Annual Report to Congress
on
Community Planning and Development Housing Rehabilitation Programs

FY 1989

Assistant Secretary for Community Planning and Development
U. S. Department of Housing and Urban Development
March 1990

1990 Annual Report to Congress
on Community Development Rehabilitation Programs

This Report Incorporates Statutorily-mandated

Reports to Congress for FY 1989 on the:

Rehabilitation under the Community Development
Block Grant Program

Rental Rehabilitation Program

Urban Homesteading Program

Section 312 Rehabilitation Loan Program

U.S. Department of Housing and Urban Development

Office of the Assistant Secretary for Community Planning and Development

Office of Urban Rehabilitation

INTRODUCTION

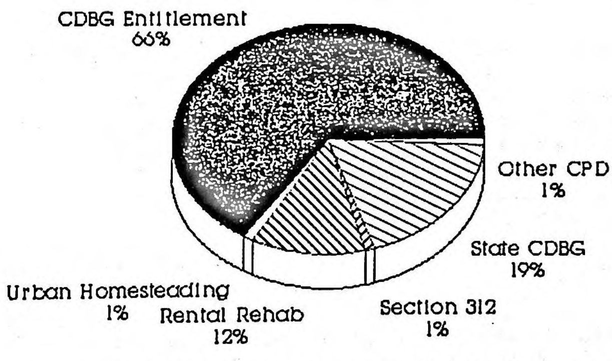
This report covers the Housing Rehabilitation programs administered by the Office of Community Planning and Development (CPD) for Fiscal Year 1989. It is divided into four parts covering CDBG-financed rehabilitation programs, the Rental Rehabilitation Program, the Urban Homesteading Program, and the Section 312 Rehabilitation Loan Program.

The largest source of CPD housing rehabilitation funds continues to be the CDBG Entitlement program which accounted for $817.2 million (66%) of total housing rehabilitation funding in Fiscal Year 1989.

The second largest source of CPD-administered housing rehabilitation funds was the State CDBG program which provided an estimated $233 million (19%). This was followed by the Rental Rehabilitation Program at $148.5 million (12%). The Urban Homesteading Program provided $13.2 million in funds for acquisition of properties for rehabilitation and the Section 312 Loan program provided $12 million for rehabilitating loans in support of the Urban Homesteading program. Other CPD funding sources accounted for $13.6 million of rehabilitation funds.

FIGURE 1

Funding for Housing Rehabilitation in CPD-Administered Programs FY 1989



o Total funding equals $1.24 billion which is the total for housing rehabilitation including all rehabilitation costs, acquisition for rehabilitation and administrative costs. Total funds for all housing purposes would be greater and would include new construction, code enforcement, and mortgage assistance.

SOURCE: U.S. Department of Housing and Urban Development, Community Planning and Development.

CDBG-FINANCED REHABILITATION PROGRAMS

Purpose

The purpose CDBG financed rehabilitation programs is to develop viable urban communities by providing decent housing and a suitable living environment, principally for low- and moderate-income persons.

Legislation

Title I, Housing and Community Development Act of 1974, as amended.

Program Administration

[NOTE: For a full discussion of the objectives, requirements, and administration of the CDBG Program, see the Department's Annual Report to Congress on the Community Development Block Grant Program]

Under the Community Development Block Grant (CDBG) Program, entitlement cities and States are free to allocate their grant funds among a wide range of eligible activities, provided the activity meets one of the three national objectives of the CDBG program. Rehabilitation is an eligible activity and the single largest use of CDBG grant funds, supporting the principal national objectives of benefitting low- and moderate-income persons and of eliminating or preventing slums and blight.

CDBG recipients are free to design rehabilitation programs of their own choice. Funds can be used for either grants or loans, for minor repairs and improvements or more substantial levels of rehabilitation which raise substandard structures to locally established standards. CDBG funds can be used for both residential and commercial rehabilitation, for both single family and multifamily structures, for both low-income homeowners as well as owners of rental property.

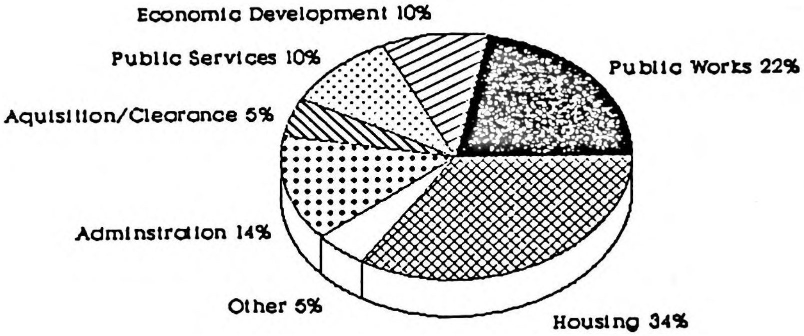
CDBG funds can be used to cover the entire cost of the rehabilitation of the project, or in combination with other public and private funds. It is often used to supplement Section 312 rehabilitation loans or rehabilitation subsidies under the Rental Rehabilitation Program. It is a common source of financing for the rehabilitation of Urban Homesteading properties.

Program Activities and Characteristics

In Fiscal Year 1989, local officials in Entitlement communities reported how they planned to spend an estimated $2.43 billion in new grants, program income and funds reprogrammed from prior years on CDBG funded projects. Grantees used these funds to undertake a broad range of eligible activities including neighborhood and housing revitalization, public works, social services, and economic development. For Fiscal Year 1989, the relative share for housing-related activities was 34 percent, a small decrease from 36 percent during the Fiscal Year 1983 to Fiscal Year 1988 period.

FIGURE 2

CDBG Entitlement Program
FY 1989 Planned Spending
By Category



SOURCE: U.S. Department of Housing and Urban Development, Community Planning and Development

For Entitlement communities, planned housing-related activities, although a smaller percentage than previous years, is the largest single category of planned Fiscal Year 1989 spending, accounted for an estimated $836 million (34%) of all Entitlement spending. Planned housing-related activities include:

- o Rehabilitation loans and grants for single family dwelling units: $505 million;

- Upgrades of multifamily and public housing: $175 million

- Administrative services such as loan processing, preparation of work specifications, and rehabilitation counseling: $55 million;

- Code enforcement: $36.5 million; and

- Weatherization and energy efficiency improvements of housing units: $8.5 million.

Entitlement grantees spend the greatest portion of their housing funds (60 %) on single family, owner-occupied rehabilitation, with multifamily rehabilitation a much smaller percent (21%) of fund use. Based on a recent productivity survey, data indicated that grantees operating single family programs committed an average of 91 units in a program year. The survey also showed that they committed an average of 22 units for every staff-year of effort to deliver those programs.

Of the $879.8 million apportioned to States and Small Cities programs for Fiscal Year 1989, $841.4 million went to States in the State CDBG program and $38.4 million went to the two States in the HUD-Administered Small Cities program. As of June 30, 1989, States were able to report awards of about $149 million of Fiscal Year 1989 funds to communities. Based on the State reporting to date, housing rehabilitation is the largest concentration of State CDBG-funded activity in Fiscal Year 1989 amounting to 37 percent of funds reported. In Hawaii and New York, the Department awarded 103 Small Cities grants in Fiscal Year 1989. Of all grant funds awarded, 35 percent, or $13.6 million, was for housing activities.

RENTAL REHABILITATION PROGRAM

Purpose

The purpose of the Rental Rehabilitation Program is to increase the supply of affordable standard housing for lower income tenants.

Legislation

Section 17 of the United States Housing Act of 1937, which was added by the Housing and Urban-Rural Recovery Act of 1983.

Program Administration

The program makes funds available, by formula, to cities with populations of 50,000 or more (who qualify for at least $50,000), urban counties, eligible consortia of local governments, and States for use in rehabilitating rental properties.

The program is intended to encourage the maximum use of private sector resources and the minimum public sector subsidy for rehabilitating rental properties. Consequently, the authorizing legislation included limits on the total amount of subsidy that each project can receive. The 1987 Housing and Community Development Act (P.L. 100-242) increased the amount of RRP funds that could be used for rehabilitation from a flat per unit limit of $5,000 to: $5,000 for units with no bedroom, $6,500 for units with one bedroom, $7,500 for units with two bedrooms, and $8,500 for units with three or more bedrooms. A second limitation on the amount of RRP funds going into a project is that RRP funds can comprise no more than 50 percent of the total rehabilitation costs.

The statute authorizing the Rental Rehabilitation Program requires that at least 70 percent of funds initially benefit lower-income persopns. HUD can, in extraordeinary circumstances, reduce this lower-income benefit requirement to 50 percent, but has done so only once. The statute also requires that an equitable share of rehabilitation funds be provided for housing for large families. HUD defines this statutory provision as met if 70 percent of each grantee's annual grant is used to rehabilitate units with two or more bedrooms and if at least 15 percent of all units rehabilitated by all grantees through the program contain three or more bedrooms.

The program operates with considerable decentralization in program administration, giving local officials broad discretion in determining the types of subsidy they make available to rental property owners. The program operates on a split subsidy approach to rehabilitating rental housing. Program grant funds are used to write down the cost of rehabilitation, while Section 8 Housing Certificates or Vouchers are provided to lower-income tenants residing in units to be rehabilitated so the tenant will be able to afford the after rehabilitation rent.

As the program operates on a market based approach, units are rented at market rents and no special rent controls or restrictions are allowed. The statute requires that rents in neighborhoods in which Rental Rehabilitation Program projects are located be generally affordable to lower-income families at the time of project selection and that neighborhood rents not be likely to increase at a rate significantly greater than the rate of rent increases for the HUD Fair Market Rents (FMRs) that can be reasonably expected to occur in the market area for five years. Program regulations define affordable rents as being at or below the applicable HUD-published Section 8 Existing Housing FMRs for the location of the project.

Administration of the program is facilitated through the Cash and Management Information (C/MI) System, which is an automated system for disbursing and managing program funds and tracking program progress. When grantees approve a project, they telephone HUD and set up the project in the C/MI System. The transfer of funds from HUD to the grantees is effected through an electronic system in which grantees telephone HUD to request funds and the required funds are transferred from the U.S. Treasury to a local bank for use in the project.

When a formula grantee chooses not to receive funds, HUD generally reallocates the amount of the grant to other communities in the same HUD region. In addition to the reallocation of rejected funds, HUD may deobligate funds from grantees that have not used them according to the schedule indicated in their program descriptions. These funds are generally reallocated to grantees in the same region with good performance in meeting the national objectives of the program.

Beginning with Fiscal Year 1988 grant amounts, 10 percent of the original rental rehabilitation grant amounts awarded to grantees were made available to grantees to cover the costs of administering the program. While recipients participating in State adminstered programs are not eligible to receive administrative grants directly from HUD, States are required to provide an equitable share of their administrative allocations to units of government participating in State administered programs.

Rural Rental Rehabilitation Demonstration Program. Since the beginning of the program, rural areas designated by the Farmers Home Administration (FmHA) as eligible areas under Title V of the Housing Act of 1949 have been ineligible to participate in the State Rental Rehabilitation Program. Section 311 of the 1987 Act created a demonstration program for the use of Rental Rehabilitation program funds in those areas. Only uncommitted funds from prior years can be used to support the demonstration which was originally authorized until September 30, 1989, but has been extended for another two years.

As of the end of FY 1989, 31 States and eight cities allocated over $15.8 million to the demonstration. Allocations to the demonstration ranged from less than $250,000 for 19 State rural recipients to between $500,000 and $900,000 for 17 State rural recipients. Over 63 percent of the funds allocated to the demonstration was committed as of the end of the fiscal year and 20 percent of the funds committed to demonstration projects was disbursed for completed projects as of September 30.

Funding History

Since the beginning of the program in FY 1984, over $900 million has been appropriated for Rental Rehabilitation grants. The average appropriation for the program has been $150 million. Due to reduced funding levels in Fiscal years 1986 and 1989, a number of grantees who had previously participated as formula grantees in prior years were potentially ineligible for direct HUD funding because their formula allocations fell below the $50,000 minimum. Under RRP rules such grantees were given the option to participate as State rather than formula grantees.

TABLE 1

RENTAL REHABILITATION PROGRAM APPROPRIATIONS BY FISCAL YEAR
(Dollars in Millions)

Year	Amount	Year	Amount
1984	$150.0	1987	$200.0
1985	150.0	1988	200.0
1986	71.8	1989	150.0

Source: U.S. Department of Housing and Urban Development, Community Planning and Development. Compiled by the Office of Urban Rehabilitation.

During FY 1989, HUD deobligated $18.5 million in FY 1984-FY 1988 program funds from nine State and 96 city or county grantees and reallocated $17.9 million in FY 1987-FY 1988 funds to seven States and 94 cities and urban counties (Table 2).

Included in the total amount of deobligated funds is $1.8 million of FY 1984, FY 1985, and FY 1986 funds, which could no longer be reallocated and which was returned to the Department of the Treasury. The amount of reallocations includes funds deobligated but not reallocated prior to the start of FY 1989. It also includes funds that were not applied for, and thus not considered deobligated.

TABLE 2

RENTAL REHABILITATION PROGRAM FUNDS REALLOCATED AND DEOBLIGATED DURING FISCAL YEAR 1989 BY REGION

HUD Region	Jurisdictions Receiving Reallocations		Amount Reallocated	Jurisdictions Having Funds Deobligated		Amount Deobligated
	Cities	States		Cities	States	
Boston	11	0	$ 1,317,493	10	0	$ 1,261,493
New York	14	1	2,763,830	9	0	2,490,608
Phila.	4	1	828,335	4	0	828,335
Atlanta	14	2	1,959,924	19	2	1,980,031
Chicago	14	1	2,891,575	11	3	2,411,094
Ft. Worth	13	1	6,113,704	18	2	7,146,749
Kans. City	3	0	193,373	4	0	119,248
Denver	3	0	118,950	2	0	118,950
San Fran.	13	0	1,282,294	15	1	1,612,992
Seattle	5	1	500,624	4	1	500,625
Totals	94	7	$17,970,102	96	9	$18,470,125

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Rental Rehabilitation Program Cash and Management Information System.

Participation

There were 490 municipal jurisdictions, including 372 cities and 118 urban counties, eligible to receive formula grants during FY 1989. Three-fourths of the cities and counties qualifying for direct allocations received less than $250,000 (Table 3). Twelve different cities and urban counties each qualified for $1 million or more in program funding.

Of the 490 eligible formula jurisdictions, a total of 457 jurisdictions elected to apply for their formula grants. Twenty-eight of the 33 jurisdictions that declined to apply for a formula grant would have received less than $100,000 to administer.

Puerto Rico and 45 of the 50 States chose to administer the program for their non-formula areas. In the remaining States, Florida, Arkansas, North Dakota, Hawaii, and Nevada, HUD administers the program for communities that do not receive a formula grant.

TABLE 3

RENTAL REHABILITATION INITIAL ALLOCATIONS
BY TYPE OF GRANTEE, FY 1989

	Cities and Counties		States	
Allocation Amount	Number	Percent	Number	Percent
Less than $ 50,000	48	10	1	2
$ 50,000 - $ 99,999	195	40	2	4
$ 100,000 - $249,999	168	34	5	10
$ 250,000 - $499,999	42	9	11	22
$ 500,000 - $999,999	25	5	20	39
$1,000,000 or more	12	2	12	23
Totals	490	100	51	100

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Rental Rehabilitation Program Cash and Management Information System.

Program Activities and Characteristics

Program Production. Since it began in 1984, the Rental Rehabilitation Program has made $916.8 million available to grantees to use in rehabilitating housing. As of September 30, 1989, HUD had obligated $870 million to grantees who administer the program locally. Of that amount, grantees had entered into contracts in the amount of about $647 million to finance housing rehabilitation. Table 4 illustrates the amount of funds from each fiscal year's appropriation that HUD has obligated to grantees and the portion of funds grantees have committed to projects.

TABLE 4

COMMITMENT RATE BY FISCAL YEAR
(Dollars in Thousands)

Fiscal Year	Funds Obligated to Grantees	Funds Committed to Projects	Percent Committed
1984	$147,986	$146,885	99%
1985	146,961	145,624	99
1986	71,530	68,875	96
1987	197,331	174,008	88
1988	176,929	94,175	53
1989	130,020	18,156	13
Totals	$870,757	$647,723	72%

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Rental Rehabilitation Program Cash and Management Information System.

The $647 million reported in Table 4 as committed has gone towards the rehabilitation of 32,850 projects containing 157,128 housing units. From the start of the program in FY 1984 until the end of FY 1989, 95,190 units in 24,685 projects had been completed with the use of program funds (Table 5).

The average size of RRP projects is about four units. This relatively small project size has been characteristic of the program since its inception. The annual increase in the average size of completed projects probably reflects the longer time it takes to complete large projects. With the RRP program now having operated for five full years, the average size of projects committed and completed each year should be about the same.

TABLE 5

PROGRAM PRODUCTION AND PROJECT SIZE

	Committed			Completed		
Fiscal Year	Projects	Units	Units/ Project	Projects	Units	Units/ Projects
Pre-FY1986	3,327	21,875	6.6	485	1,154	2.4
FY1986	6,902	38,324	5.6	4,017	12,500	3.1
FY1987	6,114	24,759	4.0	5,927	23,094	3.9
FY1988	7,433	32,833	4.4	6,255	28,401	4.5
FY1989	9,069	39,337	4.3	8,001	30,041	4.7
Cumulative	32,850	157,128	4.8	24,685	95,190	3.9

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Rental Rehabilitation Program Cash and Management Information System.

Project and Unit Rehabilitation Costs. The Rental Rehabilitation Program does not establish a maximum allowable amount of rehabilitation per project or unit. Including funds from all sources, the average rehabilitation cost of projects completed so far in the program has been $11,098 per unit and the total cost, including any refinancing and acquisition that was done, has averaged $12,247 per unit (Table 6).

The average contribution per unit from the Rental Rehabilitation Program has been $3,882 overall, and was $4,669 during the period from October 1, 1988 to September 30, 1989. These costs are well within the statutory requirements for the program.

TABLE 6

FINANCIAL CHARACTERISTICS OF PROJECTS
BY PERIOD OF COMPLETION

Characteristic	Period of Completion FYs 1984-88	FY 1989	Cumulative
Number of Projects	16,684	8,001	24,685
Average per Unit:			
Total Cost	$11,223	$14,469	$12,247
Rehab Cost	$10,181	$13,087	$11,098
RRP Funds	$ 3,520	$ 4,669	$ 3,882
Private funds	$ 5,892	$ 6,884	$ 6,205
RRP Funds as Percent of:			
Total Project Costs	31%	32%	32%
Rehab Costs	35%	36%	35%
Private funds per RRP Dollar	$1.67	$1.47	$1.60

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Rental Rehabilitation Program Cash and Management Information System.

Source of Project Funding. On the average Rental Rehabilitation Program funds provided only 32 percent of the total project financing while 51 percent of the funding came from private sources, including both loans and private funds from other sources, including both loans and private funds from other sources (Table 7).

Sources of other public funds, such as CDBG program funds andd tax-exempt State or loal bonds, comprised the remainder. Overall, one dollar of private sector funds was leveraged by every dollar of public funding spent on Rental Rehabilitation projects.

TABLE 7

SOURCES OF PROJECT FINANCING FOR COMPLETED
RENTAL REHABILITATION PROJECTS BY COMPLETION DATE

Source of Funding	Percent of Project Funds		
	FYs 1984-88	FY 1989	Cumulative
Public Funding:	48%	52%	49%
Rental Rehabilitation	(31)	(32)	(32)
CDBG	(10)	(11)	(10)
Tax-Exempt Financing	(5)	(4)	(4)
Other Public Funds	(2)	(5)	(3)
Private Funding:	52%	48%	51%
Private Loan Funds	(29)	(22)	(26)
Other Private Funds	(23)	(26)	(25)
Total Percent	100%	100%	100%
Total Dollars ($000)	$731,182	$434,670	$1,165,852

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Rental Rehabilitation Program Cash and Management Information System.

Table 8, which shows the proportion of RRP funds in the projects completed so far, indicates that only a very few projects were reported to have used program funds for more than half of project costs. These projects included refinancing, which is permissible under the program.

Exactly half of the project costs have come from program funds in thirty-nine percent of the projects completed so far. In about 60 percent of all completed projects, program funds have made up less than half of project costs.

TABLE 8

RENTAL REHABILITATION FUNDS AS A PERCENT
OF TOTAL PROJECT FINANCING BY COMPLETION DATE

Rental Rehab as Percent of Total Financing	Projects Completed During Period					
	FYs 1984-88		FY 1989		Cumulative	
	Number	Percent	Number	Percent	Number	Percent
51% or more	117	1%	148	2%	265	1%
50	6,380	38	3,309	41	9,689	39
40-49	4,358	26	2,092	26	6,450	26
30-39	2,829	17	1,207	15	4,036	17
1-29	3,000	18	1,245	16	4,245	17
Total	16,684	100%	8,001	100%	24,685	100%

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Rental Rehabilitation Program Cash and Management Information System.

Types of Subsidy. Local officials have used three general categories of rehabilitation subsidy to help finance project costs. Most commonly used have been deferred payment loans (DPLs), in which the project owner is not obligated to begin immediate repayment of the loan. Instead repayment is deferred for a term of years, until other debt on the property is retired, the property is sold, or other future event occurs. Sixty-one percent of completed projects have involved DPLs (Table 9). DPLs also may be "forgivable," that is, if the borrower observes all contract conditions, the grantee may forego repayment. Grants (22 percent of projects) and amortized direct loans (12 percent) also have been widely used.

TABLE 9
PROJECT SUBSIDY TYPE BY COMPLETION DATE

Subsidy Type	FYs 1984-88 Number	FYs 1984-88 Percent	FY 1989 Number	FY 1989 Percent	Cumulative Number	Cumulative Percent
Deferred Payment Loan	10,458	63%	4,691	59%	15,149	61%
Grant	3,468	21	1,896	23	5,364	22
Direct Loan	2,045	12	955	12	3,000	12
Other	657	4	403	5	1,060	4
Not Reported	56	*	56	1	112	1
Total	16,684	100%	8,001	100%	24,685	100%

* Less than .5 percent

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Rental Rehabilitation Program Cash and Management Information System.

Project Size. Rental Rehabilitation projects generally are small -- more than 80 percent of all projects have four or fewer units and nearly 95 percent have ten or fewer units. (Table 10). Despite this overall predominance of small projects, the program does lend itself to larger projects as well. As of September 30, 1989 five projects have been committed and one completed with 1,000 units or more. The largest committed project has 2,702 units.

The size distributions of committed and completed projects are similar. Early in the program committed projects were somewhat larger than completed projects, probably reflecting the longer time period needed to complete larger projects (See also Table 5 above).

TABLE 10

SIZE OF COMMITTED AND COMPLETED PROJECTS
SEPTEMBER 30, 1989

Units in Project	Committed Projects Number	Committed Projects Percent	Completed Projects Number	Completed Projects Percent
1- 4	27,129	83%	20,430	83%
5- 10	3,671	11	2,875	11
11- 25	1,252	4	903	4
26- 99	686	2	393	2
100-499	95	*	39	*
500-999	3	*	3	*
1,000+	5	*	1	*
Not Determined	6	*	41	*
Totals	32,850	100%	24,685	100%

* Less than .5 percent

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Rental Rehabilitation Program Cash and Management Information System.

Unit Size. From the beginning of the program through September 30, 1989, about 71 percent of the completed units had two or more bedrooms (Table 11). About 21 percent had three or more bedrooms. Thus, in the aggregate, the program is exceeding the Department's standards for meeting the statutory reqirement to serve large families. During FY 1989, the program continued to complete large units at about the same rate as previously--71 percent had two or more bedrooms and 22 percent had three or more.

TABLE 11

UNIT SIZE BY PERIOD OF COMPLETION

Unit Size	FYs 1984-88 Units	FYs 1984-88 Percent	FY 1989 Units	FY 1989 Percent	Cumulative Units	Cumulative Percent
Efficiency/SRO#	3,534	5%	1,406	5%	4,940	5%
1 Bedroom	15,444	24	7,219	24	22,663	24
2 Bedrooms	33,253	51	14,742	49	47,995	50
3 Bedrooms	11,221	18	5,824	19	17,045	18
4 Bedrooms	1,535	2	740	3	2,275	3
5 + Bedrooms	157	*	88	*	252	*
Not Determined	5	*	15	*	20	*
Totals	65,149	100%	30,041	100%	95,190	100%

* Less than .5 percent.
\# An SRO is a single room occupancy unit.

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Rental Rehabilitation Program Cash and Management Information System.

Occupancy Status. Immediately prior to their rehabilitation, 56 percent of RRP units completed through September 1989 were occupied (Table 12). Within 90 days of completion, the overall occupancy rate was 90 percent. The increase in the occupancy rate after rehabilitation reflects the fact the housing has been brought up to housing code standards, so that people would choose to live there. And, of course, the households who were residing in the projects prior to rehabilitation receive the benefit of having their homes repaired.

TABLE 12

OCCUPANCY STATUS BEFORE AND AFTER REHABILITATION
BY PERIOD OF COMPLETION

Period of Completion	Total Number of Units	Number of Units Occupied	Percent of Units Occupied
FYs 1984-88			
Before Rehabilitation	66,359	38,198	58%
After Rehabilitation	65,149	60,408	90%
FY 1989			
Before Rehabilitation	29,462	15,848	54%
After Rehabilitation	30,041	25,133	84%
Cumulative			
Before Rehabilitation	95,821	54,046	56%
After Rehabilitation	95,190	85,541	90%

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Rental Rehabilitation Program Cash and Management Information System.

Rent Affordability. The RRP units completed during FY 1989 rented for an average of about $113 below the FMR for a standard unit of that size in the same housing market (Table 13). This average difference ranged from $101 below the FMR for a one bedroom unit to $183 below the FMR for a five bedroom unit.

TABLE 13

DIFFERENCES BETWEEN AFTER-REHABILITATION RENTS
AND FMR IN OCCUPIED UNITS COMPLETED IN FY 1989

Unit Size	Number of Units	Average FMR	Average Rent	Average FMR Minus Average Rent
Efficiency/SRO	1,094	$336	$275	$ 61
1 Bedroom	6,064	$408	$352	$ 56
2 Bedrooms	12,739	$479	$408	$ 75
3 Bedrooms	4,753	$600	$482	$118
4 Bedrooms	723	$670	$580	$ 90
5+ Bedrooms	91	$770	$635	$135
Not Determined	4,577	NA	NA	NA
Totals	30,041	$543*	$455*	$ 89

* Computations based on 25,464 cases with completed data available.

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Rental Rehabilitation Program Cash and Management Information System.

In addition to the "average" rehabilitated unit initially renting for less than the FMR, 92 percent of all units assisted prior to October 1, 1988 and 93 percent of all units completed in FY 1989 had after-rehabilitation rents that were at or below the applicable FMR (Table 14).

TABLE 14

AFFORDABLE UNITS AFTER REHABILITATION
BY YEAR OF COMPLETION

Period of Completion	Total Number of Units	Number of Units Affordable	Percent of Units Affordable
FY's 1984-88	65,149	60,186	92%
FY 1989	30,041	27,938	93%
Cummulative	95,190	88,124	93%

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Rental Rehabilitation Program Cash and Management Information System.

One of the objectives of the Program is the long-term affordability of rehabilitated units, which is designed to be achieved through the neighborhood selection criteria. The 1989 RRP Rent Survey found that about 83 percent of all units completed prior to October 1, 1988 continue to have rents that are less than or equal to the local FMR. This, combined with the 93 percent affordable units completed during FY 1989, means that approximately 90 percent of all units rehabilitated through the RRP had rents that were at or below the applicable local FMRs.

Type of Owners Participating. All properties rehabilitated through the Program must be privately owned, but they can be by individuals, for-profit corporations or partnerships, or non-profit organizations and cooperatives. For projects completed in the past 12 months, 79 percent of the owners were individuals, and 96 percent were for- profit operations. The remaining four percent were not-for- profit organizations, cooperatives, and others.

Types of Families and Households Served. The Rental Rehabilitation Program must be used to benefit lower income families. Tenants residing in properties rehabilitated through the Rental Rehabilitation Program were predominantly lower-income and the overall number and percentage of lower-income residents increase after rehabilitation (Table 15). This reflects the higher occupancy rates in units after rehabilitation.

Nearly three-fourths of those households occupying Rental Rehabilitation Program units after rehabilitation have incomes less than 50 percent of the area median income. Ninety-three percent of households living in rehabilitated units completed had incomes less than 80 percent of the area median. This is well above the 70 percent standard required by the statute.

TABLE 15

PERCENT* OF LOWER-INCOME HOUSEHOLDS
BEFORE AND AFTER REHABILITATION BY PERIOD OF COMPLETION

	Period of Completion					
	FYs 1984-1988		FY 1989		Cumulative	
	Before	After	Before	After	Before	After
Occupied Units	38,198	60,408	15,848	25,133	54,046	85,541
Households*	32,300	54,412	13,435	22,528	45,735	76,941
50% of median or less	66%	72%	69%	70%	67%	71%
51-80% of median	25%	21%	22%	21%	24%	21%
80% + of median	9%	7%	9%	9%	9%	8%

* The number of households for which income information is known. Percentages are calculated from these data.

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Rental Rehabilitation Program Cash and Management Information System.

Types of Rental Assistance. The RRP provides a subsidy to property owners so the debt service on their rehabilitated units will impose only a modest increase on the income stream from property rents. That such a large proportion of completed properties rent for less than the local FMR indicates the effectiveness of this subsidy. But even though most of the units rent for less than the FMR, these rents may not be easily affordable to families with very low incomes. In order to help these families to afford standard housing, the RRP provides a link to rental assistance available through HUD's Section 8 Housing Voucher and Certificate Program. The Section 8 program is administered locally through a public housing agency (PHA).

Families residing in RRP projects prior to their rehabilitation receive priority in receiving assistance under Section 8 if they are physically displaced by the program or if the post-rehabilitation rents are excessively high relative to their incomes. Additionally, persons from regular PHA waiting lists may use Section 8 assistance in RRP projects.

About 53 percent of all of the families initially occupying Rental Rehab projects after completion of rehabilitation have received rental assistance under the Section 8 program (Table 16). Another three percent of these families have received rental assistance through other programs, such as those that may be provided by their State and local governments. For units completed during FY 1989, 51 percent of the post-rehabilitation occupants were reported as receiving Section 8 assistance. This represents a modest decline from the 54 percent level reported in the first five years of the program.

There are two possible explanations for this decline. During the history of the Rental Rehabilitation Program, changes in HUD's rental assistance programs have relaxed what had been a strict tie between rental assistance and Rental Rehabilitation. These program changes may have resulted in fewer eligible families living in RRP projects receiving Section 8 assistance. The decline may also have resulted from a failure by grantees to obtain from PHAs information on all Section 8 assistance being used in RRP projects. The percentage of tenants receiving Section 8 assistance may thus have been simply underreported.

TABLE 16

TENANTS RECEIVING POST-REHABILITATION RENTAL ASSISTANCE BY PERIOD OF COMPLETION

Type of Rental Assistance	Period of Completion					
	FYs 1984-1988		FY 1989		Cumulative	
	Number	Percent	Number	Percent	Number	Percent
Certificate or Voucher	32,620	54%	12,817	51%	45,437	53%
Other Rental Assistance	1,209	2	1,003	4	2,212	3
No Rental Assistance Reported	26,579	44	11,313	45	37,892	44
Vacant Unit	4,741	*	4,908	*	9,649	*
Totals	65,149	100%	30,041	100%	95,190	100%

* Percents calculated for occupied units only.

Source: U.S. Department of Housing and Urban Development, Rental Rehabilitation Program Cash and Management Information System.

Indications are that both factors have contributed to the decline in assistance reported. The Department has been aware of this development, and during the summer of 1989 it re-emphasized to grantees the need to obtain and report information on rental assistance. This emphasis seems to have been effective -- program data indicates that 51 percent of post-rehabilitation tenants received assistance compared to the 44 percent reported as of June 30, 1989. This would suggest that in about 1,700 of the FY 1989 cases reported through June 30 as receiving no assistance actually represented a failure to report assistance. The rest of the apparent FY 1989 decline indicated in Table 15 is likely due to households moving into RRP projects without rental assistance.

URBAN HOMESTEADING PROGRAM

Purpose

The purpose of the Urban Homesteading program is to provide homeownership opportunities through the use of existing housing stock and to encourage public and private investment in selected neighborhoods, thereby assisting in their preservation and revitalization.

Legislation

Section 810 of the Housing and Community Development Act of 1974, as amended.

Program Administration

The Urban Homesteading program transfers unoccupied one- to four-family properties owned by HUD (FHA), the Department of Veterans Affairs (VA), and the Farmers Home Administration (FmHA) to homesteading programs approved by HUD. In addition, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 amended the 1974 Act to allow transfer of properties held by the Resolution Trust Corporation (RTC) for urban homesteading. Transfer of RTC properties is expected to begin in FY 1990.

Funds appropriated under Section 810 are used to reimburse the respective Federal agencies for the value of the units transferred for homesteading. Jurisdictions do not receive the funds as they are transferred from the Section 810 fund directly to FHA and the other Federal agencies.

Local governments administer the program through Local Urban Homesteading Agencies (LUHAs). Any State or unit of general local government may apply to the local HUD Field Office for approval of an urban homesteading program and to designate a LUHA. The State or local government may administer the program, or may designate a public agency or qualified non-profit community organization to do so. HUD makes a determination whether the proposed program complies with all program requirements. Annual requests from the LUHA to continue program participation detailing the number of properties proposed and the projected cost of acquiring the properties, are required for participation thereafter.

The Urban Homesteading program gives local officials broad latitude to design a program to meet local needs, including the designation of homesteading neighborhoods, selection of properties and selection of homesteaders. LUHAs certify that the homesteading properties will be part of a coordinated neighborhood improvement effort. Local building codes are used as the standard for rehabilitation.

The FY 1989 allocation of funds to HUD Regional Offices was made based on a compilation of LUHA requests, the expected number of available HUD, VA, and FmHA properties that would be suitable for homesteading in each Region, the average "as-is" value of such properties, and the past homesteading performance by LUHAs in each Region.

After HUD determined the regional allocation of funds, Field Offices allocated funds to LUHAs on a first-come, first-served basis. LUHAs then began selection of Federal properties for homesteading. In order to ensure an equitable distribution of funds among LUHAs, a Field Office could set aside a minimum initial allocation for a LUHA for up to 60 days. After these temporary allocations were expended or expired, LUHAs competed with each other for reservations from the Field Office subassignment.

HUD encourages LUHAs to plan on homesteading a minimum of five properties per year in order for their programs to be cost effective and have discernable neighborhood impact.

Properties are suitable for acquisition if the appraised "as-is" fair market value of the property does not exceed $25,000 for a one-unit single-family residence, or an additional $8,000 for each unit of a two- to four-unit structure. The previous limit of $20,000 for the first unit and $5,000 for each additional unit, up to four units, was increased by new regulations which took effect July 17, 1989. The new regulations also removed the discretion of HUD to waive the acquisition cap on a program-by-program basis.

LUHAs transfer the properties at nominal or no cost to the homesteaders who agree to live in them for a minimum of five years and bring them up to code. At the end of the required occupancy period, the homesteader obtains fee simple title to the residence.

The Urban Homesteading program is designed to provide homeownership opportunities to lower income households. Local officials are required to give preference to households with annual incomes below 80 percent of the median income for the area. Potential homesteaders may not own other residential property.

The LUHA ensures that homesteaders comply with program requirements to repair all defects that pose a danger to health and safety within one year of conditional conveyance of title. Homesteaders must make all additional repairs to meet local standards for decent, safe and sanitary housing within three years. The Urban Homesteading program itself does not provide funding for repairs. Many LUHAs use the Community Development Block Grant program and the Section 312 Rehabilitation Loan program to assist homesteaders with rehabilitation financing.

Funding History

URBAN HOMESTEADING FUNDING
(Dollars in millions)

Year	Amount	Year	Amount	Year	Amount
1976	$ 5.0	1981	$ 0.0	1986	$11.4
1977	15.0	1982	0.0	1987	12.0
1978	15.0	1983	12.0	1988	14.4
1979	20.0	1984	12.0	1989	13.2
1980	0.0	1985	12.0		

Appropriations for the Urban Homesteading program since its inception total $142.0 million (for FYs 1976 through 1978, funds for Urban Homesteading were provided through the FHA fund). New appropriations in FY 1989 were 8 percent less than in FY 1988, and all available funds were expended.

Participation

Approved LUHAs acquire properties, which they transfer to homesteaders and monitor until the homesteader obtains fee simple title after five years of occupancy. "Active" LUHAs are still in the process of acquiring property. "Inactive" LUHAs are no longer acquiring properties but may still be participating in the program because they are administering previously-acquired properties.

- o In FY 1989, 148 LUHAs had HUD approval to acquire properties.

- o Ninety-eight LUHAs had active status, including 10 new approvals. This is a decline from 104 active LUHAs in FY 1988.

- o The 98 active LUHAs included 79 cities, 16 counties, and three States.

- o Fifty LUHAs were inactive.

- o Eleven existing programs were closed out.

- o Since the beginning of the program, 219 LUHAs have been approved by HUD.

- o The greatest proportion of LUHAs are located in the Midwest (See Table 17). However, program expansion is occurring most rapidly in the Southwest, corresponding to a shift in the Federal inventory of foreclosed properties.

TABLE 17

NUMBER OF ACTIVE LOCAL URBAN HOMESTEADING AGENCIES (LUHAs) BY REGION, FY 1989

Region		Number	Percent
I	Boston*	-	-
II	New York	4	4%
III	Philadelphia	7	7
IV	Atlanta	19	19
V	Chicago	35	36
VI	Fort Worth	10	10
VII	Kansas City	12	12
VIII	Denver	5	5
IX	San Francisco	1	1
X	Seattle	5	5
Totals		98	100%

Note: Detail may not add due to rounding.

* Region I does not participate in the program due to a shortage of eligible properties in the Region.

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Urban Homesteading Program Management Information System.

Program Activities and Characteristics

The Urban Homesteading program consists of a series of steps or benchmarks. The first step is the acquisition by the LUHA of properties from the Federal inventory. The steps following this include selection of homesteaders, conditional conveyance of title, rehabilitation of the property by the homesteader, and occupancy. Final conveyance of title to the homesteader is made after all program requirements have been met, including completion of all rehabilitation and residence by the homesteader for five years.

The number of properties at any stage in the process reflects the on-going nature of the local program and is determined by the effectiveness of the local program and the availability of eligible properties.

At the beginning of FY 1989, $13,330,567 in Section 810 funds was available from new appropriations and unexpended funds from prior appropriations. HUD obligated $13,305,760 (99.8%) of this amount in FY 1989.

Number and cost of properties. In FY 1989 Local Urban Homesteading Agencies acquired 741 properties for an average cost per property of $17,956, slightly below the FY 1988 average cost of $18,043 (See Table 18).

TABLE 18

AVERAGE SECTION 810 COST PER PROPERTY
FY 1980 TO FY 1989

Fiscal Year	Average 810 Funds	Yearly Change
1989	$17,956	*
1988	18,043	+ 7%
1987	16,901	- 7
1986	18,127	+ 6
1985	17,101	+21
1984	14,078	+24
1983	11,366	+ 3
1982	11,005	+15
1981	9,580	+ 1
1980	9,450	-

* Less than .5%

Source: Department of Housing and Urban Development, Office of Policy Analysis and Evaluation.

There was a wide variation among LUHAs on average costs of Section 810 properties. Four LUHAs exceeded an average of $25,000 per property while two LUHAs acquired properties for less than an average of $10,000 per property.

The majority of LUHAs administer very small programs. In FY 1989, LUHAs acquired an average of 8 properties. Thirty-six percent (35 LUHAs) acquired fewer than five properties. Only two LUHAs acquired more than 25 properties.

LUHAs reported conveying conditional title to 589 homesteaders, beginning rehabilitation on 577 properties, and conveying fee simple title to 248 homesteaders in FY 1989 (note that these figures on conveyance and rehabilitation underestimate activity due to underreporting).

Source of properties. The national inventory of HUD-owned properties reached a peak of 75,000 properties at the end of 1974 and declined during the early 1980s to 20,000. From 1984 to 1989, however, the inventory more than doubled. The FY 1989 inventory peaked at 49,204. Over the life of the Urban Homesteading program, the transfer of HUD properties to local homesteading programs has accounted for a very small part of the disposition of all HUD-owned properties.

HUD-owned properties remain the primary source of properties in the Urban Homesteading program (See Table 19). Eighty-three percent of properties acquired in FY 1989 (613 properties) were from the HUD inventory (FHA Mortgage Insurance Fund and Section 312 defaults), 15 percent (116 properties) were from the Department of Veterans Affairs and two percent (12 properties) were from the Farmers Home Administration (FmHA).

TABLE 19

SECTION 810 PROPERTIES BY SOURCE, FY 1989

Source	Number	Percent	Section 810 Cost
HUD	613	83%	$10,927,569
VA	116	15	2,078,190
FmHA	12	2	300,000
Totals	741	100%	$13,305,759

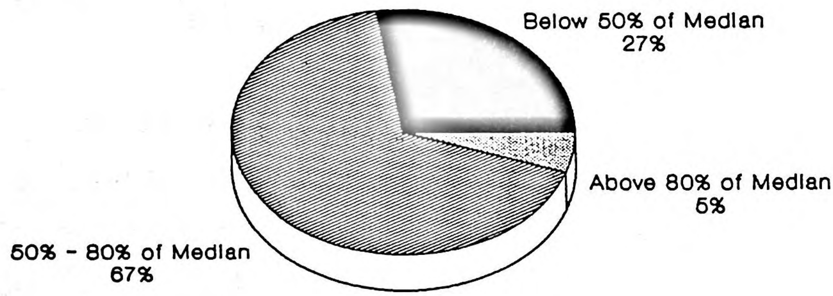
Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Urban Homesteading Program Management Information System.

Homeownership opportunities for lower income households. The Urban Homesteading program is designed to reach lower income and minority households. Priority is given to households with incomes less than 80 percent of the median income for the area (Metropolitan Statistical Area). LUHAs provided the following data on income and racial characteristics for 477 homesteaders who took occupancy in FY 1989 (See Figure 3 and Table 20):

- o Ninety-four percent had incomes less than 80 percent of the median for the area.
- o Twenty-seven percent had incomes less than 50 percent of the median for the area.
- o Sixty-five percent were members of minority groups, including 53 percent black, 8 percent Hispanic, three percent Asian, and one percent American Indian.

FIGURE 3

Income Characteristics of Urban Homesteaders Beginning Occupancy in FY 1989



Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Urban Homesteading Program Management Information System.

TABLE 20

RACIAL CHARACTERISTICS OF URBAN HOMESTEADERS
BEGINNING OCCUPANCY DURING FY 1989

Race	Number	Percent
White	168	35%
Black	250	53
Am.Ind.	4	1
Hispanic	36	8
Asian	16	3
Totals	474	100%

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Urban Homesteading Program Management Information System.

Sources of rehabilitation financing. While the Urban Homesteading Program transfers properties to homesteaders without substantial cost, the homesteader is obligated to pay for or do whatever rehabilitation is needed to meet required local standards. Workable rehabilitation financing is a key to a successful homesteading program due to the poor condition of many of the properties with purchase prices under $25,000 and the low incomes of homesteaders.

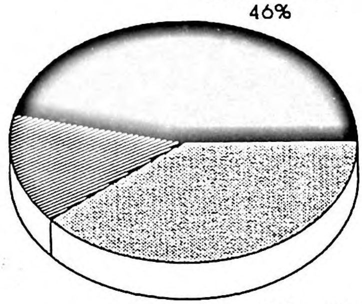
Throughout the history of the Urban Homesteading Program, Section 312 Rehabilitation Loan funds have been the principal source of rehabilitation financing. In recent years, however, communities have sought other sources of assistance, both public and private, to replace or supplement Section 312.

For properties reported on in FY 1989, Section 312 funds were still the primary source of financing, providing 46 percent of all rehabilitation financing for Urban Homesteading properties (See Figure 4). This percentage has declined from a peak of 75 percent in FY 1985.

Other public funds (primarily from the CDBG program) provided 39 percent of rehabilitation funds for Urban Homesteading properties and 15 percent of the funds were from private sources.

FIGURE 4

Sources of Rehabilitation Financing in the Urban Homesteading Program FY 1989



Note: Based on information on rehabilitation cost for 513 properties.

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Urban Homesteading Program Management Information System.

Available data suggest that the average expenditure for rehabilitation begun in FY 1989 was $22,988 per property (See Table 21).

Most properties (69 percent) for which information was available relied exclusively on a publicly-provided rehabilitation subsidy. This is a decline from 89 percent in FY 1988, indicating an increased use of private sector financing.

Although precise information is not available, past experience indicates that it is probable that nearly all of the public rehabilitation subsidy that did not come from the Section 312 program represents a local use of CDBG funds.

TABLE 21

AVERAGE REHABILITATION COST FOR SECTION 810 PROPERTIES
WITH CONSTRUCTION BEGINNING DURING FY 1989
BY SOURCE OF REHABILITATION FINANCING

Source	Number of Properties	Percent of Properties	Average $ Per Property
Public Only			
Section 312 Only	156	30%	$27,031
Other Public Only	174	34	21,789
312 & Other Public	26	5	37,207
Private Only	102	20	13,003
Public & Private			
312 & Private	17	3	27,468
Other Public & Private	36	7	26,332
312 & Other Public & Private	2	*	38,050
Totals	513	100%	$22,988

Note: Based on information on rehabilitation cost for 513 properties.

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation, Urban Homesteading Program Management Information System.

SECTION 312 REHABILITATION LOAN PROGRAM

Purpose

The purpose of the Section 312 program is to rehabilitate residential properties owned and/or occupied by low- and moderate-income persons, as well as commercial and mixed-use properties in support of CDBG activities or a local Urban Homesteading program.

Legislation

Section 312 of the United States Housing Act of 1964, as amended.

Program Administration

The program is administered by HUD, but loans are serviced by private contractors.

Under Section 312 HUD makes loans directly to property owners, but loans are applied for on their behalf by a Local Processing Agency (LPA). An LPA is a unit of local government that has been approved by HUD to assist in processing Section 312 loans. Loans are made to rehabilitate single family, multifamily, non-residential, and mixed use properties. Priority must be given to low- and moderate-income owner-occupants. Lower-income borrowers, below 80 percent of median income, pay 3 percent interest. Other borrowers pay the interest rate for long-term Treasury securities. Loans are made with terms up to 20 years, and for up to $33,500 per residential unit and $100,000 per non-residential project.

There are two types of LPAs: most, with considerable experience and a good record, have been delegated the authority to approve single family loan applications; new LPAs, or those with less satisfactory records, receive and review single family applications, but must forward them to the appropriate HUD Field Office for approval. HUD approves all multifamily, commercial, and mixed use loans.

The precise procedures for distributing Section 312 funds have changed from year to year due to the uncertainties surrounding the continued existence and level of activity in the program. Typically, the HUD Central Office allocates funds to the ten Regions based on an administratively-devised formula which takes into account need, past usage patterns, and performance factors.

Regional Offices allocate funds to their Field Offices in a similar manner. Field Offices may establish allocations for their jurisdictions, but applications are funded most often on a first-come, first-served basis. Generally, priority is given to LPAs operating Urban Homesteading programs.

LPAs have considerable discretion over which loans to process. They must give priority to applicants with incomes below 95 percent of the area median income, must commit the funds for loans related to CDBG activities or local Urban Homesteading programs, and must not discriminate against classes of applicants. But beyond these minimum requirements, LPAs have considerable discretion over which areas to target, what types of buildings to emphasize, and how to use Section 312 as one tool among many funded by Federal, State, and local programs for providing assistance with rehabilitation financing.

The Department employs three contractors in its highly automated administration of the Section 312 program. One contractor manages electronic cash disbursal during the construction phase of a Section 312 project. When construction is complete, the case is turned over to a second contractor who is responsible for servicing a 19,000 loan portfolio. The Federal National Mortgage Association (FNMA) services another 25,000 loans approved prior to 1982. The Department has recently selected a third private contractor to service the loans now managed by FNMA.

Funding History

The program has received no new appropriations since FY 1981. Since that time, the program has depended on funding support entirely from loan repayments, recovery of prior year commitments, fees, and the unobligated balance from prior years. These funds constitute a revolving loan fund from which new loans are approved and servicing and other costs are paid. Funds usage rose dramatically from $40 million in FY 1986 to $102 million in FY 1988, but due to unusual circumstances (see discussion below) dropped to only $9.4 million in FY 1989. Table 22 shows the fluctuation of Section 312 obligations over the past 10 years.

TABLE 22

SECTION 312 OBLIGATIONS BY FISCAL YEAR
(Dollars in millions)

Year	Obligations	Year	Obligations
1989	9.4	1984	86.1
1988	101.9	1983	44.8
1987	64.0	1982	49.4
1986	40.4	1981	83.5
1985	75.0	1980	215.5

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation.

In FY 1989, Congress transferred $200 million from the Rehabilitation Loan Fund to the Community Development Block Grant (CDBG) Program. Loan repayments collected in FY 1989 were added to some $130 million in the fund at the start of the fiscal year to achieve the $200 million level, which was not reached until August 1989. Only $12 million was thus made available for new loans. Of this amount, only $9.4 million was loaned in FY 1989 due to the lateness in program funding.

Since funds available for new loans were so limited in FY 1989 virtually all funds were allocated for single family loans to Urban Homesteaders.

Participation

During FY 1989, a total of 59 LPAs participated in the Section 312 program by processing 348 loans. The extent of Section 312 loan activity varied greatly across the participants. For example, while 54 percent of the LPAs processed from 1 to 5 loans, two LPAs processed 18 loans and 23 loans, respectively.

TABLE 23

NUMBER OF SECTION 312 LOANS BY
NUMBER OF LOCAL PROCESSING AGENCIES, FY 1989

Loans	LPAs	Percent
1	8	13%
2 - 5	24	41
6 - 10	19	32
11 - 15	6	10
16 - 20	1	2
21 - 25	1	2
Total	59	100%

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation.

The level of funding determines the number of participating LPAs and total number of loans that will be approved in any given year. In each of the five years prior to FY 1989, when substantial funds were available in the Rehabilitation Loan Fund, over 200 LPAs participated in the program.

However, the level of funding does not have significant impact on the average number of loans processed by each LPA. In FY 1988, 64 percent, or 181 LPAs, processed five or fewer loans. Likewise, in FY 1987, 65 percent of the LPAs processed five or fewer loans. Table 24 shows that most LPAs process an average of 6 to 9 loans in any one year.

TABLE 24

NUMBER OF SECTION 312 LOANS AND NUMBER OF
LOCAL PROCESSING AGENCIES, FY 1984 THROUGH FY 1989

Year	Number of LPAs	Number of Loans	Average Loans
1989	59	348	6
1988	281	2,216	8
1987	240	1,700	7
1986	201	1,180	6
1985	322	2,784	9
1984	390	3,430	9

Source: Department of Housing and Urban Development, Office of Urban Rehabilitation.

Program Activities and Characteristics

Numbers and Types of Loans. In FY 1989, the Department made 348 new loans to rehabilitate properties containing 357 housing units. All loans were obligated to rehabilitate single-family (one- to four-unit) properties.

Though all Section 312 funds were targeted primarily for single family Urban Homesteading in FY 1989, the higher level of funding ($90 million) in FY 1990 will again make funds available for multifamily, non-residential and mixed-use properties, as well as single family properties.

In prior years, the use of Section 312 funds on single family properties decreased from 88 percent in FY 1986 to 51 percent in FY 1988 (Table 25). Although multifamily and other (nonresidential and mixed-use) loans constituted only eight percent of all Section 312 loans in FY 1988, they accounted for 49 percent of all Section 312 funds and 44 percent of all housing units rehabilitated during the year.

TABLE 25

CHARACTERISTICS OF SECTION 312 LOANS BY PROPERTY TYPE

	FY 1986	FY 1987	FY 1988	FY 1989
Single Family Loans +				
Funding Level ($000)	$35,376	$39,680	$51,040	$ 9,438
Number of Loans	1,164	1,583	1,968	348
No. of Dwelling Units	1,292	1,681	2,374	357
Average Units/Loan	1.1	1.1	1.2	1.2
Average Loan Amount	30,392	$25,066	$25,935	$27,121
Average Unit Amount	$27,381	$23,605	$21,500	$26,438
Other Loans ++				
Funding Level ($000)	$ 5,036	$24,012	$48,064	$ 0
Number of Loans	16	117	170	0
No. of Dwelling Units	268	1,007	1,877	0
Average Units/Loan	16.8	8.6	11.0	--
Average Loan Amount	$314,762	$205,228	$287,433	--
Average Unit Amount	$18,792	$23,845	$26,033	--
Total Loans				
Funding Level ($000)	$40,412	$63,692	$99,904	$ 9,438
Number of Loans	1,180	1,700	2,138	348
No. of Dwelling Units	1,560	2,688	4,251	357
Average Units/Loan	1.3	1.6	2.0	1.2
Average Loan Amount	$34,248	$37,466	$46,728	$27,121
Average Unit Amount	$25,905	$23,695	$23,501	$26,438

\+ Single family refers to buildings with one-to four units.
++ Other loans includes multifamily, non-residential, and mixed-use loans.

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation.

Benefit to Low- and Moderate-Income Home Owners. Section 312 legislation specifies that the Department give priority to loan applicants who have low and moderate incomes and who are owner-occupants of the properties to be rehabilitated.

Although low- and moderate-income is defined at or below 95 percent of the area median income, only borrowers below 80 percent of median are eligible for the 3 percent interest rate. Only data that indicate whether the borrowers' incomes are above or below 80 percent of the area median are therefore available, and are used here as an indicator of the extent to which the low- and moderate-income requirement was met in FY 1989.

In FY 1989, 100 percent of the recipients of Section 312 loans were owner-occupants of the properties that were being rehabilitated, and 98 percent had incomes at or below 80 percent of the median income for their areas (Table 26). Only 2 percent of the borrowers had incomes greater than 80 percent of the median for the area.

TABLE 26

INCOME AND OWNER-OCCUPANCY STATUS OF SECTION 312 LOAN RECIPIENTS, FY 1989

Borrower	Number	Percent
Has lower income+, is Owner-Occupant	342	98%
Has lower income+, is not Owner-Occupant	0	0
Is other Owner-Occupant	6	2
Is other non-Owner-Occupant	0	0
Total	348	100%

\+ Lower-income is at or below 80 percent of the area median income.

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation.

In FY 1989, 72 percent of Section 312 loan recipients had family incomes below $20,000. Only 3 percent had incomes over $30,000 (Table 27). Sixty-two percent of the FY 1989 loan recipients were members of racial or ethnic minorities as compared with 49 percent in the previous two years. Thirty-three percent were from households of four or more people, up from 28 percent in FY 1987.

TABLE 27

SOCIO-ECONOMIC CHARACTERISTICS OF RECIPIENTS OF SECTION 312 SINGLE-FAMILY LOANS

	1987	1988	1989
Income Level			
Over $30,000	13%	11%	3%
$20,001-$30,000	21%	52%	25%
$10,000-$20,000	55%	26%	66%
Less than $10,000	11%	11%	6%
	100%	100%	100%
Household Members			
One	27%	26%	16%
Two	26%	25%	24%
Three	19%	17%	27%
Four or more	28%	32%	33%
	100%	100%	100%
Race/Ethnicity			
Black	40%	38%	50%
White	51%	51%	38%
Hispanic	8%	10%	10%
Other	1%	1%	2%
	100%	100%	100%
Age			
Under age 30	19%	17%	41%
30-40 years old	35%	31%	42%
41-60 years old	29%	30%	15%
Over age 60	17%	22%	2%
	100%	100%	100%

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation.

Managing the Loan Portfolio. Ensuring that the loan portfolio is properly managed and repaid on schedule continued to be a high Department priority during FY 1989.

Some 44,547 loans with an outstanding value of $601.5 million were in the portfolio at the end of FY 1989. The portion of the portfolio that was current continued to increase during FY 1989, in terms of the percentage both of all loans and of the outstanding balance of those loans. Delinquency levels continued to decline as a result of the Department's collection efforts. The delinquency rate has decreased from 19 percent to 15 percent over the past 5 years (Table 28).

TABLE 28
STATUS OF SECTION 312 LOAN PORTFOLIO

	Current		Delinquent		
	Number	Percent	Number	Percent	Total
FY 1985	48,016	81	11,257	19	59,273
FY 1986	47,192	83	9,628	17	56,820
FY 1987	43,713	83	8,941	17	52,654
FY 1988	41,413	84	7,662	16	49,075
FY 1989	38,034	85	6,513	15	44,547

Source: U.S. Department of Housing and Urban Development, Office of Urban Rehabilitation.

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URBAN HOMESTEADING

PROGRAM INFORMATION SHEET

U.S. Department of Housing and Urban Development | Office of Community Planning and Development

The Urban Homesteading Program

Overview

Section 810 of the Housing and Community Development Act of 1974, as amended, authorizes the Department to transfer title of HUD-owned unoccupied, unrepaired, single family houses at no cost to States or local governments for use in HUD-approved urban homesteading programs. Farmers Home Administration (FmHA), Department of Veterans Affairs (VA) and Resolution Trust Corporation (RTC) properties may also be transferred to localities for this purpose.

Purpose

The purpose of the Urban Homesteading Program is to utilize existing housing stock to provide homeownership, thereby encouraging public and private investment in selected neighborhoods to assist in their preservation and revitalization. Further, the Program will generally provide first-time homeownership opportunities for low and moderate income families who, except for homesteading, would not be able to improve their housing situations.

Local Program Management

Each of the units of State or local government participating in the Urban Homesteading Program designates a Local Urban Homesteading Agency (LUHA) to administer its local program. The LUHA is the legal entity which accepts title in its own name to federally-owned properties and conveys title to such properties to homesteaders. The State or local government may choose to administer its program directly, or it may designate a legally separate public agency or qualified private non-profit corporation to carry out these functions.

Selection of Homesteading Neighborhoods and Properties

The applicant designates one or more neighborhoods which have available federally-owned properties to carry out its local urban homesteading program.

Prior to submission of its application to HUD, the applicant develops a plan that provides for the improvement of these neighborhoods through the homesteading program in combination with the general upgrading of community services and facilities, and other public or private revitalization efforts.

Following selection of the homesteading neighborhood(s), the applicant reviews the list of foreclosed federally-owned one to four unit properties available from FHA, VA, FmHA, or RTC in the selected area(s), with an as-is fair market value less than $25,000. Criteria for selection of specific properties are developed by each applicant.

Selection of Homesteaders

It is required that the program include equitable procedures for selecting homesteaders who have the capacity to make or cause to be made repairs and improvements to the property. These procedures must:

- Exclude prospective homesteaders who own any other residential property.
- Take into account the prospective homesteader's ability to reduce rehabilitation costs through his/her own labor or other contributions.
- Provide that membership in, or other ties to, any private organization (including a qualified community organization) may not be made a factor affecting selection as a homesteader.
- Give a special priority to prospective homesteaders who are "lower income families". Generally, this means that the family's annual income does not exceed 80 percent of the median income for the area, with adjustments for family size.

- Match larger homesteading families with larger homestead properties.
- Assure nondiscrimination upon the basis of race, creed, color, sex, national origin, age or handicap in the selection of homesteaders.

Homesteader Requirements

Homesteaders must meet certain requirements before receiving fee simple title to their homesteads, including:

- Repair all health and safety defects within one year.
- Meet applicable local standards for decent, safe and sanitary housing within three years.
- Occupy the property as a principal residence for not less than five years.

Financing

The homesteader receives "conditional conveyance" of the unoccupied, unrepaired residential property from the LUHA without substantial consideration, generally $1.00. The conveyance is conditioned on the homesteader meeting certain requirements, including those listed above. It is also necessary that the homesteader obtain rehabilitation financing (usually a Section 312 Rehabilitation loan, Community Development Block Grant funds, or a commercial bank loan).

Homesteader Profile

LUHAs provided data on demographic characteristics for homesteaders that took occupancy in FY 1989.

- 94 percent had incomes less than 80 percent of the median for the area.
- 27 percent had incomes less than 50 percent of the median for the area.
- 65 percent were members of minority groups, including 53 percent black, eight percent Hispanic, three percent Asian, and one percent American Indian.

Accomplishments

Over the fifteen year history of the Urban Homesteading Program, more than 12,000 families and individuals, mainly of low and moderate incomes, have become homeowners. It is likely that the majority of these people would never have experienced the American dream of homeownership without their participation in this program.

In addition, the Nation's stock of quality, affordable housing has been expanded by over 12,000 units, many in older inner-city neighborhoods. A substantial number of run-down urban neighborhoods have been reborn.

Finally, costs to the federal government, and thus the American taxpayer, have been reduced by rapidly transferring properties from the federal inventory to a homeownership program.

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