THE URBAN HOMESTEADING PROCESS
AS A POSSIBLE APPLICATION TO
TOWNS OUTSIDE URBANIZED AREAS

by

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Major Professor
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ACKNOWLEDGMENTS

I dedicate this degree to my Mother, for her ever constant spirit that keeps me headed onward.

I thank my son, Stephen, and the following family and friends for their loyal support and patience:

My Father
My Sisters, Gene, Margie, and Tootsie
Dennis
Dr. Vernon Deines
Dr. John Keller
CHAPTER I

URBAN HOMESTEADING FOR SMALL TOWNS

INTRODUCTION

Numerous problems have affected the growth and development of rural and small town communities in America over the past fifty years. These problems have developed because of changes in small town living patterns, populations trends and economic bases. Data shows that since the early 1930's, America has been a nation composed primarily of urban dwellers even though 61% of all towns are rural. Table I-1 represents current population by size of place. According to the 1980 Census, 243 Standard Metropolitan Statistical Areas (SMSAs) contained 73.7 percent of the nation's population.\(^1\) A majority of this population was located in defined suburban areas and not urban centers. The development of these great population centers altered the social and economic structure of the nation. This in turn, also changed and transformed the appearance of rural and small town America.

For the first 150 years of the nation's development, America was predominately influenced by rural values and culture. During the 1900's, six out of every ten Americans were still living in rural and small town communities. Due to the need for better employment, greater economic stability, and a desire for a higher quality of living, the nation experienced a shift from small town areas to urban centers.

Historically, rural employment has been dominated by agricultural production. However, in recent years technological advances in agriculture have become highly sophisticated, and therefore, offer greater employment opportu-
nities to rural and small town residents. Transportation was another problem which kept rural population from jobs and vital social services. Many rural and small town Americans who chose to work away from home were

| TABLE I - 1 |
| Population by Size of Place: 1980 |

<table>
<thead>
<tr>
<th>United States</th>
<th>No. of Places</th>
<th>Population</th>
<th>% of Places</th>
<th>% of Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>22,529</td>
<td>226,546,805</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Urban</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Places 100,000 or more</td>
<td>173</td>
<td>19,786,487</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Places 50,000 to 100,000</td>
<td>290</td>
<td>57,537,021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outside Urbanized Areas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Places 25,000 to 50,000</td>
<td>675</td>
<td>23,435,654</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10,000 to 25,000</td>
<td>1,765</td>
<td>27,644,903</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,000 to 10,000</td>
<td>2,181</td>
<td>25,356,137</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2,500 to 5,000</td>
<td>2,665</td>
<td>9,367,826</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Places of less than 2,500</td>
<td>1,016</td>
<td>1,260,246</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Urban Places</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Urban Places</td>
<td>8,765</td>
<td>167,050,992</td>
<td>38.9</td>
<td>73.7</td>
</tr>
<tr>
<td>Rural</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Places 1,000 to 2,500</td>
<td>4,434</td>
<td>7,037,840</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Places less than 1,000</td>
<td>9,330</td>
<td>3,853,470</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other rural places</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Rural Places</td>
<td>13,764</td>
<td>59,494,813</td>
<td>61.1</td>
<td>26.3</td>
</tr>
</tbody>
</table>


very dependent on the family car. A dramatic statistic still shows that over 57 percent of the rural poor, and 45 percent of the rural elderly do not own automobiles. This lack of transportation contributed further to the migration of rural population to urban areas.

Since 1970 the United States has experienced a cyclic change in life styles and living patterns. Many demographers are predicting that migration patterns have reversed themselves from the urban-suburban trend to the small
city and rural community pattern. The Small Community and Rural Development Policy of 1979 indicated that rural areas (non-metropolitan areas) averaged a small positive increase in population while the annual rate of growth in urban centers was negative. Factors that have influenced this return of population to rural areas are: (1) creation of new jobs; (2) expanded manufacturing, trade and professional services; (3) desire to recapture the rural values of a simple life; and (4) a greater opportunity to participate in the development and the welfare of the total community.ő

Given the factors which have influenced the return of population to rural areas, the assumption can be made that small towns are being forced to provide more services and opportunities to new arrivals. However, the problems associated with new services can be quite severe in some sectors. The housing stock, for instance, has been a traditional problem for residents and has figured significantly in determining the quality of life. The supply of housing has been at best marginal in rural areas. Owner-occupied units have dominated the housing market within the classic rural farm to rural community shift. Sixty-six percent of all rural housing stock is owner-occupied. Based upon a substantial amount of data, much of the rural housing stock is old, averaging between 30 and 40 years in age. Table I-2 shows the age of owner-occupied housing units in America. Although, being old does not necessarily mean that the housing stock is in poor condition, it is not difficult to arrive at the conclusion that there is a disproportionate amount of housing that is deteriorated and tends to be dilapidated. Also, the 1970 Census concluded that nine out of every ten housing units in rural communities were without adequate sewage and plumbing facilities. The most important reasons for such a high percentage of substandard housing is attributed to the low income level of rural residents, the shortage of credit extended by local
lending institutions, and the small amount of new construction in rural communities. 4

<table>
<thead>
<tr>
<th>Owner-occupied Housing Units</th>
<th>United States</th>
<th>Rural</th>
<th>Percent U.S.</th>
<th>Percent Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 years old</td>
<td>1,674,251</td>
<td>737,798</td>
<td>3.2</td>
<td>4.7</td>
</tr>
<tr>
<td>9 years old</td>
<td>5,065,082</td>
<td>2,378,659</td>
<td>10.6</td>
<td>15.0</td>
</tr>
<tr>
<td>14 years old</td>
<td>6,573,138</td>
<td>2,704,100</td>
<td>12.7</td>
<td>17.1</td>
</tr>
<tr>
<td>24 years old</td>
<td>10,294,374</td>
<td>2,918,327</td>
<td>19.9</td>
<td>18.4</td>
</tr>
<tr>
<td>34 years old</td>
<td>9,889,450</td>
<td>1,903,779</td>
<td>19.1</td>
<td>12.0</td>
</tr>
<tr>
<td>44 years old</td>
<td>5,322,811</td>
<td>1,228,385</td>
<td>10.3</td>
<td>7.8</td>
</tr>
<tr>
<td>45 years old</td>
<td>12,356,689</td>
<td>3,970,583</td>
<td>24.2</td>
<td>25.1</td>
</tr>
</tbody>
</table>


PROBLEM STATEMENT

Finding solutions to rural and small town housing needs is one of the most important factors in insuring the health of our nonmetropolitan communities. Methods and programs for successfully acquiring housing in small communities have been overlooked by many federal and state housing programs. Even with a reversal in migration trends and an increased interest in the quality of life in small communities, many federal programs have been formulated with urban areas in mind.

In his book, Housing and Social Policy, Chester Hartman characterized rural housing as the "Forgotten Area". He states that,

"Despite the fact that housing conditions in rural areas are generally worse than in urban areas, comparatively little attention is paid to non-urban housing problems... Much more attention needs to be paid to programs designed to meet the needs of low income rural households and serious restructuring of the governments delivery mechanism for helping the rural poor is also necessary... Although
the population movement from rural to urbanized areas tends to relieve pressure somewhat, improved housing opportunities in rural areas and small towns would provide more viable options for people to remain in or return to such places.‖

One program which was designed and formulated to focus on urban housing problems (to the exclusion of small communities) is the Federal Urban Homesteading Program, enacted by Congress in 1974. The objective of this program was to return vacant and deteriorated housing structures to the tax roll by transferring property to homesteaders for a token fee in exchange for a commitment to rehabilitate the property. Ironically, the concept of the urban homesteading program was modeled after the early 1862 Rural Homestead Act; a program designed originally to promote and stimulate rural development. 6

The Problem: Small Towns and Planning

Further definition of the problem statement can be understood by examining the influence planning has upon small towns and their administrative structure. A major influence in the design of many state and federal programs is the capacity of local governments to administer and implement program goals and objectives through the process of planning. Planning has become essential to the future of small towns across the nation. It assures them that they have the necessary skills and expertise to compete with larger cities for state and federal assistance. The lack of adequate planning and staff assistance decreases the chances for small towns to respond and participate in programs at the local level. To complicate matters, higher levels of government are mandating expenditures and enforcing regulations that place more demands on small communities. This brings into focus another issue which confronts small cities. With the rising cost of providing additional governmental functions and an increasing demand for public services, where can
small cities turn in providing those needs? The answer is being directed more and more towards the state and federal government.

Herrington Bryce states in his book, *Planning Smaller Cities*, that there has long been a history of federal involvement in local community planning. No longer is it true that small incorporated towns enjoy the autonomy of being self-sufficient. Frequently, federal programs require that cities establish a guideline for implementing program objectives. Since the beginning of the early 1940's, the federal government has passed and amended numerous legislative acts which have mandated the development of comprehensive plans. 7

The Problem: Federal and State Programs

As early as 1944 the federal government began mandating city planning as a program criteria for receiving state and local assistance. Cities were required to demonstrate needs. Planning was used as a tool to define those needs.

An amendment to the Housing and Redevelopment Act of 1954 required that cities produce comprehensive plans. The authority given by Section 701 of that act provided cities with federal assistance to develop and prepare those plans. The primary purpose of Section 701 legislation was to facilitate planning for small towns. 8

In 1976, the Demonstration Cities and Metropolitan Development Act became significant to planning because it consolidated the Demonstration Act, the Inter-Governmental Cooperation Act of 1968, and the National Environmental Policy Act of 1969. The consolidation of these acts brought about the A-95 review process which established area wide approval for state and local programs by the federal government. In essence, the A-95 review process was formulated to increase the function of planning and to strengthen the respon-
sibility of regional planning bodies. However, relinquishing power and control of the local government to a more centralized unit of government, i.e., county and regional bodies, has been viewed as a possible threat to the existence of small communities.

In their book, *Small Towns and Small Towners*, Swanson, Cohen, and Swanson, wrote and paraphrased a report published by the Committee for Economic Development, called *Modernizing Local Government*. In the report, the committee recommended the elimination of very small towns, thus stating,

"Most—if not all—of the 11,000 non-metropolitan villages with fewer than 2,500 residents should disincorporate to permit strong county governments to administer their services on a special assessment basis."

Swanson, Cohen, and Swanson, responded by saying,

"Small municipalities, in the name of modernization and efficiency, are threatened with losing their functional identities, sacrificing their responsibilities to more centralized units of government...In the fact of increasing difficulties with small town governance, residents have a difficult choice—the easy route of shifting municipal responsibilities to higher levels, and the more difficult route of finding local solutions to small town problems."

Regardless of whether small towns choose to retain local responsibilities for providing services through the use of federal and state assistance or whether they relinquish part of their local governance to regional planning agencies, it remains essential that the function of planning be available to small municipalities.

The Housing and Community Development Act of 1974 provided small communities and urban cities with the Community Development Block Grant Program—one of the most important federal programs. Administered through the Housing and Urban Development Department (HUD), the block grant program combined seven categorical grants to form a single comprehensive approach. These programs
consisted of urban renewal and model cities, open space, urban beautification, historic sites preservation, neighborhood facilities, water and sewer, and public facilities. The intent of the legislation was to maintain housing stock through rehabilitation efforts, eliminate blight in deteriorated neighborhoods, improve community services, assist low income groups, etc.  

Other state and federal agencies established to address small town problems include the Farmers Home Administration, an agency which focuses on sewer and water programs for rural and small town areas; and, the Water Pollution Control Agency which requires small communities to participate in planning the location of water and sewer treatment facilities. Although there are a number of other programs designed to meet small community needs, the effectiveness of these programs are marginal.  

A primary benefit of the Urban Homesteading Program is evident in the degree of freedom given in the design of the program model. The legislation for this program takes into consideration the diverse forms of government which exist in applying programs goals and objectives. These differences include the establishment of (1) the designated agency responsibility for program; (2) the organization responsible for setting policy; (3) the agency with day-to-day responsibility for program administration; and (4) the supportive administrative departments outside the designated and operating agencies. However, these differences must be defined by a formal plan in order for communities to participate in the Urban Homesteading Program.  

The Problem: Rural and Small Town Housing  

Numerous issues and problems plague rural and small town America, yet none quite as compelling as the decline of adequate housing stock. The U.S. Bureau of Census defines substandard housing as having one of the following
plumbing deficiencies: hot and cold running water, flush toilets, private bath or shower installments. For most Americans it is hard to believe that people still dwell in housing units without these facilities. However, the problem does exist.

In 1977, the U.S. Department of Agriculture reported that 10 percent of nonmetropolitan housing units were considered substandard compared to 3 percent of metropolitan housing units. Although one-third of the nation's population lives in nonmetropolitan areas, one-half of the occupied substandard housing units are in nonmetropolitan areas.

With the inflow and fluctuation of population to small town communities the need to accommodate existing and future residents with safe and decent housing increases. But what of existing residents? For years rural and small town residents have been forced to live with substandard plumbing, inadequate heating and overcrowded housing conditions. The absence of private financial aide for making home improvements and repairs have been limited. Poor enforcement of building code regulations have allowed the construction of substandard housing in small communities. Even the age and income of homeowners and residents determine their capabilities for maintaining upkeep on housing units. Twenty-three percent of all small town households are headed by elderly and retired persons. This percentage is likely to increase as more elderly people return to the amenities of rural and small town living. But along with those amenities come the problem of providing adequate housing. A major problem of the poor in these areas can be attributed to a lack of financial support to maintain decent housing. Nearly 45 percent of nonmetropolitan and metropolitan households living in poverty are located in rural and small town areas.
These needs have prompted the federal government to establish programs like the Farmers Home Administration Program (FmHA) to address the housing inadequacies. Through low interest loans and grants this program was designed to deliver safe and sanitary housing to people without it. Because of the success of this program, other programs were developed to assist in providing housing needs.

PURPOSE

The potential impact of applying the urban homesteading program to small communities could be valuable considering the advantages which are inherent in the program model. These advantages could include a coordinated attempt to return vacant and deteriorated housing stock to the tax rolls and to preserve neighborhood housing through rehabilitation efforts. Another advantage of the urban homesteading process is the authority given to cities to design a program which confronts their local housing situation, and at the same time, stay within the urban homesteading model which complies to federal regulations. Despite the advantages that are evident in applying the program to urban communities, problems remain in the course of actualizing this potential in small communities. In summary, the problem is essentially this: (A) the program model is not designed to respond fully and effectively to the housing problems in small towns and communities; and (B) small towns not involved in the urban homesteading program are not given the opportunity to benefit from a process which could prove useful in the rehabilitation of declining neighborhoods.

The overriding purpose of this report, therefore, is: (1) to analyze the existing planning and organizational structure of the urban homesteading program as a possible application to small towns and communities; (2) to identify
problems in small communities which could affect the administration of the program; (3) to determine the advantage and disadvantage of applying the program to small communities; and (4) to generate solutions for implementing and adopting a model for future applicability to small towns. These and other factors will be looked at.

**METHODOLOGY**

The purpose of this report is twofold. First, an attempt has been made to understand the general concept of small towns and the problems related to them in providing adequate housing and alternative approaches to housing needs. The next stage attempts to understand the urban homesteading program as it is currently applied to urban communities. Final synthesis of these two concepts and the elements that exist in each aide in formulating conclusions about how one might apply the program to small communities, and thus, determine appropriate action for future implementation. The research hopes to support the contention that the urban homesteading program can be an aide in neighborhood revitalization and housing rehabilitation. The report does not try to ascertain that the urban homesteading model is applicable to all small towns and rural communities, but that, with the presence of certain properties, a relationship could exist between small towns and the urban homesteading program which could result in the possible application of the program model. Preliminary study indicates that the following properties should be present in a community to successfully implement the program: (A) a stable population or annual increase in growth; (B) available housing stock suitable for rehabilitation; and (C) a local housing authority to administer the program. The report lends knowledge to the following problems:
(1) The Availability of housing to all citizens in the community, with particular attention given to those groups with least access to the housing market.

(2) The Financial Assistance and the lack of federal and private programs available to persons interested in renovating inadequate housing structures.

(3) The Quality and Conditions of the housing structures, regardless of whether or not the community has a sufficient amount of housing stock, i.e., standard and substandard, vacant and abandoned.

(4) The Condition of a Community which could determine or reduce the desirability of housing within the community.

This report will examine the urban homesteading program and determine the elements necessary in implementing a small town homesteading program. Due to the size of the urban homesteading program, a general evaluation of the HUD Urban Homesteading Demonstration Program has been used as an accurate measure of the success of the program.

REVIEW OF LITERATURE

The review of literature for this report was focused upon two areas of comprehension; the concept of rural and small town planning and the urban homesteading program. Development of the report will be based on secondary data obtained from homesteading plans of participating HUD demonstration cities, review of federal regulation and guidelines, and library research on small town planning. Other books which will be used to obtain additional information about small town planning and housing problems are: Judith Getzels and Charles Thurow's book Rural and Small Town Planning, Herrington J. Bryces' book, Planning Smaller Cities and James W. Hughes', Methods of Housing Analysis: Techniques and Case Studies.

A major source of data influencing the selection of this problem was obtained from the 1979 Small Community and Rural Development Policy. This
report gives general background knowledge about the changes which have occurred in small communities across America and the problems affecting them. In addition, Chester Hartman's book, Housing and Social Policy, was used as a reference for understanding the housing system, the problems, and the programs for determining housing needs in America. HUD's Third Annual Report on the Evaluation of the Urban Homesteading Demonstration Program, provided on an overall description of the urban homesteading program. This description included a history of the program, the administration, selection, rehabilitation and financing of urban homestead properties, and statistical data important in determining the success and credibility of the program. Case studies concerning the programs effectiveness were also examined from Anne Clark and Zelma Rivin's book, Homesteading in Urban U.S.A.

Chapter II defines basic elements indicative to most small town communities across the country. Social, economic, and physical structure will be discussed to best understand the values affecting small town development. Chapter III includes a brief summary of background information about the urban homesteading program. Final analysis of the urban homesteading program in Chapter IV, and how it could affect small towns and communities will conclude this Master's Report.

DEFINITION OF TERMINOLOGY

ACT. Means Title VIII, Section 810 of the Housing and Community Development Act of 1974, as amended.

Applicant. Means any State or unit of general local government that applies to carry out an urban homesteading program under these regulations.

CDBG. (Community Development Block Grant), a major federal assistance program administered by the Housing and Urban Development Department formu-
lating seven categorical grants into a single comprehensive block grant pro-
gram.

FmHA. (Farmers Home Administration), a federal rural housing program
administered by the Department of Agriculture which provide variable interest
loans for homeowners to rehabilitate, construct, or purchase homes. Most
loans are extended by private lending institutions with a guaranteed assurance
of repayment by FmHA.

Homesteader. Means an individual or family who participates in a local
urban homesteading program by accepting a property pursuant to the require-
ments of Section 590.7. For locally owned property, it may also mean coopera-
tives and condominium associations.

HUD. (Housing and Urban Development), a federal department authorized by
the Housing and Community Development Act of 1974 to administer and regulate
federal programs.

Rehabilitation. The process of improving the conditions of housing
structures and declining neighborhoods through financial assistance.

Secretary. Means the Secretary of Housing and Urban Development or any
person to whom the Secretary has delegated authority for the urban homestead-
ing program.

Section 312 Loans. A federal program introduced through the provisions
of the 1976 Housing Act which extended low interest direct loans to low and
moderate income families living in the urban renewal areas or concentrated
code enforcement areas for rehabilitating housing units.

Section 810 Properties. The acquisition of housing by HUD through the
provisions of Section 810 of the Housing and Community Development Act of 1974.
which authorizes the Secretary of HUD to transfer unoccupied one to four family housing units to local governments for the purpose of using such properties in the Urban Homesteading Demonstration Program.

**Self-Help/Sweat-Equity.** The concept of allowing homesteaders to take a personal interest in repairing and rehabilitating their property.

**SMSA.** (Standard Metropolitan Statistical Area), cities or twin cities with 50,000 or more inhabitants, plus contiguous areas that according to stipulated criteria are socially and economically integrated with the central city.

**Urban Homesteading.** The process of returning vacant and deteriorated housing structures to the tax roll by transferring property to homesteaders for a token fee in exchange for the commitment to rehabilitate the property.
REFERENCES


3 Ibid, p. 2.


10 Ibid, p. 23.


CHAPTER II  
SMALL TOWN CONSIDERATIONS FOR THE  
DEVELOPMENT OF AN URBAN HOMESTEADING PROGRAM

ELEMENTS OF A SMALL TOWN

The revitalization of small towns is largely due to the need for people to seek alternative lifestyles, simplicity in technology, and smallness in environmental proximity. The smallness of a community fosters the belief that people can express their individuality better in small towns than in urban communities. That belief is based upon self-reliance and the ability to do things for oneself.

Harold S. Williams, President of the Institute of Man and Science, writes that there are four basic elements which define and explain small towns and communities. They are the physical, economic, governmental, and social structures which form and provide a basis for their growth and existence.¹

The physical element consist of land use patterns developed over years of community decision making or community planning efforts. These patterns identify zoning districts and regulate building locations where specific structures are permitted. Land use districts common to most small communities include residential, commercial (central business district), industrial, and public and private park areas.

The economic structure of a community is more than likely to influence the size and population of a small town. Prosperity and the availability of services can be directly linked to a community's well-being. The presence of a stable economic base encourages employment opportunities and insures the distribution of goods to all its citizens. In addition, it encourages the location of new businesses and industry into the area.
A third element important to the framework of a community is the governmental body. This is the mechanism which operates, manages, and plans for community growth and decline. Through timely decision making and implementation the governmental body is responsible for administering federal, state, and local programs.

Yet, probably the most influential element present in the development of a small town is its social structure. This includes political factions which agree or disagree; special interest groups which seek support for their objectives; and people who share cultures, values, and beliefs. Each social situation causes interaction which could be aimed at improving the quality of life for its citizens.

With these basic elements in mind, Williams says the Institute of Man and Science has one premise—to connect the world of theory and practice. Quite often the world between the thinker (students, scholars, theorists) and the doer (city officials, local leaders, volunteer groups and organizations) is difficult to bridge because the "fact finders" and the "data gathers" seldom extend their research to the people whom they study.2 Some civic leaders and community activist view these studies as impractical and useless. They argue that studies of this nature slow down the process of getting things done...and ultimately benefits no one. Nevertheless, Williams points out that unless both of these mechanisms are used (theory and practice), only half the potential for progress and success can be achieved.

Defining Small Towns Through Population

For years planners, developers, demographers, social scientist and others, have predicted the decline and disappearance of small towns. Many have said that the country's economy would not support the existence of
small towns as it had in the past. Others have said that small towns would become isolated and decayed—populated by the elderly, very young, and local elite.

However, contrary to those beliefs, Glenn Fuguitt, author of The Growth and Decline of Non-metropolitan Cities and Villages, says small towns are not disappearing. From 1900 to 1970 there was an increase of 6,802 new incorporations of non-metropolitan towns in comparison to 1,243 small town dropouts. He agrees that many small towns have declined in population but that many have also increased in population. This applies to towns located near metropolitan areas or to towns in remote locations with population of 10,000 or more. 3

What others view as a decline in population, Fuguitt says is really a loss in consumer business establishments. (This could explain the current move to revitalize or redevelop small towns.) Business establishments have declined one-third in the last 20 years in non-metropolitan towns. Fuguitt also believes that population change is affected by "size of town, location with respect to other towns, regional location, annexation policies, highway developments, and a variety of economic and social factors." 4 Between 1970 and 1973 population actually increased by 4.9 percent in non-metropolitan towns of under 10,000 people. Communities over 10,000 people saw only a 2.5 percent in growth. Fuguitt concludes that, "smaller places and open county areas, as a class, show a revival of population increase whether they are satellitic to the larger town or basically independent of them." 5

There are numerous definitions for small towns, but none which are clear-cut to work from. Most involve the categorizing of population. The U.S. Bureau of Census has two small town definitions based on population:

1) all communities with population of 2,500 to 10,000 people outside an urban area; and
2) all communities with population less than 2,500 people called rural non-farm areas.

Definitions of small towns used by demographers planners and include villages (incorporated towns of less than 2,500), and unincorporated towns such as hamlets, patch towns, and company towns. 6

This report will refer to small towns as any community with a population of about 35,000, the size of Manhattan, Kansas. This definition has been expanded to include the major rural (farm) towns and university towns where those areas usually serve as regional shopping centers (an explanation of this population size is defined in the conclusion of this Report).

**SMALL TOWN PROBLEMS**

Just as all urban communities are not alike, the same can be said for all small town communities. Each possesses its own distinct characteristics which distinguishes it and its residents from communities of lesser, greater, or equal size. It is important to understand that these distinct communities, just like people, have their own basic needs and problems to confront. These problems must be defined so that solutions can be determined.

How small towns handle their problems determines their present and future viability. Some of the major problems confronting small communities include low income jobs, in-migration of population, inadequate housing stock, and inefficient governmental functions. Most of these problems are interrelated and must be considered as a whole--one cannot be solved without finding solutions to another.

In the case of in-migration, the need for small towns to provide public services to new residents causes multiple worries. It requires that adequate
housing is found -- reasonable in terms of average take-home pay. This is
near impossible for some communities since they have problems maintaining
decent and safe conditions for themselves. With a large number of dilapidat-
ed housing units located in small towns, financial support is needed to
construct new housing units, as well as rehabilitate existing housing units.
But even if adequate housing and public services were available, the average
family income must be comparative to live on. It is a fact that people living
in small towns earn less than their metropolitan counterparts. Subsequently,
their low income wages result in less buying power and creates a lack of
support for new and existing industry into the area.

The U.S. Senate Committee on Agriculture and Forestry conducted a survey
of 36 small communities to find out what needs each had most in common. The
following list obtained from the publication, Small Community Needs, indicated
just a few of those needs:

1) better health services
2) improved governmental assistance
3) more planning personnel and specialist
4) better city transportation
5) increased job availability and on-the-job training
6) better leadership and community involvement
7) revitalization of the central business district
8) increased capital to support the housing market
9) enforcement of building and housing codes
10) more recreational programs
11) improved public facilities
12) increased industrial development

With the help of planning specialist and staff, a governmental body can
make objective decisions in handling and approaching problems. Short and long
range goals can be formulated to effect changes to improve community condi-
tions. In the case of community renewal, community values must be foremost
in a planners mind. Opposition could cause major changes in proposed programs,
thereby, changing the direction of the planning goals and lessening the
chances for success. Quite often, community planners and developers find themselves caught in the middle of issues, forced to choose and recommend action that could favor one group over another. In terms of conflicting interest groups, it is almost impossible, if not probable, for community developers to maintain neutrality in the decision-making process. William L. Blizek and Jerry Cederbloom, in their book, *Community Development and Social Justice*, criticizes any form of neutrality held by developers and planners in their efforts to encourage self determination, autonomy, and community participation. This is known as normative neutrality. The author insights major issues of social injustice through the exclusion of people by race, ethnic, or religious sect. To alleviate these problems they propose the articulation of normative principles in solving conflict of interest within a community. However, Guy Steward in his book, *Conflict, Social Justice, and Neutrality*, argues that community developers must maintain the role of normative neutrality. He states that developers and planners should not be held responsible for formulating principles of social justice as guidelines for practice. He also argues that planners and developers are professionals who must seek autonomy in achieving their work.

Although it may be easier to formulate planning goals and objectives on paper, community values must be considered when implementing these plans. City leaders, planners, and developers must understand that unless community values are considered during the initial stages of planning, public attitudes and beliefs may create problems in putting plans into action.

Before examining the elements which play an important role in the development of small towns (social, economic, and governmental structure), it is important to understand how community values, norms, and beliefs are measured.
Polling Small Town Attitudes

Some of the attitudes that prove different in small towns than in urban communities can be studied through the use of survey polls. These surveys show the various opinions within a community and measures the values, attitudes, and intensity of beliefs among its population.

One of the most widely used devices for measuring public opinion and attitude is done through conducting national survey polls such as the Gallop Poll or the Harris Survey. They serve as an indicator of how a community views a particular issue. Public opinion can be measured concerning party affiliations, health care, law enforcement/crime, redevelopment projects, etc. Such surveys provide community leaders, planners, and developers with essential data about the direction a community is apt to move.

An example of a survey, a 1980 Harris Survey projected that 34 percent of small town residents living in Washington and Wisconsin believed that their communities were better in terms of the quality of living, compared to 22 percent of residents living in urban areas. Eighteen percent of those residents expected their communities to get worse within the next five years compared to 34 percent of urban residents. Although these statistics measure subjective views and opinions about how a resident perceives his or her community, it does suggest that small town folks seem to be more satisfied with their living environment than urban residents. It also suggest that with the use of surveys, short and long range plans can be formulated with the community in mind as a whole.

Values, Norms, Beliefs, and Culture

In Arthur Vidich and Joseph Bensman's extensive study of Springdale, an upstate farming community in New York, values and beliefs played a dominate
role in determining how citizens viewed themselves and the outside world around them. From their research we can conclude that most small town people see themselves as "just plain folks"...a definition that distinguishes them from "city people" and sets them apart in their moral values. Small town citizens often view themselves as honest, respectable, clean living folks--trustworthy and helpful to people in their community. This sense of neighborliness is the ingredient which identifies them from urban residents. Their image of the city includes the belief that city people are impersonal, looking to make a fat buck wherever possible. In their opinion the city is not a good place to raise children or bring up a family. They also believe that crime runs rampant because of the city's socioeconomic groups, and that religious values are not widely taught in metropolitan areas as in rural areas.

Judy Abbot in her article, Country Air, expresses the belief that isolation creates a need for families to become closer. Elements such as fresh air, exercise, hard work, and, of course, good country food (we can assume from homegrown vegetables) makes country living a better environment for all. Abbot admits that the one possible disadvantage of living in the country would be the lack of cultural activities obtained from large cities. However, depending on the nearness of a small town to a metropolitan area, even these cultural experiences are becoming more realized.

According to Vidich and Bensman much of this shift in values and population from urban areas is due to the inflow of middle class residents into small town areas, especially if they are located near metropolitan centers. These towns attract middle class residents seeking a slower pace of life. Although these residents are usually small in numbers, making up a minority population, they contribute greatly to the total community by introducing new ideas, beliefs, social and cultural life styles into the area. Some of these
cultures are highly sophisticated but blend in well with existing lifestyles. This migration of people is defined as the "New Middle Class." They are classified as educated professional people usually possessing advanced technical skills and active in social and cultural affairs. Nevertheless, the political power base remained tightly in the hands of the local business leaders and influential farmers.13

In-Migration of the New Middle Class

This New Middle Class into rural and small town communities resulted from an inflow of immigrants from Europe and the migration of farm youths emerging after the American Civil War. Problems such as continual poverty, rising birthrates, and slow economic growth encouraged this population to seek a better way of life. America during this time seemed like the "land of opportunity."

This internal and external influence of population into American cities brought about a cycle of regeneration to a sagging economy. The excitement of the city and the opportunity for economic advancement lured many rural and small town youths away from past traditions. Unfortunately, in their quest to escape the humdrum life of rural America, many of these youths did not find their dreams come true. Some faced the thought of poverty due to inadequate professions and trade skills, and with this came the degenerative living patterns that preyed upon society as well as stimulated it.

In addition to the culture created by the success and failure of these generation groups, other variant life styles were created—previously viewed as deviant and unacceptable. Some of these living styles changed the economic structure of America. Mass modern industrial production resulted in less working hours and more time for leisure activities. The New Middle Class, due
to more leisure time, took up experiences which were once limited to upper classes of society.

Some people were seeking social and economic improvement through higher education. After World War II, America saw a shift in social and class structure due partly to the G.I. Bill (surely meaning "Government Incentive" for repayment of services to women and men willing to defend their country), a massive educational benefit administered by the federal government. College became an obtainable goal which opened up new avenues for veterans, especially in professional occupations. Students began to develop greater appreciation in literature, art, music, and other cultural activities. New professions, trades, and pursuits created a need to specialize in fields of study. More bureaucratic and managerial jobs added to the stratification and hierarchy of command. Salaries escalated (as did the economy) depending on the educational background of more and more college graduates. The dream of a suburban home, a two car garage, and a set of tennis rackets and golf clubs in every closet was becoming a reality. Political attitudes shifted from the traditional conservative beliefs to the new liberal attitudes. Even sexual codes became more liberal. With these changes, the attitudes, beliefs, and cultures of small town life became reflective.

Social Stratification and Differentiation

Social equality and inequality can be defined in terms of labor divisions, family income, education, and the types of neighborhood a person lives in. Although these classifications seem harsh and unfair to many, they are in reality definitions that follow us around in our everyday life. People are judged by the jobs they have, the neighborhood they live in, and the people they associate with. For many, these classifications limit their ability to
achieve upward mobility and reinforce their beliefs of inequality and social injustice. Labor divisions are defined as "white collar", "blue collar", "middle management", "upper management", whereas people are characterized as upper class, middle class, and lower class. However, within all these definitions of people and classes there remains communities which must meet the needs of all its citizens.

Some residents live well within the community while other struggle to survive. Social differentiation can be defined at all levels of society. These differentiations are termed as class structures; determined by family background, education, political affiliations, job status, and income levels. There are three basic class structures found in most communities (metropolitan and nonmetropolitan). They are lower, middle, and upper class stratifications. These terms characterize differences in lifestyles and variations in social groupings.

Throughout history social scientist and theorist have studied the patterns of social differentiation. Among those theorist, Karl Marx and Max Weber have gained universal acceptance for their theories. From them we can derive a direct correlation between economic mobility and social status within a society. Marx's definition and the use of the concept "class" stems from the basic theory of supply and demand/production and distribution of goods. In his concept each person occupies a certain social position in society through productivity or the ability to be productive whether it could be working for someone else or for the good of a self-owned business. This productivity expresses creativity, ingenuity, and industrialism. It also determines financial and economic dependence or independence.

Weber in his efforts to expand upon Marx's theory included his own concept of "status" and "party" which subsequently defines social prestige and
power. His theories infer that people who hold the same economic base, social prestige (or lack of it), and power view themselves equal to people of the same status, class, and/or party affiliations. These lines of social differentiation becomes more distinguishable in small towns where lifestyles are less diversified and stratification increases the chances of conflict and discontent among social groups. Important issues such as housing for the poor and the elderly can be approached in a positive or negative manner depending upon the consensus of the community and its social structure. It also becomes apparent that social status does and can dictate change as a result of political and interpersonal influences that one maintains. Not only does interpersonal relationships indicate social status among small towners, but it also indicates how small towners perceive themselves and their social cohorts.

Physical Structure and Land Use Patterns

Not everyone can live in the same type of neighborhood area. Nor, understandably, would they want to. Social stratification is clearly visible from the type of neighborhood a person lives in and many small communities show class differentiation by its land use patterns. Residents from upper class status tend to associate with people of the upper class. Residents from middle class areas tend to live and associate with middle class, and likewise, lower class residents tend to live in lower class neighborhoods. The rich would not want to live in poor neighborhoods; the middle class are generally trying to advance themselves in order to live in rich neighborhoods; and the poor because of economic reasons cannot afford to live in middle or upper class neighborhoods. So the cycle continues unless someone changes social or economic status within their group.
Residential areas are usually divided into 1) older neighborhood areas, 2) suburban or planned unit development areas, and 3) low income areas. These areas include single family, two family, and multi-family residence. The traditional older neighborhood areas are noted for containing historic structures and buildings. They are populated with all class structures of people; upper-middle, lower-middle, and established older homeowners who command respect and exhibit permanency to the total community.

It should be noted that homeowners contribute greatly to the economic stability of a small town. They are the citizens who pay a substantial amount in property taxes to maintain the towns tax base. In return, local revenue from taxes are used to improve streets, sewage lines, recreational facilities, etc. All of these things can be classified as capital improvements necessary for present and future living conditions. Renters, on the other hand, are seen as transient population, subject to frequent moving, with less stake in the community's future needs. Although this could be due to their economic conditions (not being financially able to become homeowners), renters on the whole are perceived as being lower on the social stratification of a community. 17

Land use patterns that determine social stratification and differentiation can, of course, be linked with zoning or the regulation of land. This takes place in the form of a municipal zoning ordinance. The purpose of the zoning ordinance is to regulate and control the growth and development of a town. Zoning ordinances regulate and identify the single-family, two-family, and multi-family neighborhoods into districts and these districts form social patterns. Yet zoning districts can permit or exclude certain groups from residing in desirable areas. To often it is the lower level of social classes that suffer and feel the affects of inadequate housing or leftover
housing from previous social groups seeking upward mobility.

**Government Commitment to Economic Viability**

Small town economic development has had its ups and downs throughout American history. Much of it is partially due to fluctuating industry and labor forces. One of the responsibilities of a small town government is to insure the health of its economic community. This means providing adequate goods and services to its total population. Without these services, small towns could face the threat of declining population by residents moving to other communities to seek better services. The composition of a small town's population is an indicator of the type of industry and economy that exists without it. Towns are often identified by names such as "blue collar towns", "mining towns", etc. Each of these definitions identify the kind of industry, social composition, and physical characteristics present in a community.

One way to measure a town's economic viability is to conduct an economic base study of its productivity and distribution of goods. The purpose of this study is to provide community leaders and decision makers with information needed to predict future employment trends. Quantitative employment estimates are categorized into major employment lines such as transportation, wholesale/retail trade, agriculture, forestry, fishery, mining, construction, manufacturing, public administration, etc. In general, the term "economic base" is used to define and classify the economy of a community. The economic base study divides employment activity into two main areas: basic and non-basic. Basic economic industry or "export activity" is essential in generating and circulating money within a community. The livelihood of a small town depends upon it having a strong basic employment function. Non-
basic activity refers to the "local market activity" or the non-exporting portion of an economy. Many of the goods and services supplied by non-basic industry are supported by the immediate town population and cannot be dependent upon areas outside the community.\textsuperscript{19}

In understanding a town's economic structure local officials must become active in planning for future economic investment. This could mean attracting new business and industry into the town through uses of incentives -- tax breaks, shelters, etc. One of the goals of a community should be to help provide employment areas for citizens to maintain a decent standard of living.
REFERENCES

1 Bert E. Swanson, Richard A. Cohen, and Edith P. Swanson, Small Towns and Small Towners (Beverly Hills: Sage Publications, 1979), p. 11.

2 Ibid., p.12.


4 Ibid., p. 5.

5 Ibid., p. 6.


13 Vidich and Bensman, op. cit., pp. 324-326.

14 Ibid.

15 Swanson, Cohen and Swanson, op. cit., pp. 82-83.

16 Ibid.


19 Swanson, Cohen and Swanson, op. cit., pp. 121-150.
CHAPTER III

BACKGROUND OF URBAN HOMESTEADING

HISTORICAL PRECEDENCE

Early Development

The concept of homesteading began during the early days of American colonialism. During that time the primary means of acquiring property in the New World was through the headright system. Under this system, anyone able to afford fare to the new colonies was granted free land by the land proprietor. The purpose of the headright system was to encourage settlement, attract immigrants, promote economic growth, and increase security measures for the settlers from Indians or foreign attacks.¹

After the American Revolution, the nation incurred numerous debts which had to be paid off. Congress made provisions to reduce those debts through the sale of land west of the Appalachian Mountains. Initially, large tracts of land were sold to settlers with the agreement that "sufficient" planting and seeding would take place on the land within three years.²

Political opposition for the establishment of a homestead policy lasted over 20 years. The Free Soil Party and the Republican Party can attribute their eventual development to the homesteading issue. Fractions occurred over federal revenues versus rapid settlement between East and West states. The North and South states focused their debates on the potential impact homesteading would have on the size and political power of free states versus slave states. Advocates for the concept of homesteading recognized its potential to stimulate population, increase economic growth, and provide additional land to existing residents.³
A major source of support for the homesteading legislation came from spokesman, Horace Greely, a proponent of the National Reform Association. Greely endorsed homesteading on the belief that it would impact upon problems of the urban poor. "Thus, even in the 19th Century people viewed homesteading as a measure for combatting urban ills." Opponents of the concept argued that homesteading was unfair to those who were able to purchase land. It reduced the value of surrounding land. Nevertheless, after years of political struggle, the first Homesteading Act was signed May 20, 1862, by President Abraham Lincoln. With the new legislation, settlers could acquire land grants of 80 to 160 acres by filing a claim fee of $26 with the stipulation that improvements would be made unto the land within 5 years.

In 1933, a new homesteading concept came into existence. Franklin D. Roosevelt urged in his Presidential Inaugural Speech, for America to "Recognize the overbalance of population in our industrial centers and, by engaging on a national scale in a redistribution, endeavor to provide a better use of the land for those best fitted for the land." Legislation was introduced to Congress authorizing long-term, low interest federal loans for purchasing "subsistence homesteads." In acquiring subsistence homesteads, the nation's poor were provided with monies of up to $1,500 for purchase of suitable land. They were also given assistance from the federally designated local agencies in the construction of dwellings and the purchase of livestock and equipment.

Various changes in the basic program brought about an emphasis toward forming cooperative communities of homesteaders. Unfortunately, over ambitious planning, high cost, and a lack of sound economic bases led to the abandonment of rural homesteading in 1937.
Development of the Urban Program

Urban homesteading aroused enthusiasm in the federal government after the first program was announced a successful alternative to urban housing needs. Although the program cannot be considered a cure all for urban decline, it does provide a creative and practical approach to solving neighborhood deterioration.

The need for such an innovative program became evident when the problem of housing abandonment grew disproportionately in the nation's urban centers. The problem resulted from a variety of interrelated causes associated with changing urban life styles, employment patterns, crime, pollution, and an outflow of middle class residents from inter-city neighborhoods. As the middle class moved out, lower income groups saw an opportunity to improve their housing conditions. This process, called the "trickle-down" or filtration theory, set off a chain of events leading to the abandonment of housing stock. First, a decline in residential property value occurred which caused financial lending institutions to become reluctant to extend mortgage loans. Local and federal government were forced to increase services which resulted in higher property taxes. Increased property taxes and decreased property values made it difficult for homeowners to sell. Many homeowners, left without any alternative solutions, simply abandoned their homes. This in turn, left the city or federal government with the responsibility of acquiring property through tax foreclosure or FHA mortgages foreclosure.

Strong critics of federal housing programs have often blamed the federal government for creating urban abandonment. They argue that interest-subsidy programs such as FHA Section 235 and 236 housing of the 1968 Housing Act make financing available for low income families to purchase homes, but causes them to suffer inflated property values, costly maintenance and repair, and
little or no real equity established on the mortgage. As a result, neighborhood deterioration occurs and abandonment becomes inevitable. Whether the federal or local government is at fault in creating this problem it is very clear that the federal government's Department of Housing and Urban Development is the largest real estate owner in the nation. Of the 4,000,000 abandoned housing units in America, the United States Department of Housing and Urban Development owns the title and mortgage to approximately 250,000 housing units.

In 1974, Congress enacted the Housing and Community Development Act, authorizing the Department of Housing and Urban Development to develop and implement a federal urban homesteading program. Given this authority, the Urban Homesteading Demonstration Program was designed in an effort to improve and upgrade neighborhood environment; extend homeownership to residents who otherwise could not afford housing; and dispose of HUD inventory property.

The Demonstration Program began May, 1975. Cities were invited to submit applications for the reception and transfer of Section 810 property. The program captured the interest of 61 cities. Out of sixty-one applications, 23 cities were selected to participate. In the following two years, 15 additional cities were selected due to the success of the initial program.

Section 810 of the Housing and Community Development Act of 1974 authorized the Department of Housing and Urban development to transfer vacant one to four family housing units from HUD housing inventory to local units of government. To provide financial assistance, Congress allocated five million dollars for transferring and disposing of HUD-owned properties to city governments. The Emergency Housing Act of 1975 also served as a financial mechanism. Appropriations for 5 million dollars were allocated to 312 Rehabilitation Loan Program as a means of helping homesteaders rehabilitate their
<table>
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<tr>
<th>Date</th>
<th>Event Description</th>
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<tr>
<td>August 1974</td>
<td>Housing &amp; Community Development Act becomes law; P.L. 92-383 authorizes $5 million in FY '76 for Urban Homesteading.</td>
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<td>May 1975</td>
<td>HUD announces plans for the Urban Homesteading Demonstration.</td>
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<tr>
<td>July 1975</td>
<td>HUD invites cities to participate in the Urban Homesteading Demonstration.</td>
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<tr>
<td>August 1975</td>
<td>HUD receives 61 applications from cities across the country.</td>
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<td>November 1975</td>
<td>First Memoranda of Agreement are signed.</td>
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<td>October 1975</td>
<td>HUD selects 23 cities out of 61 cities to participate.</td>
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<tr>
<td>December 1975</td>
<td>First properties are transferred from HUD to Demonstration Cities.</td>
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<tr>
<td>April 1976</td>
<td>Last Memoranda of Agreement are signed.</td>
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<tr>
<td>June 1976</td>
<td>$5 million is appropriated to Urban Homesteading through P.L. 94-303.</td>
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<tr>
<td>October 1976</td>
<td>HUD has the First Annual Urban Homesteading Conference. Increases in Section 810 and Section 312 allocations are announced.</td>
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<tr>
<td>January 1977</td>
<td>HUD receives 28 new applications from cities.</td>
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<tr>
<td>April 1977</td>
<td>$15 million in FY '77 is appropriated for the program.</td>
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<td>May 1977</td>
<td>HUD selects 16 out of the 28 cities to participate.</td>
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<td>July 1977</td>
<td>Section 810 and Section 312 allocations are increased for the first 23 original cities.</td>
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<td>September 1977</td>
<td>Program administration changes from a Demonstration to a national operating program.</td>
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<tr>
<td>October 1977</td>
<td>Congress receives the First Annual Urban Homesteading Report from HUD.</td>
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<tr>
<td>December 1977</td>
<td>Second allocation to increase Section 810 and 312 funds to the first 23 cities.</td>
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<tr>
<td>June 1978</td>
<td>HUD announces the redelegation of authority to approve new urban homesteading applications to HUD Area Managers under the supervision of Regional Administrator.</td>
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<tr>
<td>September 1978</td>
<td>Second Annual Report is submitted to Congress.</td>
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<tr>
<td>December 1978</td>
<td>Final regulations for the program are published (CFR 590).</td>
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<tr>
<td>March 1979</td>
<td>Applications to participate in the Urban Homesteading Program are due.</td>
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property. To assure rehabilitation of the homestead property, guidelines were established to specify the terms of the contract between the city and the homesteader in assuming responsibility for the property.\textsuperscript{11}

The transition of making urban homesteading a demonstration program into an operating program occurred in December 1978, when departmental responsibility for managing the program changed from the Office of Policy Development and Research to the Office of Community Planning and Development. In making the transition, some cities developed minor problems due to the shift in administrative control. Nevertheless, difficulties were resolved and program implementation was resumed.\textsuperscript{12}

\textbf{FEDERAL LEGISLATION}

Part 590 of the Code of Federal Regulations (CFR) defines Urban Homesteading: the scope, the purpose, and the requirements of the program. Through the Secretary of Housing and Urban Development (HUD), provisions were established in 1978 by the federal government to approve an urban homestead program.\textsuperscript{13} This program would be carried out by a general local government of a state or public agency of a state. Within the regulation the Secretary authorized the transferal of unoccupied residential property to individuals or families for the purpose of making repairs and improvements to the property. With these goals in mind the Urban Homesteading Program was developed.

\textit{Legislation: Local and National Levels}

Legislation for the first urban homesteading program began on the local level in Wilmington, Delaware. Although the basic concept of the urban homesteading program originated in Philadelphia, Wilmington was the first city to implement the program and test its viability as a tool for neighborhood
revitalization. In August of 1973, legislation was passed to aid in the rehabilitation of Wilmington's deteriorated housing stock. Ten homesteads were awarded to qualified residents with the belief that homesteading would be a means of uplifting civic pride to a town which had experienced a high degree of neighborhood deterioration and rapid population loss. From Wilmington's experience, other cities developed and implemented local homesteading programs of their own: Philadelphia, Baltimore, Newark. Rigid guidelines were established for participating applicants. Applicants had to meet the following qualifications:

1) eighteen years of age or older;
2) a citizen of the United States;
3) the head of a household;
4) not previously participated in an urban homesteading program;
5) not the owner of any other real property; and
6) possessed the financial and technical resources necessary to rehabilitate a housing unit.  

A local Homestead Board was formed to administer the program. Board members were appointed by the mayor or City Council and consisted of community leaders, business persons, councilmen or women, and local citizens. Their duties involved reviewing the applications and screening the applicants for the program. In addition, the applicants were required to enter into an agreement to rehabilitate the property and live on the premises for at least five years to gain fee simple title to the property. The applicant was conveyed the property on a conditional basis in exchange for payment of one dollar and the execution of an agreement to fulfill rehabilitation requirements. Failure to meet that agreement resulted in the revocation of the conditional conveyance.

In 1974 legislation for the Urban Homesteading Program was introduced to the Subcommittee on Banking and Currency under the title "A Bill to Establish a National Homestead Program." After lobbying and sponsorship by former
Congresspersons Victor Veysay (R-California), Andrew Young (D-Georgia), and Margorie Holt (R-Maryland), a bill was developed and adopted under the Housing and Community Development Act of 1974.

Legislation under the Bill instructed the Secretary of Housing and Urban Development to compile a list of unoccupied single-family dwellings suitable for rehabilitation by low to moderate income families. Neighborhood areas were identified and publicity went out encouraging families to apply.

Congressman Young was instrumental in formulating the bill by requesting a means of transferring property (Secretary-owned properties) from the Department of Housing and Urban Development to the local governments. He also contributed to the bill by calling for the evaluation of the program on an annual basis to determine future appropriations of funding by Congress.

Senator Joseph B. Biden, Jr. (D-Delaware) was a supporter of the bill by getting the program covered under Chapter VIII of the Housing and Urban Development Act of 1974. Section 801 of the Act states that:

"Policies designated to contribute to the achievement of the national housing goal have not directed sufficient attention and resources to the preservation of existing neighborhoods, and that the deterioration and abandonment of housing for the Nation's lower income families has accelerated over the decade, and that this acceleration has contributed to neighborhood disintegration. If the national housing goal is to be achieved, a greater effort must be made to encourage the preservation of existing housing and neighborhoods through such measures as housing preservation, moderate rehabilitation, and improvements in housing management and maintenance, in conjunction with the provision of adequate municipal services." 17

Section 810 of the Housing Development Act of 1974 authorized the Secretary to transfer without payment any real property:

"1) which is improved by a one to four family residence;
2) to which the Secretary holds title;
3) which is not occupied;
4) which is requested by such unit, State, or agency for use in an urban homestead program; and
5) which is requested by such unit, State, or agency for use in an urban homestead program which meets the requirements of subsection (b). In determining the suitability of such property for use in an urban homestead program, the Secretary shall consider:

a) the difficulties and delays which would be involved in the sale of the property;
b) the value of any repairs and improvements required by the program;
c) the benefits to the community and the reduced administrative cost to the Federal Government;
d) the possible financial loss to the Federal Government which may result from the transfer of the property without payment."

Another Section important in providing support and financial assistance to the program is Section 811 of the Housing and Community Development Act of 1974. The Act has been rewritten and titled, "Technical Assistance, Counseling to Tenants and Homeowners, and Loans to Sponsors of low and moderate income Housing." Advise is given to homeowners and tenants concerning property maintenance and care, financial management, and ways to improve the overall condition of the property.

**Application Requirements**

Communities must meet the following requirements for submitting a federal application:

1) Completion of Standard Form 424, as prescribed by OMB Circular No. A-102.

2) A plan outlining a description of the approach towards a coordinated neighborhood improvements. (Participants of CDBG entitlement funds can cite appropriate provisions of the Community Development Act.)

3) A map showing geographic boundaries and census tract of proposed urban homesteading neighborhoods must be submitted.

4) Included should be an estimated number of locally owned properties and secretary-owned properties used for the program during the first year.

5) Rehabilitation financing plan must be proposed. The financing plan defines the terms and conditions of federal, state, and local funds (public and private sources). Ultimately, the financial package will provide interim and permanent financing to implement rehabilitation.
These requirements and other considerations should be reviewed during the A-95 review process of state and federal government planning agencies.

**PROGRAM ADMINISTRATION**

The success of the urban homesteading program depends largely upon the design and management of the local program. Coherent program design is essential. It determines the type of administrative responsibility needed to implement the program goals and objectives. Effective administration and leadership is needed to direct the scheduling of program events; provide sufficient staffing; institute cost control measures; and plan for future innovations.

The administrative function of the urban homesteading program is to integrate activities while working with different participants of the program. The home-steaders, agency staff, HUD officials, contractors, private lending institutions, political leaders, and neighborhood groups all have a different reason for participating in the program. The program manager has the responsibility of working with each participant in translating the program design.

One of the advantages of the urban homesteading legislation is the flexibility it allows cities in implementing federal guidelines and provisions. These provisions were written to recognize the diversity of individual cities governments and their administrative structures. In response to these administrative structures, the program is composed of four basis components:

1) the designated program agency;
2) the policy making group;
3) the operating agency; and
4) the supplemental administrative agency.

Each component contributes strongly to the overall development of the program.
The following section briefly discusses these components and examines the program design as it influences the administrative structure.

Program Design

There are a number of factors which influence the design of the urban homesteading program. Some demonstration programs are designed to emphasize home ownership for the needy. Others emphasize neighborhood preservation. Some are directed at lower income families capable of performing self-help skills to offset rehabilitation costs. And then there are programs directed towards stable, more capable homesteaders with demonstrated "capacity", able to accept the cost of rehabilitation. Section 810 of the 1974 Housing and Community Development Act, clearly states that, "special consideration to the recipients need for housing and capacity to make or cause to be made", must be considered and expressed in the program design when addressing the needed repairs to the property. In other words, cities must determine how to address the homesteader's needs and capacity.

Factors that also determine the design of the program include the commitment extended by the community and its political leaders; the financial support given by private lenders and their attitude concerning the possible success of the program; and the skills possessed by agency staff to facilitate program goals and objectives.

Differences exists in the number of HUD properties available in selected neighborhoods and the condition of each property suitable for rehabilitation. Minimum standards for rehabilitating the property determine the degree of freedom given to homesteaders in their efforts to minimize the use of contractors and cut cost. High rehabilitation standards that minimize self-help measures insures quality work through the use of contractors and increases costs.
In keeping with these principles, the program goals and objectives are the primary determinant for designing the urban homesteading program. Many cities varied in their priorities for achieving established goals and objectives. Some had clearly defined goals, while others lacked consistency. HUD's Preliminary Design of and Time Schedule for the Urban Homesteading Demonstration, states that the purpose of the demonstration program is to "test the viability of the homesteading concept as a preservation and stabilization tool." However, this objective can only be applied to carefully chosen declining neighborhoods that exhibits no signs of severe blight and deterioration. In support of this theoretical and practical approach, many programs are designed to emphasize neighborhood preservation. Former Secretary of HUD, Carla Hills, urged that,

"A comprehensive attack on neighborhood decay must accompany homesteading. Filling a few empty houses will not turn a neighborhood around. An overall strategy must incline local government, lending institutions and community residents. In short, neighborhood preservation must be a cooperative venture joining both private and public sectors."

The following questions serve as a guide in developing program goals and objectives for designing an urban homesteading program.

-Which neighborhoods appear to be suitable for implementing a successful program?
-What criteria should be established for selecting homestead properties?
-Who should be considered as a reciprocate for homestead property?
-What are the standards for rehabilitation?
-Should self-help objectives be included in a homestead program?
-How can rehabilitation be financed?

These and other questions should be considered when developing administrative
structure of a urban homestead program and influence the design of a local pro-
gram.

Program Agency

The primary responsibility for implementing the homesteading program lies
within the designated program agency. All participating cities must designate
a public agency to enter into an agreement with the Housing and Urban Develop-
ment Department (HUD) for initiating a local program. Demonstration cities are
also required to designate a public agency to receive Section 810 properties.
HUD mandates that the urban homesteading recipient agency must be a public or
quasi-public entity. State laws often prohibit city governments from accepting
or giving away real property.

In Kansas City, Missouri state law prohibited the city from giving away
property and stipulated that any recipient agency acting as a transfer agency
must be a public body. To comply with state regulations and federal demon-
stration guidelines, the Homestead Authority, i.e. public body, was created.
In some cases, the designated program agency is also charged with the dual
responsibility of setting city policy and administering the program.

The primary source of funds for administering the demonstration program
has come from the Community Development Block Grant Program. Some cities
have also used local general revenues and CETA funds to support staff bud-
gets.

Program Policy

The decision making process of the urban homesteading program is carried
out by a policy making group. This group is involved with writing the initial
application for the program. The purpose for establishing a formal policy
making group is to provide communication between federal and city departments
in their efforts to coordinate program objectives. It allows community residents the opportunity to become involved through participation. And, it insures implementation by the operating agency of the program design.

A five member policymaking group is appointed by the mayor in Boston and given authority to set policy guidelines and select homesteaders for specific neighborhood target area. The policy-making group in Kansas City is composed of the same officials who form the Homestead Authority. This body is also the designated program agency responsible for overall program administration.

The extent of the policy makers' involvement depends upon the administrative structure of the city government. Policy making groups can be active or passive in their role to facilitate program goals.

Program Operations and Staffing

The operating agency manages the long range and day-to-day activities of implementing the program. It is responsible for coordinating the planning and management function of the rehabilitation process. Firm commitment and skilled expertise by the operating staff is a major factor in successfully completing the program requirements. Their duties necessitates constant monitoring and checking of rehabilitation work done by contractors and self-help efforts. This commits to establish regular contact with homesteaders and various support agencies. Together, they plan strategies and time schedules for accomplishing a step-by-step process. The basis operating staff for the urban homesteading program consist of a program operations manager; homestead screening and selection staff; rehabilitation specialist; inspection and monitoring staff; and financial counselors. The time that each staff member applies to each project depends upon the size of the local program, the individual contact given to each homesteader, and the amount of time it takes
to coordinate technical assistance and related support systems.

There are three types of operating agencies responsible for administering the program. They include: (1) a city department such as a Urban or Community Development Department, (2) an independent public agency as a Housing Authority, or (3) a non-profit housing corporation, i.e., Housing Development Corporation and Information Center. Each agency represents a different form of government structure with its own individual approach to managing and operating the urban homesteading program.

**Supplemental Program Agencies**

There are a number of supplemental agencies which lend support to the total development of the urban homesteading program. They provide aid in the areas of monitoring and inspections, transfer of properties, homesteader selections, financing of rehabilitation, technical assistance, and community participation. Under the supervision of the operating agencies these agencies complement skills of the existing staff by providing expertise to all sectors of the program.

Some demonstration cities employ the skills of rehabilitation specialist to inspect HUD properties during the time of conveyance. Work write-ups, technical assistance to homesteaders in their self-help rehabilitation work, and rehabilitation monitoring are all part of a continuing process in rehabilititating homestead properties. In Milwaukee, the Building Department conducts the initial inspection of properties to be included in the homestead program. Code violations are reported, and the extent of rehabilitation is defined. Property inspections, specifications, and cost estimates are performed by the Department of City Development staff. When rehabilitation work is completed, the Building Department inspects the property for
final certification. These are all a part of supplemental program agency--
a support system.

**Homesteaders Selection Process**

The homesteaders selection process requires cooperation between the
operating agency and an appointed selection committee. These committees vary
in their degree of responsibility. Some committees limit their duties to the
selection of homesteaders; others include decision making policy as part of
their involvement. The selection committee in Baltimore is composed of two
separate committees. The first committee, comprised of in-house homesteading
program staff, reviews the applications and performs credit evaluations. The
second committee, "the blue ribbon" committee, comprised of two homesteaders,
a banker, an executive director and the president of the Park Heights Commu-
nity Council, conducts a review process and holds a lottery if more than one
person qualifies for a given homestead property.

The selection of homesteading families should be based upon the home-
steaders need for housing and their capacity to rehabilitate deteriorated
housing stock. When analyzing a homesteader's capacity, a major consideration
should be given to their ability to secure financial assistance. Lack of
(enough) money to support rehabilitation efforts could increase possible
chances of dropout in the homesteading program. Subsequently, homesteaders
would not be able to meet program requirements for project completion.

Definition of a dropout is a person who applies for the homesteading program,
receives a property and withdraws for one of the reasons defined in Table
III-2.

There were 61 homestead dropouts in the demonstration program. Reasons
for dropout included 1) high cost of rehabilitation, 2) deteriorated condi-
tions of the neighborhood, 3) condition of the property, 4) death in the family, 5) divorce, 6) personal bankruptcy, 7) job relocation or loss, 8) medical reasons, and 9) imprisonment.

Within the Demonstration program, a total of 2,101 homesteaders were selected to participate out of an applicant pool of approximately 50,000 people. Some significant characteristics of the Demonstration homesteader selection process include:

<table>
<thead>
<tr>
<th>Reason for Dropping Out</th>
<th>Conveyance Only</th>
<th>Occupancy Financing or Rehab</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changed Mind</td>
<td>19</td>
<td>7</td>
<td>26</td>
</tr>
<tr>
<td>Personal Circumstances</td>
<td>4</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Breached Agreement and/or</td>
<td>8</td>
<td>15</td>
<td>23</td>
</tr>
<tr>
<td>Failure to Secure Financing</td>
<td>31</td>
<td>30</td>
<td>61</td>
</tr>
</tbody>
</table>


- An average homestead household consisted of 3.2 persons.
- Median age of head of household was 35.7 years.
- Sixty-four percent were headed by a minority person
- Approximately 90% of homesteaders were apartment dwellers before entering the program.
- Average household income was $12,793.
- Over 90% of head of households were employed full or part-time.

"These statistics present an overall picture of those who apply to and are accepted by the program as one of fairly young, minority families with children, who are living in rental housing, in many cases shared with another household. It is not difficult to imagine that such families have genuine need for the housing opportunities which homesteading provides."
FINANCIAL PACKAGE

The financial component of the urban homesteading program must be designed to meet the permanent and interim financial needs of the homesteaders. Rehabilitating homestead property is similar to rehabilitating conventional home improvement activities. They both require the financial aide of a "permanent" lender or "interim" resource fund. Permanent lenders are needed to extend capital after rehabilitation is completed and contractors are paid. Interim financing is often essential during construction to periodically pay contractors who lack the resources or up-front money to finance initial rehabilitation cost (lack of this money would limit their participation). However, interim financing depends also upon the cost and speed which contractors can complete their work.

Although homesteaders are encouraged to contribute to the cost of rehabilitation, it is not a realistic approach to the design of the program to expect total financial commitment on their part. Many homesteaders cannot afford to make major repairs on the property because their cost of living income is not substantial enough or because the condition of the property is too severe for their limited income. With these considerations in mind, the permanent or interim financing must be acquired by the designated program agency.

There are three basis mechanisms available for permanent financing of homestead properties. They include Direct Private Lending to homesteaders, Municipal Rehabilitation Loans, and 312 Loans from the federal government. Interim financing can be provided by the permanent lender, a separate private lender, or both. Supplementary assistance is also an important aspect of the homesteading program. It can be given in the form of subsidized interest rates, partial abatements, or complete exemption from local property taxes;
emergency loan programs; payment of insurance; or in some instances, lead paint rebates. A combination of these funding sources are needed to complete rehabilitation work on selected properties. Table III-3 shows the combination of loan of loan programs used in the Demonstration program.

**TABLE III - 3**  
DEMONSTRATION CITIES USING COMBINATIONS OF AVAILABLE LOAN PROGRAMS

<table>
<thead>
<tr>
<th>Combinations Available Loan Programs</th>
<th>No. of Cities Using Each Combination</th>
<th>Percent of Cities Using Each Combination</th>
</tr>
</thead>
<tbody>
<tr>
<td>City-Assisted Private Loan Only (Banks &amp; Savings &amp; Loans)</td>
<td>6</td>
<td>23%</td>
</tr>
<tr>
<td>Municipal or County Loan Program Only</td>
<td>2</td>
<td>9%</td>
</tr>
<tr>
<td>Section 312 Loan Only</td>
<td>4</td>
<td>18%</td>
</tr>
<tr>
<td>City-Assisted Private Loans and Municipal or County Loans</td>
<td>1</td>
<td>4%</td>
</tr>
<tr>
<td>City-Assisted Private Loans and Section 312 Loans</td>
<td>4</td>
<td>18%</td>
</tr>
<tr>
<td>Municipal or County Loans and Section 312 Loans</td>
<td>3</td>
<td>14%</td>
</tr>
<tr>
<td>All three types of Loans</td>
<td>2</td>
<td>9%</td>
</tr>
</tbody>
</table>


Other factors in designing the financial mechanism of the program are; 1) who is given the authority to approve or deny loans, 2) the extent in which homesteaders are required to secure private financing, 3) the amount of governmental control retained by the designated agency. The following section describes the types of financial assistance available to selected homesteaders. These financial resources can often be used as the primary means of funding a rehabilitation or as a combination of one or more of
these types of funding mechanisms. Funding resources usually depends upon the individual homesteader.

Permanent Financing

As previously stated, there are three types of permanent lending mechanisms to fund rehabilitation efforts:

A. Private lending institutions
B. Municipal loan programs
C. Section 312 Rehabilitation Loans

Each provide financial assistance for full or partial rehabilitation work. Each will be discussed to examine their importance to the urban homesteading program.

Private Lending Institutions

For private lending institutions urban homesteading can be categorized into three financial models; the Home Improvement Loan Model, the Private Loans with Shared Risk Model, and the Home Mortgage Model. However, problems do exist in fitting the urban homesteading program into these mechanisms.

The cost of rehabilitating homesteading property through the Home Improvement lender usually exceeds the traditional ceiling on home improvement loans. Limited financial resources by the homesteaders, pressure to repay the loans within five to seven years, and an absence of cash equity causes the home improvement lender to view the program with caution.

Of the 23 Demonstration Programs, three cities were being supported through Home Improvement Loan Models. One way which the Home Improvement Loan Model operates in Chicago is that homesteaders were adopted to the existing rehabilitation assistance program called the Chicago Financial Assistance Program (CFAP). This program was combined of private loans and city grants.
Estimated cost over $10,000 are funded by 312 loans. The 312 loan programs and CFAP financing system was developed to equalize monthly payments by homesteaders. This was accomplished by balancing the principal amount carried by the CFAP 12% interest rates with that of the same monthly interest rate and principal required by the 312 loan program at 3 percent. The city's CDBG funds were given in the form of grants to make the difference. All applications were then forwarded to a designated loan association applicants were given a minimum of 12 years to repay the loan at 12% interest rates under Title I, FHA-insured Home Improvement Loan.

The Shared Risk Model is a combination of the Home Improvement Model and the Home Mortgage Model. Private lending institutions and public agencies are employed to share in the risk of financing homestead rehabilitation. This model assures the bank more security than the Home Improvement Model without always securing a lien against the property as conventional mortgage loans entail. Terms for repayment also vary from 5 to 15 years, not exceeding up to 20 years.

In Wilmington, the city negotiated an agreement with a consortium of eight commercial banks to provide homesteading funds. The banks agreed to extend loans of up to $15,000 at a 9% interest rate to selected homesteaders. Repayment was determined by the amount of the loans and repayment periods were not to exceed 15 years.

The Home Mortgage Model provided homesteaders long-term mortgage financing of up to 15 years or more from private lending institutions. As a requirement of the loan, a lien was placed upon the property as a precaution against default on repayment. Of the 23 Demonstration Programs, 4 participating cities used a Home Mortgage approach to financing improvements.
Cincinnati's Neighborhood Housing Service, a consortium of 29 savings and loans associations, provided home mortgages to local homesteaders at interest rates of 8½% for 15 years or more. Interim financing was also available to homesteaders through a construction draw against the approved credit sources. Responsibility is shared by the Cincinnati Housing and Urban Development Corporation to cosign with the homesteader for the mortgage as a guarantee against default.

**Municipal Loan Programs**

Municipal financing is a result or by-product of city-wide rehabilitation efforts used to meet the financial needs of a greater population within the Community Development Neighborhood Strategy Areas or overall city rehabilitation in general -- established prior to the Urban Homesteading Demonstration Program. Of the three cities relying upon municipal rehabilitation funds, each differ in their sources of funding, interest rates, maximum loan terms, and individual ceiling on loans.

In a unique and creative credit agreement, a consortium of Minneapolis banks took advantage of a tax exemption law available on loans made directly to municipalities. The City of Minneapolis was granted through state legislation the right to sell $10 million dollars worth of general obligation bonds to establish a rehabilitation loan program. Five percent of the $10 million dollars could be used as grants for rehabilitating homes of low income families. The program was administered by the Minneapolis Housing and Redevelopment Authority. Municipal loans were extended on a city-wide basis and included in the Demonstration Program. The loans carried a 20 year maximum limit with a sliding scale interest rate system which was determined by the family's income. The Minneapolis loan program was advantageous to urban
homesteaders because it allows them equal opportunity to borrow financial assistance for housing rehabilitation.

**Section 312 Rehabilitation Loans**

Reliance on 312 loans has been a major source contributing to the success of the Urban Homesteading Program and has been available to all demonstration cities. Primary allocation of these funds were to be used for the purpose of implementing the homesteading program. However, funds could be used for the purpose of rehabilitating non-homestead properties. Table III-4 presents the total percentage distribution of loans in the demonstration program and the importance that 312 loans have made as a major funding source.

**TABLE III - 4**

**PERCENTAGE DISTRIBUTION OF LOANS BY SOURCE**

<table>
<thead>
<tr>
<th>Type of Loan</th>
<th>No. of Loans</th>
<th>Percent of Total Loans (%)</th>
<th>Total Amount of Loans ($)</th>
<th>Percent of Total Amount (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Assisted Private (Banks &amp; Savings &amp; Loans)</td>
<td>459</td>
<td>39%</td>
<td>$4,277,276</td>
<td>30%</td>
</tr>
<tr>
<td>Municipal or County Loan Program</td>
<td>236</td>
<td>20%</td>
<td>$2,831,034</td>
<td>20%</td>
</tr>
<tr>
<td>Section 312 Loans</td>
<td>485</td>
<td>41%</td>
<td>$7,111,479</td>
<td>50%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,180</strong></td>
<td><strong>100%</strong></td>
<td><strong>$14,219,789</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>


The demonstration program was designed to encourage cities to embark upon comprehensive neighborhood conservation with the use of 312 loans. Some cities have used 312 loans as a primary mechanism for financing improvements (50% of the total amount of homesteading financing). Others have used it as a
last resort or partial aide in fraying improvement cost. Whereas, in some
demonstration cities 312 loans were reserved for non-homesteaders. (This
does not necessarily indicate an increase in non-homestead rehabilitation
activity.) The lack of an effective and efficient delivery system to process
loans in an efficient time/cost relationship causes many city officials to be
reluctant in using 312 funds for homesteading or other rehabilitation programs.
The implications of using 312 loans have been associated with untimely, inade-
quate program operation. Some cities have never used 312 loans because of
bad experience with program implementation and management. This is not the
case in all instances, 312 loans have been used by many cities without delay
and/or outrageous expenses. Demonstration cities who have used 312 funds have
had sufficient and well trained staff members to administer the program.
Eight demonstration cities have relied upon 312 loans in a tandem arrangement
with private or public sources of local loan programs. Eight demonstration
cities have relied primarily upon the 312 loans for homestead funding. While
eight other demonstration cities have chosen to use 312 loans for non-home-
steaders, exclusively.

Interim Financing

Interim financing is used by 13 cities in the demonstration program. Its
function or purpose is to provide contractors with progress payments during
construction of improvements or rehabilitation. Cities that are not in need
of interim financing rely totally on the use of 312 loans or employ contrac-
tors with adequate cash resources to finance the required rehabilitation work.

There are two categories of interim financing. The first involves
interim financing by permanent lenders and the second involves interim finan-
cing by short term financial loans. This can be provided by a bank, consor-
tium of banks, or publicly operated rehabilitation loan programs. The basic premise of this type of loan is to have banks finance progress payments to contractors through the issuance of a check to the designated program agency who is administering the urban homesteading program, or by a single partial payment made to the contractor.

For interim financing by an alternative funding source, there have been five demonstration cities that have adopted this type of funding mechanism. Each one having a distinct form of financial administration. For instance, in Philadelphia a revolving fund program was established through a municipal bond issue. Construction loans were administered to homesteaders at an 8 to 12 percent interest rate. In both cases, the operating agency is responsible for certifying the contractors work as well as making sure the rehabilitation work meets local code standards.

Supplemental Assistance

Supplementary assistance is available to demonstration cities through grants, tax exemptions, abatements, emergency loan programs, and interest write-downs. Basically, there are three types of supplementary assistance. The first is directed towards interest and principal write-downs by local programs—public agencies subsidized the rehabilitation funds extended by private lenders. Tax abatements and tax exemptions are made available to homesteaders by federal and local provisions.

Examples of supplementary assistance is evident in Chicago where homesteaders requiring loans up to $10,000 are funded by 312 loans at a 3% interest rate. Those requiring less than $10,000 are funded by the Chicago Financial Assistance Program (CFAP) carrying a Title I Home Improvement Loan with interest rates of 12 percent. In order to compensate homesteaders with
equity between the two programs, the city subsidizes (provide money to CFAP) homesteaders to equalize the monthly financial payments to homesteaders receiving 3 percent interest rates.
REFERENCES


2 Ibid., p. 4.


5 Ibid., p. 15.

6 Ibid., p. 15.

7 Ibid.

8 Ibid.


12 Ibid., p. 4.


14 Office of Policy Development and Research, op. cit., p. 13

15 Clark and Rivin, op. cit., p. 76.

16 Ibid.

17 The Urban Homesteading Catalogue, op. cit.

18 Ibid.

19 Office of Policy Development and Research, op. cit., p. 236.
CHAPTER IV

RECOMMENDATIONS FOR A SMALL TOWN HOMESTEADING MODEL

PROGRAM RECOMMENDATIONS

Program Design

The urban homesteading program can be implemented for small towns through the development of a well designed program. That program must have the support and backing of local political leaders, financial institutions, and the public at large. Good support is likely to come from a well publicized approach. Small towns must publicize and communicate their reasons for getting involved in this type of housing program. Advantages and disadvantages of the program must clearly be explained so that realistic decisions can be made by the public and qualified applicants to participate. As defined in Part 590.3 of the Code Federal Regulation (CFR) small towns are obligated to design the urban homesteading program to serve two purposes:

1) utilize existing housing stock to provide ownership for the needy; and

2) emphasize neighborhood preservation and revitalization.1

To fulfill those goals and objectives set forth in the federal regulations, small towns must first take an inventory to determine whether or not they have an adequate amount of housing stock suitable for rehabilitation. Housing surveys have to be conducted, and an inquiry has to be made to HUD to determine if a list of 810 Secretary-owned properties is available in their community. Not all available housing stock will be suitable for rehabilitation. Many structures, although visibly acceptable, may be in a state of disrepair--too deteriorated to invest valuable time or money. Other structure, while suit-
able for selection, could demand too much financial assistance to bring them up to building code standards. Careful scrutiny of 810 property and city-owned property is required to assure potential homesteaders that financial assistance will not be wasted on unnecessary repairs. It is for this reason that prior financial arrangement is needed to complete rehabilitation work.

One of the main objectives of a small town homesteading program is to gain commitment from local funding institutions. This would mean securing federal funds from the Section 312 Rehabilitation Loan Program and the Section 810 funds to help acquire property and make neighborhood improvements on a comprehensive basis.

There are five basic functions needed for the design of a Small Town Homesteading Demonstration Program:

1) Administrative, planning and management of homesteading rehabilitation;
2) Property selection;
3) Financial assistance;
4) Homesteader selection; and
5) Technical assistance.

While some small towns have the opportunity to develop their own program design, organization of these functions determine the effectiveness of the program. Administration/planning for submission of the application and fulfillment of federal requirements could not be accomplished without detailed organization procedures. The functions must be timed and scheduled carefully to make sure every segment of the program works together. An example of good coordination between functions is the development of the financial package during the time properties are being selected. This would set up prior funds for prospective homesteaders and eliminate their needs to find financial as-
istance alone and waste time during the rehabilitation period. As shown in Figure IV-1, coordination of the homesteading functions define basis design and model for a small town program.

Administration, Planning, and Management

The administrative structure for a small town homesteading program must consist of the same components found in the urban homesteading program. Those components include:

a) a local homesteading agency responsible for implementing the program goals and objectives;

b) a policymaking group directed towards submitting an application to the Housing and Urban Development Department (HUD), thereby meeting federal guidelines and regulations;

c) an operating agency needed to carry out day-to-day activities to keep the project on schedule; and

d) a supplementary agency available to aid the operating staff members and provide expertise in many areas. (This component is optional and could depend upon the aide of consultants.)

Small towns participating in the homesteading program must realize that the success of their program depends upon the staff they hire. Staff members should have experience in rehabilitation work, i.e., rehabilitation specialists, building contractors, housing code administrators, architects. They must all be able to determine the types of repairs needed and the quality of repairs expected on the properties. If the community already has a low-income housing program, or is the recipient of Community Development Block Grant (CDBG) funds, many of the staff members may already be available to work on the urban homesteading program. Although small towns may not need as many operating staff members for day-to-day activities as urban areas, the quality of their expertise may be even more important because they have a broader base
Figure IV - 1

SIMPLE, SEQUENTIAL MODEL OF THE HOMESTEADING PROCESS

to cover.

For most small towns the administrative structure of a homesteading program depends upon them having a local Community Development Department or Housing Authority authorized to receive federal funds such as Community Development Block Grant (CDBG) funds. A requirement of the federal regulations is that communities must have an agency authorized by HUD to receive and transfer homesteading or Section 810 properties to potential homesteaders. There are three types of agencies that can serve as recipient to a small town homesteading program:

1) a non-profit housing corporation (Public Housing Authority);

2) a city department (Housing and Community Development Department); and

3) an independent city agency (Public Homesteading Agency).

These agencies must assume responsibilities for making decisions, operating the program, and developing administrative policy. Their job is to resolve legal issues and problems as they arise. In the absence of one of these agencies, a regional planning commission could possibly serve as a direct administrative agency, however, the cost of administering and providing staff could be unrealistic to assume. This is where the role of planning becomes an important factor to the success of a small town homesteading program.

As part of the 1954 Housing Action, Section 701, a comprehensive planning assistance program, provided a major source of funding for housing. One of the requirements of federal funding was the existence of a comprehensive planning element combined with a housing element. Congress amended the 1954 Housing Act and authorized the Housing and Community Development Act of 1974 to include:

"...evidence of the assumptions and statistical
bases upon which the projection of zoning, community facilities, and population growth is based, so that the housing needs of both the region and the local communities studied in the planning will be adequately covered in terms of existing and prospective population growth.'"  

By 1977 provisions were added which instructed the Housing and Urban Development Department (HUD) to only extend 701 grants to applicants involved in comprehensive planning measures with the inclusion of a housing element. This was the beginning of regulations and guidelines mandating the use of planning to obtain housing funds.

A small town homesteading program must undergo a review and evaluation process called the A-95 Review. This process was developed as a clearinghouse for local, state, and regional applications involved in federally assisted projects. Its goal is to broaden communication and program coordination between federal-state-local governments. In terms of a small town homesteading program, the regional A-95 clearinghouse serves as the reviewing agency for the application. To apply for the homesteading program, small towns are required to submit maps showing the location of proposed neighborhood areas. Included, should be the total number of locally-owned properties and Secretary-owned properties (810 property) requested for rehabilitation. A financial plan must be submitted with an estimated amount of federal, state, and local funds needed to rehabilitate the properties. Permanent and interim financing has to be determined, and a time schedule proposed for repayment of private or 312 rehabilitation loans. Foremost in review of the application is the plan of implementation. A method and timetable of implementation must include how the properties will be transferred from HUD to a designated homesteading agency. Legal documentation for conveying homestead property is essential for final transferring of a fee simple title. In addition to that,
an outline and summary must be submitted to define how improvements will be made.

**Legal Documentation and Procedures**

Closely related to the administrative function of the program design is the legal issues which confront the policymaking groups and local homestead agencies. Small town agencies must have legal documentation and procedures to protect their program from property default and homesteaders dropout. Procedures must be written to determine what actions to take when homesteaders withdraw from the program after accepting conditional conveyance of the property...as well as what to do with the property after dropout occurs.

Procedures should be established to dispose of properties that are not taken or used in the program. Agencies must decide to sell, demolish, or transfer property back to HUD as a method of disposition. Without a procedure for disposition, communities could get stuck paying for properties still on the tax roll. This brings up another important issue for local homesteading agencies because small towns must also decide what method or procedure to use in paying taxes on the property. To make sure that homesteaders are not pressed with immediate tax problems, it would be in the best interest of the program if agencies assumed responsibility for property taxes during the rehabilitation period. This would guard against program delays and problems in transferring property.

A system of evaluation should be kept to determine the effectiveness of the program design--is it or is it not working? This could help small town agencies improve their program and correct problems as they occur. A weekly report should be done to track the progress of key objectives. Annual review of the documentation by HUD could help small agencies gain additional
support for future 312 loans and CD Block Grant funds.

Homesteaders and Homestead Properties

One of the hardest things to do in implementing the homesteading program is to choose homestead applicants. When coordinating a small town program, it should be kept in mind that homesteader selection and property selection are interrelated functions which must be closely tied together. It will be the homesteader's responsibility to make repairs on the property, therefore, it is essential that the property and the homesteader are given a good match. To insure that this happens, the selection process should be timed in terms of property availability and homesteader criteria in choosing a property. Some of the drawbacks which occurs in handling these two functions as a separate process, involves wasted time for property conveyance, increased administrative cost, and delays in making improvements to the property.

Homesteaders must be screened to determine their eligibility. Small towns can use a lottery method to select homesteaders or an interview process to choose qualified applicants. Each applicant will have a particular property need for their family situation. The program agency must evaluate and determine which properties would best suit the needs of the applicant and match them up with that property. Selection criteria should be based on 1) the individual need for housing, 2) their ability to secure financial assistance, and 3) their commitment to fulfill the legal agreement made between the agency and themselves. In cases where homesteaders cannot meet their responsibilities, agencies must establish alternative measures for revoking properties and selecting substitute applicants.

To avoid the problem of properties not being selected for the program by homesteaders, agencies have to consider the type of housing which would be
desirable to homesteaders. Some will require two bedrooms of three bedroom homes, adequate yard space for children to play in, and sufficient square room area to eliminate overcrowding. Many properties are not selected because they lack adequate kitchen space, basements, and enough bedrooms to accommodate family size. Understandably, homesteaders are not attracted to properties that require extensive repair work. The location of the property and the surrounding land use pattern also influence the desirability of property selection by for the homesteaders.

Small town agencies should encourage homesteaders to reduce rehabilitation cost by making self-help (sweat-equity) improvements onto the property. This would help reduce financial aide and make homesteaders increase their commitment towards completing repairs. In doing so, it is important that small town agencies monitor the quality of repairs done by self-help work. It should be known, however, that self-help repairs usually take more time in getting the project completed. Additional time should be considered when scheduling self-help measures into the program.

In choosing homestead property, agencies should survey the types of repairs needed to get an overall cost estimate of the money required to improve the properties. Within that survey, measurements should be taken of the structures and the number of rooms recorded for taking bids from contractors.

**Funding a Small Town Homesteading Program**

Small town agencies must evaluate the income and financial status of each applicant and determine their long range goals for funding improvements. Can the applicants qualify for financial aide and loans? Will they have the means to pay the loan off and keep up improvements on the property once rehabilitation has been made? These questions should be seriously asked when
selecting individuals for the program. Responsibility lies with the administrative/operating agency to help each homesteader obtain funds to complete the project. Too much financial burden could create high dropout rates midway through repairs. Because one of the requirements of receiving 312 loans is that properties should pass building code standards within 18 months after rehab work is started, this puts a time restraint on completing repair work for transfer of a fee simple title. To make sure that enough funds are available, homestead agencies should seek assistance through one of the following sources:

1) Community Development Block Grant Funds;
2) Section 810 Secretary-owned property assistance;
3) Section 312 Rehabilitation Loans;
4) City-Assisted Private Loans;
5) Section 811 Supplemental Assistance; and
6) Self-Help Improvement Funds.

Each of these sources can be used to fund a specific part of the program design. Small towns may want to apply for Community Development Block Grant Funds to help administer the program and pay for operating cost. Since the program must meet federal guidelines for making a comprehensive approach toward neighborhood revitalization, CDBG monies can also be used since it identifies Neighborhood Strategy Areas (NSAs) in the Block Grant Program.

Section 810 funds can be used mainly for the purpose of acquiring Secretary-owned properties from HUD. These funds have been allocated through the Housing and Community Development Act of 1974 to reimburse HUD's housing loans and mortgage insurance fund for taking a loss on the fair market value of the properties. According to the Urban Homesteading Demonstration Program the average purchase cost of these properties is about $5,000.

To repair homestead properties many towns will have to rely on the assistance of 312 loans which are used primarily to extend low interest loans to
qualified applicants. Support should also be obtained from City-Assisted Private loans in combination with 312 loans. Local banks should be encouraged to help and make a firm commitment in rehabilitating their community.

Other funds used to supplement the program include Section 810 assistance or "Technical Assistance, Counseling to Tenants and Homeowners, and Loans to Sponsors of Low-and Moderate-income Housing," as well as Self-Help Improvement funds. These funds are used to counsel homeowners and provide technical assistance to homesteaders concerning property maintenance and financial management service.

CONCLUSION

The urban homesteading program has been successful in 39 "urban" cities across the country. However, it has not been tested in communities defined as "small towns" or "towns outside of urbanized areas". Its goal which is to revitalize abandoned and deteriorated housing structures has provided a new avenue for urban officials in solving the problems of declining neighborhoods. Although it is not a broad base program which eliminates major problems of housing abandonment, it can be an instrument used with other local, state, and federal programs to achieve this goal.

The 1980 Census shows that there are 86,758,717 year-round housing units in America. Close to 4,000,000 of those units are standing vacant—not being a viable asset to city tax bases. The urban homesteading program contends that these properties do not have to suffer the threat of disposition. Rehabilitation measures could be the answer to providing homeownership to needy families as well as help communities regain missing revenues through property taxes.

Of the approximate 250,000 housing units owned by HUD, only 2,803 units
have been conveyed to the urban homesteading program. Statistics like these show that urban homesteading has not made a visible dent in the problem of urban abandonment and neighborhood deterioration. Yet, the program could be a stepping stone to future programs...programs which design their objectives toward saving existing housing structures to provide low income housing to young families currently blocked out of the housing market by high interest loan rates and mortgage payments.

The urban homesteading program contains many of the same principles found in the Rural Homesteading Act developed 122 years ago. The philosophy behind this program lends itself well to the values of small towns. Those values include maintaining and preserving community heritage and pride in older neighborhood areas. As a result of implementing the program, the following advantages could be actualized: 1) communication could be strengthen between private and public organizations and agencies; 2) participation in the program could help small towns fulfill their obligation to provide low and moderate income housing to needy families; 3) homesteaders could gain a sense of accomplishment in working to improve their own property; 4) neighborhoods that were once suffering from deterioration and housing abandonment could once again show signs of revitalization; 5) economic growth could be helped by stimulating additional work and jobs into the community; 6) new residents could be attracted to the project with a desire and enthusiasm to work and improve blighted neighborhoods for a chance of gaining homeownership; 7) properties that were a tax burden on the community could be put back on the tax roll as revenue makers again; and 8) in addition to revitalizing housing and neighborhoods, the homesteading program could help improve streets, lighting, parks and recreation facilities, and provide better fire and police protection into the area.
Realities of Possible Application to Small Towns

Unfortunately, the realities of trying to apply the urban homesteading program to small communities are not encouraging. A major problem in fitting the program model to small communities is that not all small towns are large enough to implement such a broad base program. Communities are required by federal regulations (HUD) to establish a local agency authorized to receive CDBG funds, 810 properties, and 312 rehabilitation loans. To obtain those funds a small towns must have a housing and planning element. Yet, many small towns cannot afford their own planning agency. This eliminates them from participating in the program, especially since they lack the means to implement program goals and qualify for federal assistance. Even if a town had access to a regional planning commission, they could still have trouble administering the day-to-day activities if adequate operating staff were not available to them.

This brings up another major issue concerning program implementation. The federal government has designed their part of the homesteading program to include the use of Section 810 properties. Many of these properties are not located in small town areas. And, the reality of small towns using their own tax foreclosed properties or private housing stock could cause the program to skyrocket in cost. In addition, there could be a possibility that not enough adequate housing stock is available in small communities to apply the urban homesteading concept. According to data obtained from the U.S Housing and Population Census, much of the housing stock in small communities is considered marginal--ranging from 20 to 40 years or more in age. This could indicate that small towns could have more dilapidated housing structures, not suited for use in the homesteading program. It could also be a primary factor which could eliminate small towns from implementing a homesteading program.
The size of a community is instrumental to the urban homesteading program. It determines whether or not a community is large enough to participate as well as successfully carry out program goals and objectives. A town must have an adequate size of population to require the following elements:

1) a housing and planning agency;
2) of housing stock available through the Section 810 program;
3) sufficient number of staff persons to carry out day-to-day activities; and
4) support from private and public lending institutions.

What is a small town? This question has led to numerous problems in applying the urban homesteading concept to small communities. The definition of "small towns" has not been agreed upon by key sources of information (U.S. Bureau of Census, Farmers Home Administration, the Housing and Urban Development Department). Therefore, the population base for applying the urban homesteading program to small communities had to be reevaluated.

The title of this report has been changed from "The Urban Homesteading Program as a Possible Application to Small Towns, to "...as a Possible Application to Towns Outside of Urbanized Areas." The reason for this change developed because the population base needed to implement the homesteading program was greater than that which the U.S. Bureau of Census defined as a "small town". Their definition of population has been divided into two categories: rural and urban areas. Rural towns have been defined as areas containing population of 2,500 persons or less. This population base was considered too small for implementing the program. In all probability, Section 810 properties would not be available in towns this small and housing and planning elements would not be in existence. The population base, therefore, had to be expanded. This then lead to the definition of urban areas, which were divided into three population subcategories: 1) metropolitan (50,000
persons or more); 2) urban fringe areas (communities contingent upon metropoli-
tan cities such as suburbs or satellite communities); and 3) Outside of urbanized areas (2,500 persons to 49,999 persons). For the purpose of this report, the definition of towns "outside urbanized areas" was used. This definition included towns about the size of Manhattan, Kansas. Towns that had all of the elements necessary to carry-out a program.

With all the reported success that the urban homesteading program has it, it cannot be considered a major housing program. Data indicates that only .012 percent of the total HUD housing inventory (2,803 properties out of 250,000 Section 810 properties) has been conveyed to low and moderate income persons -- just a drop in the bucket when providing opportunities for home-
ownership. What this shows, due to the design of the program, is that the urban homesteading program cannot be effectively used in many communities unless they have been hand-picked to meet federal guidelines. For a program which has included many of the concepts used in the Rural Homesteading Act of 1862, the Urban Homesteading concept can only be applied to small towns by mandating numerous federal regulations. This approach cannot work for small communities. The program resigns itself to being just a glamorized model of a practical application formulated many years ago to provide land development and homeownership to persons willing to make a new life for themselves.

In order for a program such as the urban homesteading program to work for a small community, the federal government must take a different approach in designing its goals and objectives. Instead of investing less money in rural and small town programs, they should be expected to invest more money since (many) small towns lack the financial support needed to participate in pro-
grams that could benefit them. Quite often, small towns (depending on their size) do not have enough financial institutions in their area (banks, saving
and loans) to extend funds for rehabilitation efforts. This is where the federal government should develop new approaches for financial mechanisms. In towns where there are not enough banks, the government could set up guaranteed housing loans at regional lending institutions. These regional banks could be located in key areas across the country (accessible to rural towns) to provide low interest rates on loans to persons in need of housing. As an extra incentive, the government could also help reduce a percentage of the loan if improvements were made upon the property within a specified period of time. This could help pay back the loans by low income persons who otherwise could not afford to do so.

Another factor affecting small towns in their effort to obtain federal assistance, is the amount of red tape or legal procedures they are required to fulfill. Federal programs require many of the following guidelines which defer small towns from getting involved:

1) a Housing Assistance Plan (HAP) to identify housing needs and plans for the distribution of housing resources;

2) an allocation plan covering subsidized and non-subsidized housing;

3) a Neighborhood Preservation Plan;

4) a Environmental Review Plan;

5) guidelines for accessibility of public services and facilities;

6) data used for development of growth policies;

7) a Fair Share Plan for all income segments by local political jurisdiction;

8) an area wide Housing Opportunity Plan (HOP) with an appropriate system for allocation of nonassisted housing for all income segments;

9) active existence of building, plumbing, electrical, or housing codes;
10) a Capital Improvements Plan;
11) an Elderly Housing Plan; and
12) a Non-Discrimination Plan.

It is evident from the above guidelines that some of these plans require a comprehensive approach which often eliminates small communities from participating in federal programs. Alternative methods are needed. One of those alternatives could be the formation of a "citizen's agency" authorized to receive federal funds in place of a local planning agency. In addition, more authority could be given to local city halls through the mayor's office or the city commission board. Regular town meetings could be conducted to insure citizen participation in a homesteading plan. These and other methods are needed to deregulate federal guidelines for small town participation.

The federal government has a long way to go in developing programs directed towards rural and small town communities. Maybe the answer to achieving that goal, is to work with small towns on a less comprehensive approach and receive their beliefs and ideas on neighborhood revitalization.

In the final analysis, this report contends that the urban homesteading program cannot be applied to many small towns across the country, and is limited in its scope towards providing low and moderate income persons with homeownership through housing rehabilitation. The urban homesteading program is even less effective in addressing neighborhood deterioration that threatens the liveability of a community. The housing market, the economic base structure, the population trends (growths and declines), and the administrative body of a community are all interrelated and interdependent upon each other for insuring all of its residents a safe and decent living environment. Therefore, new programs must be developed for small communities, or existing programs must be changed to meet their needs.
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**PERIODICALS**


THE URBAN HOMESTEADING PROGRAM AS A
POSSIBLE APPLICATION TO TOWNS
OUTSIDE URBANIZED AREAS

by

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The urban homesteading program is a federal housing program authorized by the Housing and Community Development Act of 1974 to attack the problems of housing abandonment and deterioration in urban neighborhood areas. Its method of program design is to utilize existing housing stock to provide homes for the needy, and emphasize neighborhood preservation and revitalization. Out of approximately 4 million housing units vacant in America, the Housing and Urban Development Department (HUD) owns the title to about 250,000 of these units. Only 2,803 units have been used in the Urban Homesteading Demonstration Program. Although the program accomplishes its goal to provide housing for low and moderate income families, at a nominal fee, it is not considered a primary source of housing for families seeking to become homeowners. What it does do, however, is provide an innovative approach towards rehabilitating deteriorated housing in Standard Metropolitan Statistical Areas (SMSAs). To date, the program has not been tested in small communities with population of 35,000 people or less.

A major problem with many federal housing programs is that they are not designed to impact upon the needs of small communities. However, the potential advantage of applying the urban homesteading program to small communities could be valuable. One of those advantages is that it could allow small communities the flexibility in designing a program model which confronts the needs of their particular housing problem.

This report will look at some of the existing planning and organizational structures of the urban homesteading program as a possible application to small communities. It is the contention of this report that urban homesteading could work and be a viable asset to small communities in America. Factors will be analyzed to determine what elements are needed to implement the program for small towns and communities.
Many of the cities implementing the urban homesteading program have relied upon rehabilitation assistance from the Community Development Block Grant Program and the Section 312 Rehabilitation Loan Program for financing improvements. Supplemental programs have included street improvements, parks and recreation activities, self-help programs, and financial counseling to potential homesteaders.

The success of the program depends upon the support of city leaders and administrators. It must also have citizen participation, as well as involvement, from neighborhood strategy areas. The program has been successful in 39 urban cities across the country. Given the availability of certain factors, which are defined in this report, the urban homesteading program could be instrumental to small communities in addressing their housing needs and preserving their neighborhood character.