

AN URBAN PROCESS OF HOUSING REHABILITATION:
THE PARTNERSHIP

by

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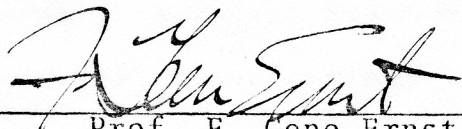
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CHAPTER I

THE DECLINING AREA:

ITS PAST AND FUTURE

The decline of an urban area is a gradual process accompanied by various socio-economic populations. Leo Gebler, as quoted in Housing Market Behavior in a Declining Area defines urban decline as

The phases in an area's development that runs from prime condition, or greatest attractiveness as a residential quarter, through various stages of deterioration and use by population groups of different economic and social status, to the lowest position in the hierarchy of housing and environmental standards set by the community.¹

Declining areas also have a definite effect on our cities in terms of inadequate housing which precipitates other problems. These include social and financial imbalance caused by the disproportionate demand such areas have on city facilities.

Because of inadequate housing conditions and these results, there is need for the development of a method for reversing urban housing blight.

Since the end of the Urban Renewal Programs in 1972, these problems have been losing priority. Now with the advent of the new Community Development Act of 1974, they will again be placed at the top of priority lists. This will cause another long hard

look to be taken at past and future methods of dealing with blight and decay.

Past methods which are designed to remedy the decay and stabilize the declining areas have been, in many cases, less than successful. According to a December, 1974 report by NAHRO, there were three basic aspects to these programs. First, the amount of federal subsidies were usually proportionate to the capital cost of housing. This had the effect of arbitrarily limiting the amount of the subsidy since it was not always indicative of the actual tenants needs or the total housing costs. Second, the rent-income ratio was fixed at no more than one-fourth of a persons income by the Brooke Amendment to the Housing Act in 1969. In the actual housing market, rent-income ratios vary greatly depending on income, structure, location and living style. The ratio generally decreases as income increases.

The final aspect was that most federal programs had a strong emphasis on new or substantially rehabilitated housing. This reflected the thinking that the present housing stock for the poor was inadequate to meet their needs; and also, that rehabilitation would only drive up the price and not increase the supply. It is now being realized that rehabilitation, of less than the substantial nature, can be an effective method of dealing with the problem, and that the new housing industry cannot or has not been able to meet either the demand for new housing or the replacement needs of existing housing.²

The number of units being removed from the existing housing

market has increased sharply over the past few years. This is due in part to the high cost of improvements, and the lack of accessible capital, which forces many landlords and home owners to abandon their property. As an example of this problem, Detroit contains 2,500 vacant or abandoned units, Los Angeles 6,000, and in New York approximately 114,000 units were withdrawn from the market between 1965 and 1967.³ The total number of units being removed from the market increased from a total of 2.4 million in the 1950's to an estimated 8.5 million in the 1970's.⁴

At the same time that the number of units being removed from the market is increasing sharply, the number of housing starts is decreasing. The housing starts for 1974, approximately 1.3 million, were the lowest since 1967.⁵ It can be seen that the present amount of new housing construction barely replaces the units being removed and falls short of the demand which was estimated by the National Commission on Urban Problems in 1968 to be 2.0 to 2.5 million new units per year.⁶

If the goal of the 1954 National Housing Act: "...realization as soon as feasible, of the goal of a decent home and suitable living environment for every American family."⁷ is still a major priority and we set as our objective, the significant improvement of living conditions for the millions of poor in a relatively short period of time, we will be forced to use existing stock, and further, existing substandard stock that is occupied, to a large part, by low-income families. For this reason, maintenance and rehabilitation is and must be an integral part of

future housing programs.

Rehabilitation has been attempted before and, because of mismanagement and inherent problems, met with little success.⁸ The inherent problems can be classified into three categories. First, rehabilitation involves serious credit problems. The economic class of people that "major rehabilitation project work with", and the amount of capital needed, are often incompatible. This and the fact that rehabilitation projects usually attract the small developer who cannot extend credit, lend much towards its lack of success. Second, rehabilitation is a neighborhood-wide problem. Individual owners are reluctant to invest money into major rehabilitation because they fear the quality of the entire neighborhood will continue to decline and not support their investment. Also neighborhood-wide rehabilitation efforts are very difficult to coordinate, mainly because of the diversity of the owners and the timing involved. By timing is meant, organizing the movement so everyone is working to upgrade the neighborhood at approximately the same point in time, so the fear of the neighborhood continuing to decline will be alleviated. Third, the construction problems and costs of rehabilitation are usually greater than expected. This is a result of unstable material costs and the difficulty in estimating repairs behind walls and under flooring.⁹

As mentioned, these problems are inherent and are very difficult to overcome. Because of this and the success record of many past projects, new housing rehabilitation programs have

been devised. These new programs are using, to a much greater extent than in the past, private monies from local financial institutes and philanthropies. This was brought about, in part, by the impounding of funds available for Sections 312 and 115, which are direct federal loans at low interest rates and long terms, and grants for housing rehabilitation in specified areas. This caused the credibility of many cities to be damaged because of programs which they had underway. New programs have been devised to minimize the possibility of this happening again, and also to minimize, as much as possible, the inherent problems.

As outlined in the NAHRO report (December, 1974), these programs can be classified into four basic categories. In the first, the government acts as a stimulant to get private loan financing into an area. This is done by exerting various pressures on the financial institutions such as the deposits of public funds. The funds are only used to help exert pressure, not directly used in the loans. The second category deals with loans and/or grants which are administered by a public authority or a nonprofit organization. There are several methods of financing this, all of which include substantial government funds. A loan guarantee method is provided in category three. Loans are made by the private sector but guaranteed by the government or a nonprofit organization. It is similar to the existing Veterans Administration Home Loan Program. The final category is a secondary market mechanism for rehabilitation loans already made. This consists of remarketing existing loans at better interest rates.¹⁰

All of the new programs deal with the problem of making capital available to declining areas. There are numerous theories on what factors are associated with decline in these areas. They range from simple economic theories to complex theories dealing with a combination of causes and reasons.

Tee Taggart suggests that one of the major contributing factors is the practice used by financial institutions called "Red-lining".

Red-lining means delineating an area as being too risky to bank on. Definitions of risk range from 'likely to deteriorate physically' to 'influx of minorities as residents in the neighborhood'.¹¹

This disinvestment by private lenders, in a "delineated area" is a self-fulfilling prophecy. Without access to the required capital, the residents are unable to make improvements and the area will continue to decline. It not only affects the residents ability to acquire capital but developers as well, thus new development in the area is also stopped. As Chester Rapkin puts it:

...transactions are financed in increasing volume through unorganized mortgage channels, and mortgaging becomes difficult...the flow of new money declines to a trickle, making replacement of wornout equipment more difficult and rehabilitation virtually impossible. Thus such a turn of events frequently operates to accelerate the deterioration of an area, converting a decline into galloping decay.¹²

The new Community Development Act of 1974 is an apparent attempt by the Federal Government to force cities into developing such programs. They have set up a broad framework, and the actual

planning and program development are left to the individual cities.

The new programs, categorized above, are not what the majority of cities are turning to. They are an attempt to secure local involvement and commitment into the area of housing. If this is successful, the results should be more efficient programs with a higher degree of success.

The following is one such program which consists of establishing a partnership between the residents, financial institutions, and the local government. Financing is provided by the financial institutions, public monies, and philanthropic organizations. The entire program will be outlined with the end results intended to be a working model, that can be molded to any particular city's situation

¹Gebler, Leo, Housing Market Behavior in a Declining Area, (New York, 1952), p. 5.

²N.A.H.R.O., "Different Approaches to Financing Housing Rehabilitation", (December, 1974), p. 3.

³Stegeman, Michael A., Housing Investment in the Inner City: The Dynamics of Decline, (the MIT Press, 1972), p. 63.

⁴N.A.H.R.O., "Different Approaches to Financing Housing Rehabilitation", (December, 1974), p. 2.

⁵Urban Land Institute, Land Use Digest, Washington, D.C., Volume 8, Number 2, (February, 1972), p. 47.

⁶National Commission on Urban Problems, Building the American City, U. S. Government Printing Office, Washington, D.C., p. 180.

⁷Ibid., p. 16.

⁸McFarland, et al, Residential Rehabilitation, "Residential Rehabilitation: An Overview", Chapter I, pp. 3-42, (University of Minnesota, 1966)

⁹N.A.H.R.O., "Different Approaches to Financing Housing Rehabilitation", (December, 1974), p. 3.

¹⁰Ibid., p. 4.

¹¹Taggart, Tee, "Red-lining", Planning, The A.S.P.O. Magazine, (December, 1974), p. 14.

¹²Rapkin, Chester, The Real Estate Market in the Urban Renewal Area, (New York). The New York City Planning Commission, 1959.

CHAPTER II

AREA SELECTION

One of the most critical initial steps in establishing a rehabilitation program is selecting the area and the type of rehabilitation to be undertaken. The success or failure of the entire program could be contingent upon this decision.

There are three different types or classes of rehabilitation according to Michael Stegeman. The first is minimal rehabilitation, which is the clean-up, paint-up, fix-up type where the cost constitutes less than 20% of the building costs. The second is moderate rehabilitation which includes clean-up, paint-up, fix-up, and also some structural repair, but constitutes less than 50% of new construction costs. The final class is maximum rehabilitation which is a major reconstruction of the building. It constitutes between 50% and 80% of new construction costs.¹

Maximum rehabilitation has extremely high monetary and social costs. Monetary in terms of the actual construction costs, the grants required for the very low income which populate the area, and relocation benefits. This amount of capital is unavailable to most cities, even with the new Community Development funds. For this reason it is proposed that initial rehabilitation projects be directed towards minimal and moderate types of rehabilitation. It is further proposed that the first attempts place the

emphasis on success so that needed experience and confidence, both on the parts of the residents and the rehabilitating organization, can be attained. Once this confidence and experience are gained, the program can be administered with a greater possibility of success in areas of maximum rehabilitation.

The first step in selecting an area for rehabilitation is to delineate general areas which are showing signs of decline in housing condition. From these areas, sub-areas or target areas will be chosen for the actual program. The minimal criteria for selecting the general rehabilitation areas are: building conditions, community readiness, political leadership and response, economic feasibility, size, and existing facilities.²

The building conditions in the area may be obtained by a windshield survey. It is realized that this method is not totally reliable but for the purposes of identifying overall areas it is sufficient. When the target areas are delineated a more comprehensive method will be used.

Community and political commitment in an area is much more difficult to measure. In some cases the community may form an organization and solicit help in upgrading the area, or the local government may make the commitment and aid the community in forming the organization. In either case, the area must be capable of producing a community organization that is supportive of, and sensitive to, a rehabilitation program. Political commitment from the local government in the form of leadership and providing the necessary public improvements is also important.

The economic feasibility of rehabilitating the area should be considered. It must be determined whether the area can be rehabilitated or whether the condition of the housing stock is so low that it would not be economically feasible to rehabilitate. After the general areas are outlined, a more detailed economic feasibility study can be undertaken to help delineate target areas.

The size of the general area selected is important in that it should not be so small that it excludes the major cohesion elements in a neighborhood nor so large that neighborhood identity would be lost.

The purpose in analyzing the existing community facilities is to determine what upgrading and additions will be required. It is important to determine if the local government is capable or willing to install the required improvements in areas selected.

Once the overall areas are chosen, a more detailed study can begin to establish the target areas. A criteria should be developed that is tailored to the particular needs of the area with input from the community organizations, local government, and financial institutions. For example:

1. The area should be made up of predominately single family and owner-occupied residences. The problems created by a large number of absentee landlords and multi-family rehabilitation can be fatal to a new program.
2. The family incomes should be sufficient to finance home improvement loans (middle to lower income range).

3. There should be a minimal number of families on fixed incomes. The amount of money available in the High Risk Loan Fund for grants and low interest loans will help determine this.
4. The area should have natural boundaries and be small enough for normal neighborhood relations to develop. This helps facilitate the organization and cooperation of the neighborhood.
5. The residents must be receptive to a sensitive code enforcement program.
6. The local government and the financial institutions must be receptive, to insure aid in upgrading the facilities and financing the project.
7. The economic and social feasibility of rehabilitating the areas should be studied in more detail.
8. The initial reason for the area decline, such as Red-lining, should also be researched to help insure that the problem can be corrected.

There are several sources available for collecting the needed data for analyzing an area according to the above criteria. They include census information, city departments, school districts, the Department of Housing and Urban Development (HUD), the Polk "Profiles of Change", and an area survey. The Polk "Profiles of Change" is a yearly analysis of changes taking place within the city. The Bureau of Census "Block Statistics" can be used to analyze the population structure and, on a limited basis, the

social structure of the area. Additional and more detailed census information can be obtained from the HUD area offices.

The final source of information is a survey of the area. One of the best methods for conducting the survey is to take a random sampling of each of the building condition classifications. For example, a random sample survey should be taken for each classification of sound, minor repair, major repair, and clearance housing. This method has the advantages of verifying the windshield survey, and pointing out the amount of rehabilitation necessary for each different housing condition.

The survey should include a complete structural inspection and classification of structural type. Structural types such as single family, one or two story, detached or row, brick or frame, the size of the structure, and if it has a basement. The survey should be conducted by qualified personnel, such as the building inspector and a contractor, to estimate the cost of repairs, and a representative from the local community organization. It should include estimates of the value of the property as it exists and the value after the improvements would be made. This gives cost estimates for each type of housing condition and the overall project. It should be cautioned that these costs are only estimates and should be treated as such. In the case of maximum rehabilitation houses, these estimates are often wrong because of the inability to accurately estimate hidden problems and the inexperience of inspectors.

The survey should also include a questionnaire administered

by a member of the community organization, if one has been established. It should include such questions as:

1. The age level in the area - Are the people about to retire and therefore be more willing and likely to invest into their homes before settling down, or are they retired with little means of support?
2. An attitude survey - Are there ethnic bonds, do the residents want to stay, do they favor renewal, and if so, what is their major concern?
3. The income of the area - Can the residents afford rehabilitation expenses, and if not, is enough money available to be able to assist them?
4. The housing debt - Is the equity of the majority of the owners high, making it easier to obtain money?
5. The home ownership - What is the percentage of renters or absentee landlords?
6. Are there special living problems - For example a large number of renters or a lack of public services?

The next step in the process of target area delineation is a more in-depth economic feasibility study. There are four basic ingredients for determining if rehabilitation is economically feasible in an area. First, from the survey information, it must be determined whether the present owners can afford the required level of rehabilitation or if the real estate market is strong enough so that the owners can find someone else that can do the work. Second, it must be determined whether the existing levels

of equity in the area, when compared to the general level of mortgage debt, are high enough to support rehabilitation through refinancing. This will mainly be determined by the participating financial institutions. Third, also from the survey, it must be determined if the existing structure is sound enough to warrant extending its economic life by rehabilitation so that new money can be obtained by extending the term of existing debts and refinancing the equity. The final ingredient is based on the assumption that rehabilitation will increase the rent level, which in some rehabilitation efforts such as New Haven, Connecticut, it has been shown that the rents will not raise substantially but stay in line with the general market.³ In either case, the amount of increase the renters can afford must be determined.⁴

The information gathered up to this point should be analyzed for conformance to the criteria established for the target area. When this is done specific neighborhoods should emerge as prime areas for a rehabilitation project.

At this point, the economic feasibility study should be carried one step further. With the information from the survey concerning the "as is value" of the structure, the estimated cost for rehabilitating, and the estimated market price after rehabilitation, it should be determined if the market price increase will exceed or at least equal the cost of rehabilitating. If it does not, it is unlikely that the owner will cooperate unless the social or pride pressure is great.

If the rehabilitation cost exceeds the market increase,

the program should be analyzed to see if there are ways of reducing it. Perhaps the minimum housing standards are too high which would cause the cost of rehabilitation to be high; or the public utilities and services in the area should be increased to a higher level, which would help increase the market price. Another possibility is that local government policies in the area may have a suppressing effect on the real estate activities therefor forcing housing value down.

Once the analysis of the declining areas has been completed and the target areas delineated, the community organization should be formed. A specific area best suited for rehabilitation should be arrived at by the local government, the financial institutions, and the community organizations working in cooperation.

¹Stegeman, Michael A., Housing Investment in the Inner City: The Dynamics of Decline, (the MIT Press, 1972), p. 229.

²McFarland, et al, Residential Rehabilitation, (University of Minnesota, 1965), p. 67.

³Ibid., p. 128.

⁴Ibid.

CHAPTER III

ADMINISTRATION OF THE REHABILITATION PROJECT: THE NON-PROFIT SPONSOR

Inadequate housing for the low income is a problem which the Federal Government and many cities have tried several times to remedy. It has been an area of concern for the Federal Government for the past 40 years. They officially noted it as a key element in 1954 when rehabilitation was included in an enlarged urban renewal program.¹ Prior to this, the Federal Housing Administration (FHA) through their newly enacted Title I Act and the Home Owners Loan Corporation (HOLC), were the first attempts by the Federal Government to rehabilitate. This included refinancing mortgages which had been foreclosed as a result of the depression and loans to repair, modernize, and improve residential properties. The HOLC, however, soon recognized the deep implications involved in rehabilitating a declining area, and in 1940, made an indepth study of the problem entitled, "Waverly-A study in Neighborhood Conservation".² It was a very perceptive analysis of a rehabilitation project in Baltimore, Maryland. The report identified several essential ingredients necessary for successful rehabilitation, including the need to approach rehabilitation on a neighborhood basis with property owners' leadership and organization.

For maximum and assured success, action must be undertaken as a united community enterprise,

based on a broad, carefully planned and therefore relatively costly pattern which embraces the district as a whole and each dwelling in it.... and finally in both its initial and subsequent stages, must be administered under sympathetic and continuously energetic leadership.³

The initial attempts of rehabilitation were normally administered entirely by governmental or quasi-governmental agencies, such as Urban Renewal. This caused the local residents which were affected by the process to demand a voice at the administrative level. Through trial and error, the process has been refined to the concept of a rehabilitation project administered by and for the local residents in cooperation with the local financial institutions and the local government.

To create a viable rehabilitation program, it must be placed in the hands of individuals or organizations capable of meeting the demands and managing it properly. For example, the problem of "red-lining" in the area must be alleviated and reasonable financing made available to all residents; public utilities and neighborhood services must be adequate; and the residents must be organized and motivated to participate.

To accomplish the above goals, a working relationship, at least, or a partnership at best, is required between the citizens, financial institutions, and local government.

Past experience shows that there are four generic types of rehabilitation.⁴ First, is a private developer, willing to accept limited returns and motivated by tax benefits, low interest rates and long term loans. The second form, one which applies to a very limited number of projects, is when a large corporation uses

rehabilitation to test new components and to provide a showcase for their new products. Both of these forms are normally carried out on a very limited segment of a neighborhood and do not include local participation, residential or governmental.

The third generic form of rehabilitation is the federal assistance programs such as code enforcement and Urban Renewal. Its failure, in terms of producing a sufficient quantity of housing, has generally been attributed to poor management, lack of sufficient capital for the size project undertaken, and lack of local participation and input.

The final form is a non-profit sponsor receiving governmental and private funds for rehabilitation purposes. This usually consists of a private non-profit organization made up of the necessary partnership between residents and representatives from contributing financial institutions and the local government, working together to improve a neighborhood. This partnership utilizes local involvement and input, and supplies the expertise needed to insure a financially and socially successful program.

The concept of a non-profit organization administering a rehabilitation project originated in 1968 in Pittsburgh, Pennsylvania and was called a Neighborhood Housing Service (NHS). It brought a flow of private capital into a declining area and successfully reversed the decline. This was characterized by improved housing, rising property values, increased real estate activity, and growing community pride. It was accomplished by a combination of community commitment, financial institution involvement, effective code

compliance, a High Risk Revolving Loan Fund and a highly competent staff.

The Federal Government's response to this success came in 1974. The Federal Home Loan Bank Board, through a grant from the Department of Housing and Urban Development, initiated the Urban Reinvestment Task Force whose primary goal was to stimulate the growth of NHS programs.⁵ This was accomplished by offering interested organizations technical and financial assistance. In 1974 the Urban Reinvestment Task Force received approximately 300 proposals for rehabilitation assistance. From these proposals a very limited number (approximately 30) will be accepted. It can be seen that cities are realizing the need for rehabilitation and are searching for methods to accomplish it.

The typical NHS consists of a 25 - 30 member corporation. The membership is made up of representatives from the neighborhood, city-wide service organizations, financial institutions, and local government. There is an eleven member Board of Directors which consists of six community representatives and five representatives from the participating financial institutions. There is also a five member Loan Committee which is responsible for administering the High Risk Revolving Loan Fund. It is composed of three community representatives and two financial representatives. The officers positions are divided up equally among the community and financial representatives, except for the office of treasurer, which is always filled by the financial institutions.⁶

The improportionate weighting of community representatives

on the Board and Committee is to keep the project from becoming a financial endeavor and to keep the humanistic perspective and local control foremost in the organization.

The main goal of the NHS program is to improve the environment of a particular neighborhood both socially and physically. This is to be accomplished by carrying out at least four basic objectives.⁷

- To assist residents of the target area in their fight against housing deterioration by providing accessible capital.
- To increase involvement of traditional lending institutions and the local government in the neighborhood.
- To work in an advisory capacity, in terms of available financing to residents, budgeting, bill consolidation, etc.
- To encourage other agencies, both public and private, to perform the services needed to assure a viable neighborhood.

There are several key elements which make the NHS program a success. First, it is a private rather than governmental undertaking; it consists of residents who want to improve their neighborhood and have this as their major goal; local government's involvement is limited to public improvements and code enforcement; and the Federal Government's involvement, if any, is through the Urban Reinvestment Task Force in the form of technical assistance, to set up the program and demonstration grants.

Second, it forms a partnership between the neighborhood group and the financial institutions. This is very important because of the need for local input and to alleviate the problem of "red-lining". The financial institutions have the capital which is necessary to rehabilitate an area and also the expertise for carrying out such a loan program.

Third, the program aids the city in establishing a comprehensive code and enforcement system. This aspect is essential because it guarantees to the residents of the area and the financial institutions that the entire area will be rehabilitated to code standards. Chapter IV is dedicated solely to this topic.

Next, by using a new financial mechanism, the NHS makes funds available to an area previously experiencing difficulty in obtaining conventional loans offered by the financial institutions. A High Risk Revolving Loan Fund, or similar program, is established, making funds available to the very poor or those classified as high risks. These funds can be in the form of an outright grant or a low interest, long term loan. This element will be dealt with, in detail, in Chapter V.

The final basic element of the NHS program is that it is a continuing program. The initial capital needed to get the High Risk Fund started comes basically from individual contributions and local philanthropic organizations. The participating financial institutions usually underwrite the operating cost of the non-profit organization and make as many conventional loans as possible in the area. This makes the NHS independent of uncertain govern-

mental support. Once the property owners, lenders and local government become more confident of the program and they become more willing to invest their resources into the area, the need for the High Risk Fund will decline. At this point, the process and fund can be applied to similar declining areas. The partnership will have to be re-established with a new community organization.

The above structure is the minimum outline required for a successful NHS program. Additions and variations will be necessary for each individual project. The premise that there is no fixed approach to community organization and that there is no set form that fits all communities or neighborhoods must be accepted. The organization will be born from discontentment in a neighborhood; discontentment with the physical and social conditions, and a desire to remedy these.

This discontentment must be focused or channeled into the organization and communication both internally and externally established. The organization must open channels to agencies that can effectively aid them in solving their problems, in this case local government and financial institutions, and also establish communications among themselves and the sector they represent.

The major role of the organization is an enabler and motivator. It must motivate those unwilling to participate, through social pressure or code enforcement, to rehabilitate; and it should enable those that want to rehabilitate, to acquire the means for doing so.

The end product should be an organization that strenghtens the very fiber of the neighborhood.

¹McFarland, et al, Residential Rehabilitation, (University of Minnesota, 1966), p. 1.

²Waverly--A Study in Neighborhood Conservation, Federal Home Loan Bank Board, Washington, D.C., 1940.

³McFarland, et al, Residential Rehabilitation, (University of Minnesota, 1966), p. 7.

⁴Stegeman, Michael A., Housing Investment in the Inner City: The Dynamics of Decline, (the MIT Press, 1972), p. 229.

⁵NHS programs are operating in Cincinnati, Ohio; Dallas, Texas; Oakland, California; Washington, D.C.; Baltimore, Maryland; Boston, Massachusetts; Jamaica, New York; Plainfield, New Jersey; and Kansas City, Missouri.

⁶Kansas City, Missouri, 49/63 Homes Conservation, Inc., 6628 Troost Avenue.

⁷Plainfield, New Jersey, Plainfield NHS, Inc., 935 South Second Street.

CHAPTER IV

HOUSING CODES AND REHABILITATION

Blight and its effects have plagued cities for centuries, yet innovative methods of controlling it are a product of the last few decades.

Blight is a municipality's number one human problem as surely as it is the number one economic problem. The depraving conditions of a slum environment reflect in the attitude of the people, dimming their pride, and stifling their ambitions. Squalid buildings breed slovenly demeanor. Disease, fire and crime, with all their resultant costs, are a direct by-product.¹

The problems are becoming increasingly acute in terms of both the social and economic structure of cities and it is becoming apparent that they must be controlled in order for the cities to survive.

From an economic standpoint, blight or decaying areas cause an impropportionate drain on a municipality's funds. This is brought about by the increased amount of public services that are demanded, and the decreasing amount of revenues generated by the declining tax base.

The main legal tool available to cities to stop physical decline and attain minimal standards are the housing codes. These are basically environmental health protection codes which have as their objective

to establish minimum standards essential to make dwellings safe, sanitary, and fit for human habitation by governing the condition and maintenance, the supplied utilities and facilities, and the occupancy.²

In order for housing codes to be effective, it is essential that they have (1) public support, in terms of both the local government and the residents, (2) contain realistic and equitable regulations, and (3) are enforced and implemented in a fair and equitable manner.

The housing code, as any other code, can be only as effective as the public support behind it. The first step in creating this support should be at the administrative level. The governing body must be educated to the problems of decay that exist and the role the housing code plays in reversing it. They should make a sincere effort to create a code that is effective and enforced in the most beneficial manner and not take the path of least resistance.

The next step is to educate the public through publicity and open meetings. They should be helped to realize the benefits the housing code will produce for them. Benefits such as the reduction of the economic drain on the city and having a trained, qualified inspector inspect their home for physical and health hazards which may not be apparent to them. It also helps stabilize a neighborhood by insuring that all the properties will be brought up to the same minimum standards.

The second requirement for a successful housing code is organizing and composing the ordinance so that it contains regulations that are realistic and can be equally enforced.

These are three prerequisites for producing such an ordinance. First, the ordinance must contain good housing standards. There are several sources that have this information

available. They include a prototype housing ordinance published by the American Public Health Association and the Public Health Services National Center for Urban and Industrial Health (APHS-PHS); "Basic Housing Code", by the Building Officials Conference of America (BOCA); "Southern Standard Housing Code" by the Southern Building Code Conference (SBCC); "Uniform Housing Code" by the International Conference of Building Officials (ICBO); and the "Minimum Property Standards for Urban Renewal Rehabilitation" by the Federal Housing Authority (FHA). The standards should be used only as a guide to produce an ordinance that is tailored to the needs of the particular area.

Second, the housing standards must be specifically designed to allow building rehabilitation. They should be very specific and specify repairs whenever possible instead of replacement. The standards must be realistic and workable in the eyes of the contractors and homeowners who are affected the most. The code should also specify violations and what is needed to correct them whenever possible and be flexible enough that they can easily be amended when and if the need arises.

The final prerequisite for producing a viable ordinance is a thorough investigation of existing local and state regulations concerning housing and building construction. For example, fire departments normally have established regulations concerning fire prevention; health departments have regulations concerning unsanitary building conditions and building departments control structural stability. The housing ordinance must compliment and

not contradict these regulations.³

The third and final step for producing an effective housing code is the development of a sensitive code enforcement system and the necessary legal authority to enforce it. The code enforcement function must be united into one agency. This helps insure that there will be equal and efficient treatment of all inspections and the necessary communication between the personnel inspecting.

There are numerous methods of code enforcement used by cities. They range from complaint and referral methods where the inspection is made only after a complaint is received, to a comprehensive house-to-house inspection.

The degree to which the code is enforced also varies. For example, in Kansas City, Missouri, code enforcement standards are adjusted to the different levels of neighborhood decline or stability. The Department of City Development has initiated four graduations of code compliance. The first is "Surveillance" which is designed for basically sound areas that require an occasional monitoring. The second is "Interior/Exterior" which is used in areas showing the early signs of decay, yet are economically viable. This consists of a complete interior and exterior inspection. The third level of code compliance is "Exterior". This type is applied to areas that are basically sound but the economic capacity of the owners to finance repairs is limited. The final level is "Grounds", which is used in substantially deteriorated areas and consists of an exterior inspection of the area, reporting only visual grounds violations such as trash.⁴

The level of code enforcement used in the Kansas City method may vary from neighborhood to neighborhood but is consistent within neighborhoods. Part of the reasoning behind this method is that strict code compliance in certain areas, without financial assistance, would cause a hardship on the residents, forcing many low income to abandon their property because of their inability to finance the required rehabilitation.

Kansas City's method of enforcement varies from the complaint and referral type (Surveillance) to a comprehensive house-to-house inspection (Interior/Exterior). The comprehensive house-to-house method is used only in the areas where the residents can be expected to obtain the necessary capital to comply with the code or where financial assistance is available.

In establishing a rehabilitation program that utilizes the partnership between citizens, local government, and financial institutions a comprehensive house-to-house inspection must be developed for the project area. This helps to insure the partnership, especially the financial institutions, that the entire project area will be raised to the minimum standards set forth in the code and therefore offer some insurance as to the safety of their investment. They cannot be expected to invest in an area where only spot or surface code enforcement will be conducted. Property owners also seriously object to random inspections because of the inequality of the system.

According to Michael Stegeman, code enforcement should be area wide, stress strict exterior inspections and conformance,

and the interior inspections should be aimed at eliminating serious health or physical safety violations.⁵

It is very important that the work and capital being invested in a rehabilitation project be visible. This helps build the confidence of the residents and the financial institutions that the project is accomplishing its goal of upgrading the area. For this reason, the exterior inspection as well as public improvements in the area should be stressed.

Interior inspection on the other hand should stress the elimination of safety violations and not cosmetic corrections. This not only would put an undue financial burden on the owner, it may also alienate him to the project.

The basic field approach to inspections should be done on a block-by-block basis. This method utilizes personnel and their time most efficiently since travel from one job to another is minimized. The inspectors also soon become familiar figures in the neighborhood and the residents know what to expect via the grapevine.

Prior to the inspection, fliers should be sent to the homeowner explaining the program and that the inspection is authorized by law. It should also explain that financial assistance is available for making the necessary corrections.

The inspection itself should be conducted as a positive rather than punitive process. The necessary corrections should be discussed in terms of the health and safety of the residents not in terms of code compliance.

After the inspection is completed a follow-up letter should be sent listing the corrections necessary and a fair amount of time for correcting them. This should be accompanied by another letter from the non-profit organization offering assistance.⁶ Adequate and exact records and office procedure are a must to insure prompt and uniform action in every case.

In at least one code enforcement program (Baltimore, Maryland), project area residents are trained to be inspectors.⁷ This has the advantage of using personnel that is familiar to and with the area. This position should be filled with utmost care because these residents have the responsibility of implementing the code and working with the people. It is necessary to choose someone with the necessary technical knowledge and experience.

Continued code violations or refusal to comply with the code is, in most states, a criminal offense and is referred to the courts, which should be done only as a last resort. It is much more effective to solicit cooperation by using positive motivation techniques such as financial assistance, planning, and possibly tax breaks.

The High Risk Revolving Loan Fund, which will be described in the next chapter, is one form of positive incentive. Its major drawback is that it only affects residents who are unable to obtain conventional loans because of low income or past credit problems.

Another method for inducing cooperation is to establish a grant program. For example, in Irvington, New Jersey, the state

has established a program that is available to all property owners in a specific neighborhood of the city.⁸ Upon notifying the property owners of the project and its boundaries, the individual homes are inspected. The residents are then informed of the code violations and that state grants will cover 30 percent of the cost. The remaining 70 percent is covered by conventional loans. The grant has the effect of reducing the principal and interest payments to the equivalent of a three percent loan. If the property owner is unable to obtain a conventional loan, then financing is obtained through the Federal Assisted Code Enforcement Program (FACE) which is no longer available except to ongoing projects. A suitable substitute would be the high risk fund.

One of the main objections of property owners towards rehabilitation is that their property taxes will increase and cause an additional financial burden. One solution to this problem is to guarantee that the property will not be reassessed for a specified period of time. Another possibility, which is being tried in Boston, Massachusetts, is to offer tax rebates in return for cooperation.⁹ The program offers a property tax credit of ten percent of the cost of all home improvements required to bring the property up to code standards, with a minimum of \$300 per unit. The program further guarantees that there will be no increase in assessment as a result of participation.

Although offering tax breaks as an incentive for cooperation appears to be an effective means, it also creates several legal problems. What is being established is an inequitable system of

taxing which normally takes special state legislation to permit.

By using positive motivation methods, such as those mentioned, and court action the majority of the property owners should comply with the housing code. In extreme cases where neither method is effective, possibly with some absentee landlords, there is another legal means of inducing compliance. Some states, such as Kansas, have provisions which allow the municipality to declare a structure a hazard and contract the rehabilitation or demolition, depending on the structural condition. The cost is then assessed against the property.

This method has the definite drawback of possibly causing the property to be abandoned and should be used with discretion. A careful check of local and state laws is also necessary to determine its legality in other areas.

The entire concept of housing codes is an extremely sensitive subject. It allows legal entry by city personnel into private homes and forces residents to make repairs which to them may be unjustified. If not handled properly, the code is looked upon as another legal instrument of the city which infringes upon the private rights and capital of the citizens.

The process of educating the public and the use of positive incentives is extremely important if the program is to be successful. It should be presented in terms of what the city can do for the property owners to increase their living standards, environment, and most important their investment return. If the owners can be shown that their investment into rehabilitation will be

more than returned by the resulting increase in equity, there will be little difficulty in getting cooperation.

¹O'Bannon, Robert E., Building Department Administration, International Conference of Building Officials, 1973, p. 515.

²Ibid., p. 546.

³Ibid., p. 524.

⁴Neighborhood Property Conservation Program. Department of City Development, Kansas City, Missouri.

⁵Stegeman, Michael A., Housing Investment in the Inner City: The Dynamics of Decline, (the MIT Press, 1972), p. 261.

⁶An excellent example is the Madisonville Housing Services Program in Cincinnati, Ohio.

⁷Outer City Program, Department of Housing and Community Development, Baltimore, Maryland.

⁸Demonstration Rehabilitation Grant Program, South Ward Urban Renewal Project, Irvington, New Jersey.

⁹Mayor's Housing Improvement Program, Boston, Massachusetts.

CHAPTER V

THE HIGH RISK REVOLVING LOAN FUND

It has been stressed several times that a working partnership must be established between the financial institutions, the residents and the local government in order for a rehabilitation effort to be successful. The roles of the residents in organizing, and the local government in making improvements and code enforcement have been explained. This chapter will deal with the role of the local financial institutions in a comprehensive rehabilitation effort and a program for assisting the residents financially.

To complete the partnership the participating financial institutions must agree to make all the bankable loans possible in the area. By bankable loans is meant, that any application from the project area that meets their normal lending criteria will be financed at the normal interest rate and term. Past experience with N.H.S. projects has shown that lending institutions usually set aside a specified amount of money to be used for this purpose.

They must also agree to underwrite at least a portion of the administrative cost of the Neighborhood Housing Service (N.H.S.). In many of the existing programs, they have agreed to underwrite all of the administrative costs.¹

If rehabilitation is to be successful, all landowners in the area must cooperate in bringing their property to minimum standards.

Chapter IV explained various methods for insuring code compliance, but to make it feasible for lower income a method of financial relief must be worked into the program. Financial allowances must be made in any type rehabilitation effort for those people unable to participate for economic reasons.

The methods presently being considered across the country to give financial relief range from outright grants to reduced tax and interest rates. The High Risk Revolving Loan Fund being proposed is a combination of these. It includes provisions for adjustable interest rates or grants, financial counseling, architectural assistance and assistance in choosing a reputable contractor. This counseling is a necessity so that the limited funds and resources of the people are used towards their best interests.

The high risk fund is financed through donations. These include sources such as philanthropic organizations and individuals, local and state funds such as Community Development and Revenue Sharing, and finally the Urban Reinvestment Task Force, in selected communities, may contribute. Their contributions have averaged approximately \$85,000 per program across the country.

Eligibility requirements for the fund should be established. Many existing programs use the criteria that was established for 115 grants and to some extent the 312 loans. This is done so that in the event these federal programs are reinacted they will be able to make immediate use of the money and not have to redraft their current loaning practices. The criteria should be liberal

enough to allow the N.H.S.'s Loan Committee to make the final determination as to eligibility and repayment. An example of the criteria which is found in every high risk fund program is that the applicant must not be able to obtain a conventional loan. Kansas City's program states that an applicant must have been turned down by three participating financial institutions.² It was realized that requiring an applicant to make three applications before being eligible to apply for the high risk fund is a deterrent in itself. For this reason a representative from the staff accompanies him to each of the local lenders.

If the applicant is unable to obtain a conventional loan he is then given financial assistance from the high risk fund. The Loan Committee previews each case and sets the interest rates and terms of the loan. These will vary according to the owners financial ability to repay, from slightly below conventional rates to outright grants. In no case should the term of the loan be more than 75 percent of the projected life of the structure. If the applicant is very low income, for example, an elderly person living on social security, the Committee may make an outright grant. In such a case lowering the interest rate and extending the term of the loan would not be effective in helping the applicants because of their inability to repay and their shorter life expectancy. Outright grants should be held to a minimum because of the amount of capital available in the revolving fund. The main objective is to keep the principal and interest payments working in a revolving manner so that the fund will eventually become self-sufficient.

The initial step once a homeowner begins participating in the program is to have the dwelling inspected for minimum housing code compliance. All applicants for loans, either conventional or the high risk, are required to comply with this step. This safeguards the owners against making improvements which may be in conflict with the needed improvements, and helps insure him and the financial institutions that all health and safety requirements are being met.

Once the inspection is completed and a specific list of needed corrections made, the staff writes up the work specifications. The homeowner is then instructed to request three cost estimates from contractors. The N.H.S. normally develops a list of reputable contractors from which the landowner can choose.

The lowest bid which satisfies both the homeowner and the N.H.S. is accepted. The homeowner then is referred to the financial counselor and the best method of financing the loan is determined. This may include loan sources such as Farmers Home Administration (FHA), Veterans Administration (VA), conventional loans, and the High Risk Revolving Loan Fund.

When the loan is approved the check is made out to both the contractor and the homeowner. This insures that the money is used only for rehabilitation. The staff also inspects the work at regular intervals and talks with both parties to insure no special problems have arisen. Payment to the contractor is held off till after the work is completed to insure quality. In some existing programs 10 percent of the contract price is held in an escrow account for a specified period of time, generally one year, and upon a follow-up

inspection and agreement by the owner that the work is satisfactory, it is released to the contractor.³ This method helps insure quality workmanship and materials but at the same time puts a financial burden on small contractors that cannot afford to work at 90 percent payment for one year. It may also cause the contractors to bid the job at a 10 percent markup to cover their immediate expenses.

In some instances homeowners may request that they be allowed to make their own improvements to cut costs. It is recommended that unqualified owners be discouraged from doing this, especially the specialized jobs such as plumbing and electrical wiring. The mistakes, time delay and quality of work produced may more than offset the expected savings. The participating lending institutions also normally prefer to have the specialty items contracted by qualified personnel to help insure the quality of the work and the soundness of their investment.

In cases where the owner is qualified or is doing only a portion of the work, the check is made payable to the owner and the N.H.S. It is then the job of the N.H.S. to insure that the work is done correctly before releasing the payment. It is normally necessary to release portions of the payment as work progresses.

Finally, a criteria should be established for handling delinquency in payments. The general experience across the country in new rehabilitation-type projects indicates that the delinquency rate is very low, generally lower than the national average for loans of the same type. For example, Pittsburgh, Pennsylvania's

high risk fund which has been operating since 1969, had a 3.5 percent delinquency monthly payment rate by the end of 1971. It is also interesting to note that no loan has ever been written off.⁴ This has been attributed to the social pressure that is being exerted by the neighborhood as a whole and the hope of a better living environment.

The penalty for delinquency in payments should be lenient and foreclosure should occur only as a last resort. For example, in Denver, Colorado, the rehabilitation program allows an owner to miss up to three payments. If this occurs the property is offered for sale for the amount of the loan plus the expenses the sale incurs. Prior to foreclosure the financial counselor should be sent to determine why the payments are not being made. If the delinquency is justified in the judgement of the counselor he may refer it to the Loan Committee and they may determine what action to take. This can range from foreclosure to an extension or an emergency grant.

An overall object is to bring capital back into areas which have been declining and as a result, written off by local lenders (red-lined); also to produce a self-supporting fund that the lower income group of the neighborhood can turn to and be assured of assistance.

¹For example, the participating financial institutions in Pittsburgh, Pennsylvania and Seattle, Washington, have agreed to underwrite their N.H.S.'s annual total administrative costs of \$47,000 and \$60,000 respectively.

²Kansas City, Missouri, Neighborhood Housing Service; 6228 Troost Avenue.

³Kansas City, Missouri's program is specifically set up in this manner.

⁴H.U.D., Examples of Local and State Financing of Property Rehabilitation, (August, 1974), p. 54.

CHAPTER VI

ALTERNATE FINANCING METHODS

The basic structure of the rehabilitation program just outlined encompasses all aspects of a total comprehensive effort to upgrade housing, and in terms of a partnership, all the agents that are most directly affected by rehabilitation.

The initial step of selecting the area for rehabilitation and organizing the N.H.S. is the most critical. The needed expertise and experience is supplied by the participating financial institutions, local government, and affected citizens. This is especially true when dealing with the problem of the financing method to be used.

The High Risk Revolving Loan Fund has the advantages of being independent of uncertain federal funds, self-supporting, and totally controlled by the local community. Because of this, it offers the greatest flexibility in terms of funding criteria and program design. It is also easily adaptable to include federal funds should they become available to expand the program into other areas.

The major drawback is that it demands total commitment and support from each of the partners in order to be successful. For this reason several different approaches have been developed for financing rehabilitation. These approaches can be lumped into

categories dealing with loan funds and grand programs.

There are three distinct types of rehabilitation loan programs, each with a variety of variations. They are the unleveraged loan pools, loan guarantee programs, and tax exempt borrowing.¹

The unleveraged loan pools are designed to make low interest high risk loans, and are funded with public or foundation monies. A good example is the High Risk Revolving Loan Fund. Another example is the Resident Environment Assistance Loan Program in Baltimore, Maryland.² This program was funded by a two million dollar bond issue passed by the voters in 1973. The maximum loan is \$15,350 at a 6% interest and service charge rate. The term of the loan is for 20 years or 3/4 of the economic life after rehabilitation, whichever is less. The fund is not revolving in the sense that the monies are used repeatedly. When a loan is repaid, the payment then becomes part of the general city revenues. In order for the fund to be continued or enlarged the voters must approve a new bond issue.

The loan guarantee programs are also funded using public or private monies, but only to guarantee losses on loans made by local financial institutions to specified borrowers. This type program has numerous variations.

The program in Fort Worth, Texas, is an example of a method that can be used to induce financial institutions to make loans to lower income residents by using public funds to guarantee the loans.³ The city established a Loan Indemnification Fund of \$25,000 which is deposited in an interest-bearing account, on a

rotating basis, with participating financial institutions. The financial institutions, in turn, have pledged ten dollars in loans for each dollar that the fund contains, making a total of \$250,000 available for housing rehabilitation. The original \$25,000 was used to indemnify local financial institutions against capital losses on loans to lower income residents. Another example is the program established in Indianapolis, Indiana.⁴ Through the Greater Indianapolis Housing Development Corporation (GIHDC) a \$250,000 revolving loan fund was established to guarantee rehabilitation loans. Once the loan is made by the bank the GIHDC deposits, in a savings account with the bank, the guaranteed sum for the loan which can range up to 90%. By guaranteeing the loan the interest rate to the applicant is reduced.

The third type of rehabilitation loan program is tax exempt borrowing. The local government, in the form of a commission or quasi-governmental agency, takes advantage of the tax exempt status of loans made to public agencies. The funds are borrowed from financial institutions which can lend at reduced interest rates because the interest from the loan is tax exempt. The money is then used to make loans for rehabilitation. For example, in Portland, Oregon, when the federal rehabilitation grant and loan funds were withdrawn, the City of Portland, acting as the Portland Development Commission (PDC), contacted the local financial institutions for support.⁵ The interested institutions established a loan pool from which the PDC can borrow funds at 4-1/2% interest. The PDC then loans the money at 5-1/2% interest to residents in

need of financial assistance when rehabilitating. The additional 1% is charged to cover a portion of the administrative costs and to establish a reserve fund in case of default.

The final classification is the grant programs in which public funds are used in the form of direct grants to subsidize a portion or all of the cost of rehabilitation. A good example of this is the program established in Hoboken, New Jersey.⁶ The Hoboken Municipal Home Improvement Project provides outright grants for rehabilitation, varying in size, in order to reduce the effective interest rate of conventional rehabilitation loans to three percent.

A final example, and one which was designed to partially solve the problem of abandoned residential houses, is the home-steading program initiated in Baltimore, Maryland, in 1973.⁷ City owned abandoned houses that are located in viable neighborhoods and have a rehabilitation cost of less than \$15,000, are leased to interested persons for one dollar. The lessee then has two years to bring the house into conformance with the housing codes of the city. Once it has been verified by the inspectors that the house meets the codes, the title is conveyed to the lessee.

This program has the advantage of upgrading existing abandoned housing, increasing the tax base, offering housing at a reduced rate, and depending on the rehabilitation costs can be a source of housing for the low income. A possibility for bringing the program more in line with the needs of the lower income would be to offer financial assistance for the cost of rehabilitation.

Variations and combinations of these methods are now being tried by numerous cities in an effort to solve the problems of sub-standard housing. The financial system best suited for a particular city depends on the commitment and cooperation obtained from each member of the partnership, the socio-economic makeup of the area to be served, and any unique problems or characteristics. No single method will or should work for all cities. It is the responsibility of each member of the partnership to develop the best method for their particular area of concern.

Irregardless of the method of financing used, once the program begins to operate it is important to establish an evaluation system to constantly monitor the efforts. Specific area should be monitored such as the percentage of residents requesting assistance from the Housing Service; the type of assistance needed; the sources of money being used, such as private funds, banks, savings and loans, credit unions, revolving fund, and other sources; the percentage of home ownership, is it increasing or decreasing; the change in evaluation of the area; and the number and type of permits issued. This information will aid in determining the success of the program and also to point out areas for which the program needs to be adjusted.

A successful program will be signified by a high percentage of voluntary cooperation, rising property values, an influx of population, new construction, and an increase in home ownership. All of these signify a mounting trust and confidence in the program and the area.

Once the trust and confidence is re-established in an area the program can then be shifted or enlarged to take in additional areas. The N.H.S. should be reviewed as a permanent local institution providing the resources of the city government, private lenders, and contractors to neighborhoods in need of revitalization.

By creating a partnership in which each member's field of responsibility works to reassure the others of success, rehabilitation can become an important and viable means to solving the housing problems of the nation.

¹Mitchell, Maxine, "Municipal Rehabilitation Loan Fund: What Type Works Where?", (Real Estate Research Corporation, 1975), p. 5.

²Ibid.

³H.U.D., Neighborhood Preservation: A Catalog of Local Programs, (U. S. Government Printing Office, Feb. 1975), p. 201.

⁴Ibid., p. 199.

⁵Ibid., p. 195.

⁶Ibid., p. 207.

⁷Ibid., p. 153.

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AN URBAN PROCESS OF HOUSING REHABILITATION:
THE PARTNERSHIP

by

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AN ABSTRACT OF A MASTER'S REPORT

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Declining areas and their precipitating problems have been one of the major antagonists of cities since the advent of urbanization. In recent history several attempts have been made to remedy these problems, the majority of which were aimed at severely blighted areas. These programs for the most part have been initiated and devised with federal funds at the federal level, and required little support or commitment from the local government or investors. Because of this and the high monetary and social costs, new innovative programs are necessary.

It is proposed that a new approach less dependent on federal involvement and control is needed. The basic concept of such a program originated in Pittsburg, Pennsylvania, in 1968. It centers around a working partnership being formed between affected citizens, private financial institutions, and the local government to physically rehabilitate a declining area. The major strengths of this program are the facts that it is designed to be continuing in nature, independent of uncertain federal funds, and that it is a private undertaking between residents who want to improve their neighborhood and the necessary local agencies.

When establishing such a rehabilitation effort, the selection of the geographical area is critical. There are several factors which must be considered, the most important of which is the residents willingness to become involved and owner-occupied predominance. This is essential because representatives from the

area will form an integral part of the administrative organization or partnership. This organization must decide on the most effective methods of reversing the decline, which includes the makeup and enforcement procedure of the minimum housing code and the technique and criteria for financing.

The end product is designed to be a comprehensive effort which can be adapted to a particular city's situation, and which will strengthen the fiber of the neighborhood.