agency and the Department of Community Development, was the operating agency for the Demonstration. Since CD was responsible for housing rehabilitation, it was the logical choice to operate the program. A three-person, council-appointed Housing Committee was responsible for making the final decisions on homesteader selection; but they were said to go along with staff recommendations; and were not very much involved in program administration or in providing policy guidance. The Building Office, which conducts the housing inspections, and the Legal Office which helps redraft contracts, have also been involved in the Demonstration.

The administrative costs associated with the program in the first year of the program were approximately \$13,800. The costs for the second year of the program were about \$13,900. These figures include staff salaries and non-labor expenses, such as appraisal services and advertising. These costs represent the local contribution to the program and were paid for with CDBG program funds.

3.0 The Urban Homesteading Neighborhood

The target neighborhood for the Demonstration was selected by the Director of Community Development. Given the relatively small size of College Station, no formal process for selecting a target area was developed. Staff simply selected the target area because of its racial mix, central location and high concentration of rental and abandoned housing units. This neighborhood had previously been designated as a CDBG target area, and other activities, including street, storm drain and housing improvements, had been going on for some time. There appeared to be no neighborhood organization in this area.

Census data from 1980 indicated that 60% of the units in this area were single family, while the rest were duplexes.

Approximately 25% of the units were either dilapidated or severely dilapidated, and 43% of the units were owner occupied. Sixty-seven percent of the residents are black, 2% are Hispanic and the remainder are white. It is clearly the worst-off area of an otherwise prosperous community.

At the time of the second site visit, no new data were available to assess the impact of the program on the neighborhood. Although obvious improvements were evident on the blocks in which the homesteaded houses are concentrated, staff felt that the overall character of the neighborhood has not changed substantially.

4.0 Homesteader Selection

Homesteaders were selected by the CD staff, with the Housing Committee making the final approval. A formal announcement was made when the grant was first approved, resulting in 35 to 40 applications. Applications were also accepted on a continuing basis from those hearing about the program informally. About 50 percent of the applicants were eligible for the program.

The selection process was conducted on a first-come, first-served basis. Applications were dated and then reviewed in the order received. Staff made sure applicant's met income guidelines and were credit worthy. They then matched family size to the size of the houses available and families were shown units for which they were eligible. Prospective homesteaders were also shown a rehabilitated house to give them a sense of what the completed site would look like. Self-help skills were not considered in selecting homesteaders. This was not surprising, however, since program staff said they "stay away from sweat equity like the plague."

5.0 Property Acquisition

College Station defined properties in the process of tax foreclosure as any property with delinquent taxes for one or more years. This definition was consistent throughout the course of the Demonstration.

Although the city has a tax foreclosure process, it has seldom been employed to acquire residential properties. Historically, they simply "piggy backed" on foreclosure proceedings being initiated by the School District or the County. Overall, they have not had a problem with tax delinquencies, and they feel that the time and expense involved in initiating foreclosure proceedings on residential properties does not justify the return. Many of the properties in the target area were said to be tax-delinquent but these taxes were usually paid over time.

The steps involved in acquisition were as follows:

1. The Director of Community Development selected the properties for acquisition and checked to see if they were tax delinquent.
2. Owners of tax-delinquent properties were contacted to determine interest in selling.
3. Prices and other terms of the sale were then negotiated.
4. Closing was set when, and if, a price was agreed upon.

No special problems in acquisition were posed by existing statutes. The only problems were described as the typical ones, including negotiating selling prices and obtaining clear titles to the properties.

The majority of the properties that were acquired in the first round of acquisition were near the entrance to the area and highly visible. One property, however, was originally located outside the target area and was moved to a lot in the target area, after HUD granted permission to pursue this in-fill strategy. A second property purchased in the first round was later determined to be beyond rehabilitation. The City agreed to provide a new structure that will be moved to the lot, rehabilitated and homesteaded.

College Station was able to acquire the first five properties very quickly once they received funding because they had identified

them before the application was submitted and had actually negotiated deals before the funds arrived. The typical time involved in acquisition was 60 days, although title problems were said to lengthen this time period in some instances.

In the second round of acquisitions, five properties along a cul-de-sac and two other properties on other blocks in the area were acquired. The five properties along the cul-de-sac were all owned by the same owner and were bought in a package deal.

The average cost of acquiring the first five properties was approximately \$16,000. Acquisition costs of the second seven houses, however, were higher, averaging \$21,000. In cases where the cost of acquisition was greater than \$15,000, CDBG funds were used to make up the difference. For seven of the houses purchased, restitution for delinquent taxes was made by the seller at the time of the closing. In the package deal involving the purchase of five houses, however, the back taxes were paid by the City.

6.0 Conveyance of Properties

The conveyance of the properties to the homesteaders was done by a special warranty deed. When the contract is fulfilled, it will become a full warranty deed. The provisions in this special deed include residency for five years from the time of occupancy, completion of repairs necessary to meet or exceed the applicable local codes pertaining to safe and decent housing, allowance for periodic inspections, and reversion of the unit to the City if these conditions are not met.

The Demonstration has not faced the problem of lender reluctance to lend on a property with such a deed since all the financing has been public. In an interview with a local lender with whom they have done business in the past, and with whom they hope to be involved in the future, concern was expressed about lending on a property with such a deed. The bank would want to hold the first lien on the property.

7.0 Rehabilitation Financing

Section 312 loans have been used to finance all the sales to date. College Station found itself facing a unique problem, however, that will force it to rely on other means of financing for three of the units yet to be transferred. Confusion surrounding the director's departure resulted in three of the units acquired under the Homesteading Program being rehabilitated using CDBG funds before homesteaders were selected. Staff mistakenly thought that these houses were acquired for their ongoing purchase-rehab-sell program. Because Section 312 loans are only for rehabilitation work, which is already done in these cases, they cannot be used to finance the sale of these units to the homesteaders. After having little success in trying to arrange private financing for these sales, the City's most recent plan was to offer homesteader loans from their CDBG funds. The problem in trying to obtain private financing was that lenders were applying conventional secondary market underwriting criteria, requiring a five-percent downpayment on top of closing costs, and private mortgage insurance. None of those that qualified for the homesteading program could afford these costs. No allowance was made for the fact that the purchase price was well below the appraised value. The loan-to-value ratio was actually quite low on these loans, but the five-percent downpayment was still required.

College Station also ran into difficulty with a default on one of the homesteaded properties. Apparently, due to a family break-up, one family stopped paying their Section 312 loan and moved out of the unit without notifying the City. For some reason, the property was not designated as a homesteading property on the loan documents and the city was not notified of the foreclosure. Moreover, the property under normal Section 312 foreclosure procedures would revert to HUD, not to the city. At the time of the last site visit, the City was trying to correct this problem with the Section 312 loan servicer.

8.0 Planning and Management of Rehabilitation

The major objective of the Demonstration was to return the houses to operating condition. According to staff, the rehabilitated house should have a modern, utilitarian floor plan and should look good on the outside. They tried to accomplish this on a very tight budget so as to keep the units affordable to low-and moderate-income people.

The units they acquired were all in very bad condition. They were built on marginal foundations, and rot was present in the structures. Other problems included poor or no insulation, unsafe heating and electric systems, and lack of central air conditioning. The original five houses were fairly small, ranging from 1,000 to 1,300 square feet. The second set of seven were somewhat larger ranging up to approximately 1,800 square feet.

Two methods were used for specifying repairs: plans and specifications. A plan was drawn up by the staff showing wall placement, fixtures, appliance location, and the like. Specifications or work write-ups provided written descriptions of the work to be done. The specifications set standards typically more stringent than the local codes. The homesteaders could then review the plans and make modest modifications. One homesteader, for example, wanted a second bathroom. Staff changed the wall design and put in plumbing that would allow them to convert what was originally designed as the pantry area to a bathroom at a later date.

Contractor selection was handled by the staff. Bidders were required to fill out an application and provide references, which were checked by the staff. Bids were then solicited, and the lowest bid was selected, if the contractor could schedule the work in a reasonable time period. Since staff did not encourage the homesteaders to take on sweat equity projects, the contractor was responsible for all the work. During the rehabilitation process one of the local staff members inspected the property frequently to be sure the work was being done correctly.

Local program staff provided technical assistance to homesteaders on an informal basis. They had very personal relationships with homesteaders and assisted them in learning to change furnace filters and take on the other new responsibilities that go along with being a homeowner. They also guaranteed the work done on the home for a one-year period after occupancy.

Monitoring homesteader compliance with the terms of the contract will be done through periodic site visits. They plan on yearly inspections to assure occupancy and adequate upkeep of the structure. They also respond to calls about any problems that homesteaders have with the repairs on their homes.

9.0 Other Neighborhood Conservation Activity

Essentially all of College Station's housing and revitalization programs are concentrated in the Demonstration. CDBG funds have been used to pave streets and make park improvements. Section 8, Rental Rehabilitation, and Section 235 housing programs have all been concentrated in the neighborhood.

MILWAUKEE, WISCONSIN

1.0 Background to the Program

Milwaukee has been an active participant in HUD's regular Urban Homesteading Program since 1976. In 1984, the homestead coordinator read about the availability of funds under the Local Property Urban Homesteading Demonstration and was encouraged to apply by HUD Regional Office staff. A staff experienced with the Urban Homesteading Program in Milwaukee implemented the Demonstration in the fall of 1985 as a valuable variation on the regular program. The Department of City Development was administering agency for the Demonstration.

In its application, Milwaukee estimated that it would be able to acquire approximately thirteen properties, making up twenty units (including seven duplexes), during the term of the Demonstration and requested \$210,000 to do so. Milwaukee was awarded \$190,000 of Section 810 funds in the Summer of 1985 for the acquisition of properties. Upon termination of the Demonstration, the City had used \$136,654 of this award to acquire eight tax delinquent properties. As of August 1, 1987, the city had conveyed six of the properties to homesteaders, three of whom occupied their homes.

2.0 Administrative Arrangments

The homestead coordinator was responsible for the program design in that he prepared the application himself and has been in charge of implementing and administering the Demonstration since it began. The coordinator is an employee of the operating agency for the program, Milwaukee's Department of City Development (DCD). Within DCD, the coordinator is located in the Division of Housing Development and Rehabilitation, Housing and Commercial Rehabilitation section. The policy-making group under which the

program operates is the Urban Homestead Board. Its membership consists of one DCD representative, one Department of Building Inspection representative, one alderman, and two at-large seats (citizens). Also, certain major decisions, such as proposed property acquisitions, must be approved by the Common Council of the City of Milwaukee. The Demonstration and the regular Urban Homesteading Program have been operated together by the same staff, and the only difference between the two programs from the city's perspective was the method of property acquisition.

During the second year of the Demonstration, DCD staff responsible for the various aspects of the program's implementation changed somewhat. In order to decrease his heavy workload, the homestead coordinator stopped administering the closings on the acquired properties. In addition, the management of the rehabilitation of all regular and Demonstration program properties was centralized, with one rehabilitation specialist in charge, as opposed to the four who previously shared these duties.

The homestead coordinator estimated the administrative costs of the Demonstration to be \$10,500 for the last 12 months of the program.

3.0 The Urban Homesteading Neighborhoods

The area of Milwaukee which was selected to be eligible for the Demonstration is the same area defined for the regular Urban Homesteading Program, which in turn was originally designated in 1975, and remains the Community Development Block Grant (CDBG) target area. This originally defined area was large enough to encompass all blighted areas in the city, even though these have been expanding in recent years. The homestead coordinator decided to use these boundaries for the Demonstration because these neighborhoods had the highest concentrations of houses suitable for acquisition. The homestead coordinator targeted for homesteading the neighborhoods within the greater CDBG area that he felt would be most likely to have predominately owner-occupied units within the next five years.

According to the homestead coordinator, abandonment in the target area has been prevalent for years but has become more extensive since 1983. Approximately 400 properties are vacant in the inner city at any time and one count found that this number had risen up to about 700. The participating neighborhoods are generally worse off than the city averages in terms of income, rate of unemployment, and housing conditions.

The homestead coordinator reported having had no problems with the neighborhood selection process and did not think it needed any improvements. The neighborhoods were appropriate for the Demonstration. Although several census tracts were added to the homesteading area during the second year of the Demonstration, this was done so that certain HUD properties could be acquired under the regular program. Properties in these added neighborhoods were eligible for acquisition under the Demonstration but none were chosen.¹ The homestead coordinator does not believe that the Demonstration has had any influence on the overall viability of the target area because the acquisition and rehabilitation of only eight properties, even though concentrated in an area of a few city blocks, was too little in relationship to the need of the neighborhoods.

4.0 Homesteader Selection

The homestead coordinator selected all the homesteaders himself. Applicants for the Demonstration were taken from the "home buyers list" assembled for the regular Urban Homesteading Program. About 100 applicants qualify for this list each year and some are retained on it into the next year if they do not receive a home during the year their name is first put on the list. Of those on the home buyers list during a year, about half were found to be of low or moderate income and were, therefore, eligible for the Demonstration.¹

¹According to Milwaukee's Application for Participation in the Local Property Demonstration Program of October 22, 1987, ".... approximately 56% of last year's homesteaders had low to moderate incomes . . ." (pp.2).

4.1 Stages in Process

Applicants for both the regular Urban Homesteading Program and the Demonstration started with the same selection process. According to the homestead coordinator, the approximate numbers of eligible applicants per year at each stage of the process prior to final screening were as follows:

<u>Stage</u>	<u>Eligible Applicants</u>
o Waiting List	1000
o Home Buyers List (qualified applicants from waiting list)	100
o Eligible for Demonstration (low or moderate income)	50
o Active (offered a regular UH or Demonstration home and wants one of the available homes)	20

As of August 1, 1981, three of the eight properties acquired under the Demonstration were occupied by homesteaders, four others had homesteaders selected for them (one homesteader had not yet signed papers conveying ownership), and one did not yet have a homesteader selected for it. The process and criteria used for a homesteader selection did not change over the course of the Demonstration.

4.2 Definition of Criteria Used

To select homesteaders, both the regular and Demonstration programs used certain criteria. The degree to which these general types of criteria were used by the homestead coordinator in Milwaukee and the ways in which he defined them are presented below.

- o Financial capability: In general, he tried to select applicants who are members of what he calls the "responsible poor." These are financially high-risk applicants who are not "bankable" (capable of getting financing from private financial institutions) and thus whose only option for home financing is through the program.

- o Self-help skills: These were not considered as a selection criterion except for cases where use of sweat equity had to be employed in order to lower an otherwise prohibitively high loan-to-value ratio.
- o Previous housing characteristics: These were not considered unless the applicant is found to be "high-risk": i.e., of tenuous eligibility because of some combination of weak credit background, poor job history, or extremely low income.
- o Personal characteristics: The homestead coordinator considered these only to determine if the applicant is a member of the "responsible poor." Such determinations were subjective and the Urban Homesteading Board sometimes challenged the coordinator on his observations on this factor.
- o Matching family size and house: On the application there was a question regarding the number of bedrooms desired in the homestead house. Thus, only homes with the requested number of bedrooms were offered to the homesteader applicants. The only other consideration in this category was that overcrowding is not allowed.

Besides the criteria listed above, program requirements were to be met and, of course, these superseded any locally-applied criteria.

The criteria for homesteader selection, as ranked in descending order of importance by the homestead coordinator, were:

- o program requirements: HUD-mandated "givens."
- o credit worthiness: It was costly to check this because credit investigating services must be used. This step followed (chronologically, but not in importance) the consideration of the applicant's household income.
- o applicant income: Annual household income of \$10,000 to \$17,000 required to qualify for a duplex unit and greater than \$17,000 to qualify for a single-family home.
- o priority considerations: Applicants received priority for selection if they were low income (less than 80 percent of median in area, spent 25 percent or more of their income on housing, or if their present housing had code violations. Beyond these considerations, applicants were also ranked according to their processing numbers (first come, first served).

The coordinator identified no serious problems with the process of homesteader selection and said that no Demonstration homesteaders dropped out after signing agreements. He believes that the process was efficient in identifying potential homesteaders who met the income restrictions and really wanted and will take care of the properties. As is discussed below, because of the high rehabilitation costs of the Demonstration houses, applicants with good construction skills and a willingness to apply them could help to make rehabilitation of the homes economically feasible under the terms of the program. In Milwaukee, the applicants who have these self-help skills, are willing to use them to perform a significant amount of the work themselves, and are willing to move into these neighborhoods were mostly from the city's Laotian community. Four of the six homesteader families that had signed agreements for Demonstration properties as of August 1, 1987 are Hmong who came to this country as refugees from Laos.

5.0 Property Acquisition

The homestead coordinator initiated and directed the process of selecting and acquiring all homestead properties. He was assisted by the rehabilitation staff who inspect the properties to determine if their rehabilitation was economically feasible. If the coordinator recommended that a property be acquired, the acquisition needed the approval of the Urban Homestead Board and the Common Council.

Eight properties were purchased in Milwaukee during the Demonstration at a total cost of \$136,500, averaging \$17,063 per property as opposed to the \$15,700 projected in the city's application.

5.1 Definition of Criteria Used

The coordinator used an objective set of criteria to screen potential Demonstration properties. The criteria, ranked in descending order of importance, were:

- o HUD's general program requirements must be met;

- o The impact on the neighborhood of homesteading the property, according to "Land Use Planning Criteria" in Milwaukee's application, must be the maximum expected;
- o The loan-to-value ratio should be no greater than 90 percent (assured economic feasibility); and
- o Other criteria.

The "maximum impact" criterion reflected the importance that the homesteading director attached to concentrating the Demonstration's effort in small areas within the inner city in order to improve the quality of housing in certain neighborhoods -- i.e., to assure that the program did more than just provide homesteaders with homes. The loan-to-value ratio of 90 percent was used to help assure that the properties acquired could be rehabilitated for a reasonable amount, and thus, that the cycle of foreclosure on these properties could be broken. (The general requirements were specified by HUD.) The property selection criteria used for the Demonstration did not differ from those used for the regular Urban Homesteading Program.

5.2 Application of Selection Criteria

Locate Property. The coordinator tried to locate qualified properties for the Demonstration in three ways. First, records of tax delinquent properties in targeted neighborhoods (those he believed would be predominantly owner-occupied in five years) were obtained from the City Treasurer's Office. Five of the eight properties acquired under the Demonstration were located through this method.

The second method was to find vacant properties and then see whether they were tax delinquent. He did this by driving around Demonstration neighborhoods and looking for newly boarded-up houses and by relying on reports from others, especially building contractors, who were active in the program. This method was not found to be fruitful because of its "hit or miss" nature and because so few vacant properties were tax delinquent.

The third method was to contact savings and loan institutions to check whether they had foreclosed on loans for any tax-delinquent vacant properties. Any for which they had done so were usually not tax-delinquent any longer as the taxes were paid up automatically when the institution gained control of the property. Three properties were acquired through this method.

Inspected Property and Contact Owner. Once the coordinator located a property which seemed to meet the criteria for the Demonstration, he looked at it and, if interested in acquiring it, tried to contact the owner to determine willingness to sell. If successful, a building inspector assessed the work needed to rehabilitate the property and estimated the cost of that work.

Get Appraisal and Make Offer. If the inspection indicated that rehabilitating the property would be feasible under the terms of the Demonstration, a private appraisal was solicited which assessed the fair market value of the property. The City then made an offer to the owner of that amount.

Gain Approval and Close. If the offer was accepted by the owner, the acquisition had to be approved by the Urban Homesteading Board and Common Council. Closing was then effected by the City Attorney's Office where all necessary paperwork, including the land contract, was signed. As a city-owned property, it then had to be transferred to the city's Real Estate Commission for property management.

According to the coordinator, most abandoned properties in the target neighborhoods that were in the process of tax foreclosure were available for purchase. When attempted, it was usually possible for the city to acquire these properties because, if the property met the criteria for selection and the owner could be contacted, the only issue to be settled between the owner and the city was price. However, only a very small percentage of the properties in the target area were in the process of tax foreclosure and eligible for the Demonstration.

The cost to the owner of selling his property to the city for the Demonstration was estimated by the homestead coordinator to be about \$1,000 to \$1,200 per year of tax delinquency. This was the sum of estimates of back and prorated future property taxes due, water bills and special assessments.

5.3 Problems

There were two major problems in the property acquisition process. One was the result of a key Demonstration program requirement and the other was a conflict with state law. The problem which first became evident was the smaller than expected number of tax delinquent properties in the city that were cost-effective to rehabilitate under the terms of the Demonstration. The second was the paucity of tax delinquency housing that was vacant and how this was affected by Wisconsin state law concerning tenant relocation. Both of these problems and their corollaries were really related parts of the same problem: the realities of the local housing stock, property owner behavior, and rehabilitation costs and financing versus the Demonstration program requirements and state law.

The most serious problem was the difficulty in finding houses that were tax delinquent and in a condition which allowed them to be rehabilitated for an amount that a homesteader of low or moderate income could afford (even with a 20-year, low-interest Section 312 or CDBG loan). The requirements that properties be tax delinquent and that homesteaders be of low and moderate income, although well-intended, meant that in most cases only those who could use sweat equity could qualify for a Demonstration house in Milwaukee. Otherwise, these families could not afford the monthly payments on the large loans needed to finance the extensive rehabilitation which was required to repair the seriously deteriorated properties that the city could acquire under the Demonstration tax delinquency restriction.

Milwaukee's application for the Demonstration stated that "the Homestead staff will concentrate on purchasing those properties that are tax delinquent for a period of one to three years." In practice, this came to mean that a property was considered tax delinquent for the previous year if the annual payment was one day late. It then became "in the process of tax foreclosure" and, for the purpose of the Demonstration, eligible for acquisition.

Tax delinquent houses in Milwaukee, even if tax delinquent for only a short time, usually had deterioration and damage that made them much more expensive to rehabilitate than houses in the regular program and more than had been envisioned in the Demonstration design. Milwaukee's desired loan-to-value ratio of 90 percent was usually impossible to achieve without significant amounts of homesteader labor for properties whose rehabilitation, if performed entirely by a contractor, would cost not \$20,000 but often \$40,000 to \$60,000. Most of the eligible houses in the target neighborhoods simply would not be worth more than the cost of repairing them, even after being completely rehabilitated. As mentioned earlier, only by finding homesteader applicants with self-help skills and the willingness to work on the homes was the city able to acquire and convey most of the homes under the Demonstration.

The vacancy requirement restricted the coordinator in his search for properties because many properties which were otherwise appropriate for acquisition were occupied. After several attempts, it became apparent to the coordinator that the city should not even contact owners of such properties to inquire about the tenant's tenure in the house or about relocating the tenants in order to make the property eligible for the Demonstration. Both the Demonstration statutes and Wisconsin law prohibited local governments from negotiating with property owners about possible conveyance of a property while a tenant is legally occupying that property. The coordinator would have liked to have been able to work with owners to develop relocation plans for tenants in cases where all other eligibility requirements were met.

In summary, the coordinator found that most owners of run-down properties in Milwaukee (including financial institutions which own homes as the result of loan foreclosures) continue to pay their property taxes, even if that property is vacant; that owners who have purposefully ceased paying the taxes on a property have usually done so only after the property is seriously dilapidated from fire, vandalism, or long neglect; and that tax delinquent properties are often occupied by tenants, thus precluding the city from negotiating for the purchase of the property. The coordinator did not expect that local property acquisition would continue in Milwaukee after the end of the Demonstration.

6.0 Property Disposition

As the coordinator described it, marketing Demonstration properties to eligible homesteader applicants was more difficult than it is for regular program properties because the Demonstration properties are in poorer condition, on average, than the regular properties and because homesteader applicants prefer houses that need less work and smaller rehabilitation loans.

The city has used land contracts over the course of the Demonstration to convey properties to homesteaders. This contract was the same for the regular and the Demonstration programs except for minor administrative differences related to closing. The land contract is a five-page agreement between the city and the homesteader which conveys the property to the homesteader for \$1 upon the performance of the homesteader's responsibilities. Of course, the homesteader must pay more than \$1 to receive title to the land because the contract also specifies obligations for closing costs, including those for fire and vandalism insurance and "owner's contribution" to rehabilitation costs of \$2,000..

Most of the problems affecting which properties enter the disposition process are those already discussed which lie within the property acquisition process. The property disposition process itself is fairly routine.

7.0 Rehabilitation Financing

Loans to homesteaders under both the regular Urban Homesteading Program and the Demonstration for the financing of rehabilitation were from either HUD Section 312 monies or from CDBG funds. No private financial institutions were involved in either program. Up until fiscal year 1985, these two funding sources were used about equally for the regular program, but for fiscal year 1986 the city drew on CDBG funds once for this purpose because of uncertain availability and other complications associated with Section 312 funds. This arrangement changed during the past year when the city began relying more heavily on Section 312 funds for both the regular and Demonstration programs. However, according to the coordinator, many of the Laotian families chosen as homesteaders for the Demonstration properties had debt-to-income ratios too high to allow them to qualify for Section 312 loans. In these cases, CDBG funds were arranged, resulting in a higher proportion of CDBG loans among the Demonstration homesteaders than among the participants in the regular program.

In most cases where homesteaders made or were planning to make a significant portion of the needed repairs themselves (sweat equity), the HUD Rental Rehabilitation program has been used. In these situations, the CDBG funds are matched with a Rental Rehabilitation Grant up to \$7,000 (over five years) to allow the homesteader to procure the needed construction materials. The coordinator stated that the subsidies afforded by this program were instrumental in enabling the city to convey the Demonstration properties to "higher risk" homesteaders -- i.e., those who had the self-help skills but who could not qualify for other loans.

8.0 Planning and Management of Rehabilitation

According to the city's manager of residential and commercial rehabilitation, the major objectives of the rehabilitation process were to give product satisfaction to the client (the homesteader), and to create a home with a better appearance and thereby improve the quality of the neighborhood.

The most common structural problems with the homes that were rehabilitated were deterioration of the foundation; misaligned or cracked main house beams, floor joist, or column; and masonry chimneys and porch structures in disrepair. These problems were usually of limited or moderate severity.

8.1 Specifying the Work Needed

The process of specifying what rehabilitation would entail, according to the residential rehabilitation supervisor, did not change significantly over the course of the Demonstration. The process involved staff from the Department of City Development and the Building Department, and the homesteaders themselves. The DCD and Building Department staff inspected the home and wrote a "scope of work" specifying the needed repairs. The work items considered in a scope of work for both the regular and the Demonstration programs were, in descending order of priority: code violations, energy conservation measures, incipient code violations, and general improvements.

Properties were judged according to the city's building code and a "modified 20-year standard" was applied to all repairs to be made. This meant that all repairs and improvements made must be of quality that will last for at least 20 years, but that this standard could be "modified" if its application to certain repairs would make the job financially infeasible. Homesteaders were encouraged to participate in the final scope of work since their approval was necessary before bids could be sought. Their input was solicited on decisions regarding design, materials to be used, and extent of improvements beyond the minimum although any that would result in extraordinary increases in the cost of the rehabilitation were discouraged.

Although the process of specifying what repairs were to be made did not change much, the rehabilitation supervisor stated that deciding who would perform the repairs changed somewhat during the second year of the Demonstration. As discussed above, because of financial realities, many of the Demonstration homesteaders were chosen on the basis of their self-help skills and all were

encouraged to do more work on the homes than their predecessors in the regular program, wherein homesteaders performed "sweat equity" work only if they volunteered and could provide evidence of their ability to perform such work. Furthermore, even if the rehabilitation manager and homestead coordinator agreed that it was prudent to allow a homesteader to use his or her self-help skills, then the homesteader was allowed to do only limited interior work such as some demolition, minor repairs, or painting. According to the rehabilitation manager, most of the homesteader applicants did not possess self-help skills and were not interested in performing any work themselves.

Although this arrangement remained generally true, the residential rehabilitation supervisor believed that sweat equity is encouraged more than it used to be. Based on the visits made during the second year, the Demonstration homesteaders were making more extensive structural repairs (new walls, floors, etc.) than had been described as typical by staff during the first year of the Demonstration. Although the building code requires that a licensed contractor must perform all the work needed to rectify code violations (usually plumbing, electrical, and heating systems work), the Demonstration homesteaders who were working on their homes seemed to be doing most of the rest of the work needed in the interior of their homes. The city still requires that exterior work be done by a contractor to assure that it would be finished in a timely manner, and thus that the home would quickly become an asset rather than an eyesore for the neighborhood.

8.2 Managing the Rehabilitation

Homesteaders selected the general contractor to do the work needed on their homes. The city made a number of selection methods available to the homesteaders. These included:

- o A rotating bidders list, of about 700 licensed contractors, added to annually, redone biannually;
- o A bid desk, where contractors can obtain information and bid applications on homes to be rehabilitated;

- o An option allowing homesteaders to solicit contractors on their own; or
- o Any of the above, combined with sweat equity.

During the second year of the Demonstration, the rehabilitation supervisor reported that homesteaders had been encouraged more strongly to select contractors on their own. The rehabilitation staff had found that the process went more smoothly when the homesteader took an active role in working with the contractor. By selecting contractors themselves, homesteaders were more likely to become involved with them and to monitor the work being performed on their homes. Another strategy to further good homesteader-contractor relations introduced during the latter half of the Demonstration was a requirement that contractors go to the house and meet the homesteader when picking up a bid package. This assured that the contractor bidding on the job met the owner before the selection process and that the owner would be more involved in the entire rehabilitation process.

Once the contractor was selected, the rehabilitation work had to meet certain deadlines. All code violations threatening the occupant's health or safety had to be rectified before occupancy could begin. During the five years of residency required of the homesteader, the city staff inspects the home at least annually.

9.0 Other Neighborhood Conservation Activity

There are a number of other programs administered by DCD which help conserve and improve housing in eligible Milwaukee neighborhoods. These include the Section 8 Rental Rehabilitation program as well as others. A special organization in the city is Homefront, a nonprofit corporation which is staffed by city employees, has a separate board of directors, and is funded from the CDBG. Its mission is to purchase HUD-owned properties, provide interim construction financing in order to rehabilitate them, and then to convey the homes to various community groups. The community groups then obtain financing to reimburse Homefront for their costs.

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