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BY THE COMPTROLLER GENERAL

# Report To The Congress

OF THE UNITED STATES

## Urban Homesteading: A Good Program Needing Improvement

Declining urban neighborhoods are being revived by homesteading whereby an abandoned house is given to a homesteader who must fix it up and live there for a certain number of years in order to receive title to the house.

The program holds promise but some improvements are needed.

The Department of Housing and Urban Development needs to

- identify houses difficult to homestead and decide what should be done with them,
- encourage communities to use methods proven successful,
- monitor the homesteading program,
- expand its reporting system and use the information gathered for monitoring the program, and
- stop giving away for homesteading higher value, marketable houses that are located in unblighted neighborhoods.



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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

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To the President of the Senate and the  
Speaker of the House of Representatives

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This report discusses how the Department of Housing and Urban Development is administering the urban homesteading program and the results achieved in several cities that have received houses from the Department.

We made this review because of interest in urban homesteading by the Congress, local governments, the news media, and others.

Copies of this report are being sent to the Director, Office of Management and Budget, and the Secretary of Housing and Urban Development.

A handwritten signature in black ink that reads "Elmer B. Staats".

Comptroller General  
of the United States

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D I G E S T

Abandoned houses in blighted neighborhoods are being rehabilitated through urban homesteading. The Department of Housing and Urban Development (HUD) transfers vacant houses it has acquired through foreclosure to communities. The communities, in turn, give the houses to individuals who must repair and live in them at least 3 years to become the owners.

Urban homesteading helps reduce HUD's inventory of vacant houses while providing communities with an opportunity to improve their neighborhoods. It makes homeowners out of persons who otherwise might not be able to afford to own a house.

Some communities used unique and effective approaches to homesteading houses. GAO observed homestead houses in nearly every homestead neighborhood that stood out as newly repaired and well cared for--a far cry from houses they once were.

However, six of the nine communities included in GAO's review had some houses that remained unoccupied. Many of these houses were severely deteriorated and continued to blight their neighborhoods. HUD had not developed a policy on what to do with them. (See p. 7.)

The time it took to homestead houses varied widely. Some time differences reflected the condition of the houses, the extent of needed repairs, and the difficulties in obtaining financing or contractors. Some communities had adopted methods that expedited the placing of a house with a homesteader; others used methods that took longer. (See p. 9.)

The Dallas, Texas, program was more successful than the other homesteading programs GAO studied because of its cooperation with HUD in deciding the best way to dispose of the houses; timely disposition of the houses; criteria for homesteaders to use in scheduling their rehabilitation work, and enforcement of the criteria with adjustments as needed; widespread use of self-help; and guidance provided to homesteaders. (See p. 13.)

In formulating the homesteading demonstration program, HUD instructed its field offices to work with city officials to set up a comprehensive property disposition plan for each target area. These instructions were carried out in two of the cities that were more successful in homesteading houses than other cities GAO reviewed. Cooperation can make it easier for HUD to select the best disposition method. (See p. 12.)

#### DEPARTURES FROM THE IDEAL OF HOMESTEADING

Two communities GAO reviewed had departed from the ideal of homesteading used in other communities. Freeport, New York, contracted for the rehabilitations of its houses and sold them to homesteaders at subsidized prices of \$10,000 or less. No self-help was required. The homesteaders had annual incomes of up to \$28,000. (See p. 19.) HUD continued the homesteading program in Tacoma, Washington, even though the housing market had improved. By 1979 HUD was giving away houses valued at almost \$22,000. (See p. 24.)

#### EFFECTIVE MONITORING NEEDED

Over 3 years after the demonstration began HUD was only beginning to operate an administrative reporting system and to establish a monitoring program.

Effective reporting and monitoring could have disclosed the questionable practices GAO observed. (See p. 28.)

## RECOMMENDATIONS

The Secretary of Housing and Urban Development should require:

- Departmental field offices to work with communities to (1) identify houses transferred to communities and found difficult to homestead and (2) decide what should be done with them.
- Departmental program managers to identify successful methods of homesteading and to encourage communities to use them. Successful methods include promptly selecting homesteaders, selecting alternate homesteaders, and encouraging self-help.
- Effective monitoring of the homestead program to assess the need for continuing existing local programs, identify practices in need of correction, and help local governments and HUD field offices improve administration of homesteading programs.
- An expansion of the reporting system to include all communities in the program and use this information in monitoring the program.
- A halt to giving away higher value, marketable houses in unblighted neighborhoods so that homesteading funds can be concentrated in deteriorated areas.

## AGENCY COMMENT

HUD was concerned about the methodology GAO used in making its review. HUD said the methodology would have been appropriate for reviewing an operating program, but not a demonstration program. GAO believes the matters identified needed HUD's attention regardless of whether homesteading was a demonstration or an operating program. (See p. 39.)

HUD is taking action consistent with four of the five GAO recommendations. It (1) plans to have an evaluation contractor identify successful methods of homesteading

and recommend program designs, (2) has begun to establish monitoring and reporting systems, and (3) plans to terminate a homesteading program that received higher value houses. After GAO brought the matters in this report to HUD's attention, HUD issued instructions that should help eliminate transfers of houses which could become difficult for local homesteading agencies to place. However, HUD did not commit itself to determining which cities have houses they have had difficulty homesteading and deciding what should be done with them.

HUD also did not commit itself to actively encourage local program managers to use methods found successful in other communities. GAO believes such commitments are needed to improve program effectiveness.

GAO also obtained comments from city officials in Freeport, New York, and Tacoma, Washington. (See pp. 63 and 65.)



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ABBREVIATIONS

FHA	Federal Housing Administration
GAO	General Accounting Office
HUD	Housing and Urban Development

## CHAPTER 1

### INTRODUCTION

The urban homesteading approach to revitalizing blighted neighborhoods has intrigued the public and government officials alike. The concept has been promoted as the modern version of the Homestead Act of 1862, under which land in the West was turned over at a nominal price to settlers who could become owners after farming and living on the property for 5 years. Some local governments and the Federal Government are now using a similar approach in hopes of reviving declining urban neighborhoods. An abandoned house is given to a homesteader who in return promises to fix it up and live there for a certain number of years.

The Federal urban homesteading program was established pursuant to Section 810 of the Housing and Community Development Act of 1974 (12 U.S.C. 1706e), which enacted the community development block grant program. Section 810 authorizes the Department of Housing and Urban Development (HUD) to give HUD-owned vacant and unrepaired houses to localities for use in approved urban homesteading programs. Residences of from one to four dwelling units may be included. The HUD-acquired houses transferred to localities are properties insured by HUD's Federal Housing Administration (FHA) that were foreclosed for default on mortgages. Locally owned properties may also be used in HUD-approved urban homesteading programs.

The communities in turn are to convey the houses conditionally to selected persons for a token payment, or without payment. The homesteader agrees to repair the house to bring it up to local standards and live in it for at least 3 years before receiving title. The conditional conveyance would be revoked for any important breach of the agreement by the homesteader.

### GRASS-ROOTS BEGINNINGS

The early urban homesteading programs were launched in 1973 to combat housing abandonment in the old eastern cities of Baltimore, Maryland; Philadelphia, Pennsylvania; and Wilmington, Delaware. These programs used municipally owned houses. This novel approach to urban renewal attracted a great deal of favorable publicity and widespread interest. The media have invested urban homesteading with the glamour of analogy with the homesteaders who settled the West. The media advanced the appealing notion of settlers on the "new frontier" of the cities, exhibiting traits of independence

and repairing houses using self-help, also referred to as "sweat-equity."

These same ideas were expressed in the Congress before enactment of section 810. The Congress did not envision homesteading as a cure-all, but as one of a number of approaches to the problems of housing in urban areas. The legislation was intended to expedite occupancy of abandoned houses, so as to avert further dilapidation. The belief is that a homeowner, rather than a renter or absentee owner, has the incentive to keep up the house and neighborhood and that once a homesteader fixes up an abandoned house others will become interested in further improving the neighborhood.

HUD hopes the urban homesteading program will encourage public and private investment in selected neighborhoods and will help preserve and revitalize them by moving new owners into previously abandoned houses. To assist the homesteading program, HUD has reserved funds under its Section 312 Rehabilitation Loan Program 1/ to finance the fixing up of homestead properties and other properties in the homesteading neighborhoods.

A PROGRAM THAT IS  
RUN AT THE LOCAL LEVEL

While section 810 and HUD's administrative regulations generally outlined the program, planning and administration at the community level were left to local governments. The Congress intended local bodies to run urban homesteading programs with freedom and flexibility under broad Federal guidelines.

In defining an acceptable urban homesteading program, section 810 requires local governments to provide for (1) the conditional conveyance of the property to an individual or family without any substantial consideration and (2) an equitable procedure for selecting the homesteader, giving special consideration to the recipients' need for housing and capacity to make required repairs or have them made. HUD interpreted that language as calling for a balanced consideration of both need and ability to pay for rehabilitating the homestead property. The first homesteading

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1/A Federal program which provides 3-percent interest loans for the rehabilitation of privately owned housing for occupancy by limited-income households.

programs have shown that financial capacity was most essential to the homesteaders' success.

Discussion of urban homesteading bills in the Congress showed that legislators hoped the program could help dispose of the basically sound but unmarketable houses in HUD's large inventory and help persons who could not afford to buy houses become homeowners, thereby helping to eliminate urban blight. The abandoned dwellings are dangerous because they catch fire, invite crime, and shelter disease-bearing rodents.

#### A DEMONSTRATION PROGRAM

HUD implemented section 810 as a demonstration program to test a variety of approaches to homesteading. In October 1975, out of 61 interested communities, 23 were chosen to participate. Another 16 communities were chosen in May 1977.

Communities applying for the demonstration program were required to define target areas for the local homestead program. HUD required the demonstration communities to make other efforts besides homesteading to preserve the target neighborhoods. The boundaries of a homesteading area would facilitate the focusing there of other neighborhood improvement programs. HUD selected as target areas declining neighborhoods that could be given new life because they were not severely blighted.

For each demonstration community, HUD signed an agreement with a public agency designated by the local government to operate the homesteading program. The urban homestead agreements covered the transfer of properties to local agencies for use in the homestead program. Under the agreements HUD gave the participating local governments wide latitude to try different approaches to homesteading. Each community has its own methods of selecting homesteaders, financing and arranging for rehabilitation, and managing the program. Community development block grant funds generally were used to pay for administering local homesteading programs.

In September 1977, homesteading became a permanent, nationwide program, under which communities will continue to exercise broad discretion in operating their homesteading programs. HUD considered the homesteading programs in the demonstration communities as being in a demonstration status until their 3-year agreements expired.

Urban homesteading has been a very small program. The Congress has appropriated \$55 million for the 4 fiscal years 1976-79. The money was provided to reimburse the FHA

insurance fund for the estimated value of the foreclosed properties transferred to communities for homesteading.

HUD did not request funds for fiscal year 1980 because it plans to use remaining funds from the \$55 million previously appropriated. With the funds remaining HUD estimates that 2,500 to 3,200 houses, having a value of \$20 million to \$23.6 million, will be transferred to local governments during fiscal year 1980.

By March 13, 1979, the 39 demonstration communities had received 3,193 properties from HUD, had selected 2,536 homesteaders, had conditionally conveyed 2,198 properties to homesteaders, and had 1,732 homestead families in residence, of whom 1,241 had finished their rehabilitation. By May 22, 1979, 45 communities were operating HUD-approved homesteading programs. As of June 30, 1979, HUD had used \$18.3 million of the \$55 million appropriated by the Congress.

#### SCOPE OF REVIEW

We discussed the urban homesteading program with officials at HUD headquarters in Washington, D.C., and at HUD area offices in Baltimore, Maryland; Dallas, Texas; New York, New York; Philadelphia, Pennsylvania; and Seattle, Washington. We obtained information about the urban homesteading programs of Baltimore, Philadelphia, and Dallas; Freeport, Islip, Hempstead, Nassau County, and New York, New York; Tacoma, Washington; and Wilmington, Delaware.

In Baltimore, Dallas, Freeport, Nassau County, Tacoma, and Wilmington review work was done at the community homestead offices where we examined pertinent records, interviewed local officials, and visited homestead neighborhoods. We analyzed the records about a number of homestead properties in each community, looked at some houses inside and out, and met a number of homesteaders. For the Islip, Hempstead, and New York City programs we limited our work to interviewing local officials or touring the homestead neighborhoods.

In Philadelphia, we limited our work to examining HUD records and touring the homestead neighborhoods because program operations were suspended in December 1978 when several program administrators were charged with irregularities and the records were impounded.

We selected the communities to obtain a cross section of the homesteading demonstration program. These communities had received 1,124 of the 3,193 houses HUD had provided for

homesteading through March 13, 1979. We statistically selected 70 houses in 6 of the communities for detailed analysis. In addition, we made limited tests on other houses which HUD had provided.

Baltimore, Philadelphia, and Wilmington were picked because they were the forerunners in the homesteading movement. They had been homesteading houses before passage of the 1974 act. These cities had large stocks of solidly built masonry row houses believed worthy of restoration, and also difficult to demolish.

The Dallas homestead program was chosen because of its large number of small, detached post-1945 houses that were being acquired and repaired at low cost. We selected Tacoma because, compared with the other demonstration homestead programs, it was using the newest, most highly valued houses. Freeport was reviewed because of its policy of rehabilitating houses without self-help by the homesteader. Nassau County was selected to represent the second group of communities added to the demonstration.

At the time we made our review, HUD's Office of Inspector General had not yet made any reviews of the urban homesteading program.

## CHAPTER 2

### ACHIEVEMENTS AND SHORTCOMINGS

The homesteading program has helped to reduce HUD's inventory of vacant houses while providing communities an opportunity to renovate houses in a timely manner. Some homesteaders, by doing work themselves, have been able to rehabilitate houses at lower costs than would have been possible through the sole use of contracting.

Homesteading has been popular with local officials and with homesteaders. It is making homeowners out of persons who perhaps could not have afforded to own a house otherwise. The minimum 3-year residency requirement means that the house goes to an owner-occupant rather than an absentee owner, at least for a few years. A rehabilitated house occupied by a homesteader is a visible symbol that may stimulate further rehabilitation in the neighborhood.

We saw homestead houses in nearly every target area that stood out as a positive influence on the neighborhood. Some communities have adopted unique and effective approaches to carry out their homestead programs. Some abandoned houses were rehabilitated economically and in a timely manner, thereby eliminating a blighting influence and encouraging neighbors in turn to work to improve the area.

On the other hand, our review revealed instances where the homesteading program has not achieved intended results. Some houses transferred to communities have not been homesteaded and continue to blight the neighborhoods or costly approaches for homesteading the houses were used. Also, of the local homestead agencies that we reviewed, only those in Dallas and Wilmington strongly emphasized the self-help approach that intrigued the Congress and the media at the time that the law was passed.

We believe that urban homesteading should be continued and expanded to other communities. However, it should be remembered that urban homesteading is a small program with a potential that is somewhat limited by the size and location of the HUD inventory. HUD's inventory of single-family houses was over 75,000 in August 1974 when the Congress enacted section 810 to provide for the Federal homesteading program. Since then, the number has diminished significantly, numbering less than 24,000 by May 1979.



IMPROVEMENTS ARE NEEDED IN  
HOMESTEADING PROGRAMS

In the eight communities we visited where HUD had provided houses for homesteading we saw instances of rehabilitated homestead houses that had benefited the neighborhood. On the other hand, we found practices that should be changed to make the homesteading program more successful.

Disposition plan needed for  
houses difficult to homestead

Six of the nine communities we obtained data on had accepted HUD houses that turned out to be difficult to homestead and have remained unoccupied. Many of the houses were boarded and continued to blight the target neighborhoods. For many no rehabilitation efforts were underway.

Baltimore, Islip, Freeport, Nassau County, New York City, and Philadelphia had accumulated a backlog of houses that had not been placed with homesteaders. Over half of the houses had been transferred to the communities for homesteading before December 31, 1977--more than a year before our review of these homestead programs.

Freeport officials considered 6 of the 63 houses acquired from HUD were no longer suitable for homesteading. We were told that several of the houses, which could not be placed with homesteaders because of their poor condition, were slated for demolition. Questioned as to whether demolition of houses was permissible under the homestead program, an official said he would check with the HUD New York area office before destroying the houses. Subsequently, Freeport arranged with HUD to transfer five houses to another program so that they could be torn down.

In Nassau County, New York, 26 of the 38 houses acquired from HUD through March 15, 1979, had been held by the county almost 1 year and were still vacant. Most had been offered for homesteading, but aroused no interest because of their severely deteriorated condition, the poor neighborhood conditions, or the high property taxes. Prospective homesteaders had selected other houses needing fewer repairs at lesser expense.

Nassau County officials said there were no prospects for giving away some of the houses. In the future they intend to reject severely deteriorated houses offered by HUD and accept only those houses in good enough condition to be attractive to prospective homesteaders and that

could be homesteaded quickly. Meanwhile, those in poor condition remained a blight on the neighborhood.

In New York City, program officials had not been able to place 9 of the 29 houses acquired from HUD. The city had offered these houses twice but no one would take them. The nine houses were so dilapidated that the estimated cost of repairing any of them would exceed the rehabilitated value, according to city officials. Homesteaders did not want to get themselves into such a situation and banks did not want to provide financing. City officials plan to try once more to place the 9 houses with homesteaders and to acquire about 18 more HUD houses for homesteading.

New York City's problems with these hard-to-place houses started with the program's inception and were described in the Urban Homesteading Catalog issued under HUD's auspices in August 1977. At the time of our review, HUD had not taken any action to help the city with these nine houses.

By September 30, 1978, Philadelphia had acquired 349 houses for homesteading. In February and March 1979 we inspected the four target neighborhoods in the city and found that 234 of the houses were not occupied and 3 had been demolished.

We could not discuss this situation with Philadelphia officials because the program was suspended in December 1978. However, HUD's records showed that houses still vacant had been acquired throughout the demonstration program. For example, 11 of the still-vacant houses were transferred to the city at the beginning of the program in March 1976.

HUD prepared inspection reports on the houses transferred to Philadelphia for homesteading before ownership passed to the city. Our review of several of these reports showed that some houses were so decayed that one might conclude from the descriptions that they were not suitable for homesteading and should not have been brought into the program. For example, a HUD report prepared in November 1975 about the inspection of one house said that it was in extremely poor condition: the bath, half the floors, and the kitchen ceiling had been ripped out; the front porch had rotted; and the roof leaked. The inspector said that to repair the building was not feasible; that repairs would cost \$12,000 but that the rehabilitated house would be worth only \$9,000. The house was transferred to Philadelphia for homesteading on March 10, 1976. When we inspected the neighborhood in February 1979, the house was still boarded.

In another instance, a HUD inspector reported in December 1975 on a frame house covered with cement stucco. The report said that the first and second floors were damp and the house was in very poor condition. The inspector said that it was not feasible to repair the house, estimating that renovation would cost \$8,800 and that the house would be worth \$7,900 after repair. When we toured the neighborhood in February 1979 we found that the house had been demolished.

HUD officials in Washington had not expected problems to arise with the disposal of very dilapidated houses because local homestead officials were expected to select the houses that they wanted for homesteading. The HUD officials told us that they had been able to handle on a case-by-case basis the instances of hard-to-place houses that had arisen in a couple of communities. HUD headquarters officials were not aware of the continuing problems that had existed with severely decayed houses in the cities of New York and Philadelphia and in other communities that we visited.

Some of these houses appear to have deteriorated beyond the point where rehabilitation is worthwhile. Demolition, rather than homesteading, may be the best approach to take. Demolition can be very effective for reversing urban blight as it removes an eyesore and an attraction for vandals. The money that would be used to rehabilitate a house uneconomical to repair is kept available for more effective use elsewhere. The vacant lot that remains ultimately may attract new construction.

We recognize that the detached houses characteristic of the homestead neighborhoods of Dallas and Tacoma are much easier to demolish than are the masonry row houses of Baltimore, Philadelphia, and Wilmington. However, detached houses are common to many homestead communities.

HUD has no policy on what communities should do with the houses that are difficult to homestead. We believe HUD, together with the communities, should plan how to dispose of these hard-to-place houses. In some cases different approaches to renovation might succeed; in other cases transfer of the properties to other programs for renovation or demolition might succeed.

Need to reduce the time  
used to homestead houses

HUD, community homesteading officials, and others concerned about abandoned houses in urban areas have emphasized the importance of reoccupying houses in the shortest possible time to reduce vandalism and deterioration and to

eliminate the blighting influence of a vacant house. The community homesteading programs that we reviewed varied widely as to the time it took to homestead the houses provided by HUD. In part, the differences in elapsed time reflected the condition of the houses acquired and the extent of needed repairs, as well as difficulties in obtaining financing or contractors. However, some communities used procedures that shortened the time used in placing houses with homesteaders.

Our analysis of 10 houses selected randomly in Baltimore, Dallas, Freeport, Nassau County, Tacoma, and Wilmington and 20 houses in Dallas showed that the Dallas and Tacoma homestead programs were the most successful in achieving the occupancy of homestead houses. In the other communities, a larger proportion of the houses were not yet occupied at the time of our review. For those that were occupied, the rehabilitation had taken longer. For example, in Baltimore 6 of the 10 houses we selected for analysis were not occupied in June 1979 when we visited the target neighborhood. The six unoccupied Baltimore houses in our sample were acquired by HUD between April 1976 and September 1977. Between June 1977 and December 1977 the city told HUD it would accept the houses for homesteading. For two of the six houses rehabilitation work had not yet even begun.

One of the houses in our sample, for instance, was acquired by HUD September 3, 1976, and on December 27, 1976, HUD offered the house to Baltimore for homesteading. The city notified HUD January 10, 1977, that it would accept the property and title was transferred to Baltimore April 10, 1977. On October 16, 1977, Baltimore advertised the house as available for homesteading. Applications were taken, a lottery was held, and by December 13, 1977, a homesteader was selected. A loan through a city-operated program was approved March 16, 1978. Construction to rehabilitate the house, at a cost of \$16,275, began June 30, 1978. The homestead family moved into the house in December 1978. By then over 2 years had elapsed since HUD had acquired the property, with the house remaining vacant during that time.

In Freeport, we observed that, as of March 31, 1979, seven houses acquired 27 to 36 months earlier were still vacant. One had suffered severe fire damage and village officials wanted to transfer it to another HUD program. The other six were still vacant because they were in unattractive areas, very small, or had not been selected by anyone.

Similar difficulties were noted in most of the other homestead programs under review. In contrast, it was not uncommon for homestead houses in Dallas and Tacoma to be reoccupied within a year after HUD acquired them.

In all the communities we studied except Dallas, homesteaders generally were not selected until after property title had passed from HUD to the community. Dallas did not wait for transfer-of-title before selecting homesteaders. This difference in scheduling appears to be related to the fact that Dallas took an average of 124 days to place houses with homesteaders while Baltimore, Freeport, Tacoma, and Wilmington used from 189 to 488 days on the average to select their homesteaders. The time used by individual communities was as follows:

<u>Homestead program</u>	<u>Average number days</u>	
	<u>From HUD offer to homesteader selection</u>	<u>More than Dallas average</u>
Baltimore	287	163
Freeport	488	364
Tacoma	189	65
Wilmington	306	182

Dallas, New York City, and Tacoma were selecting more than one homesteader applicant for each house offered, to provide alternates to call on if the first homesteader did not or would not rehabilitate the house as required by the community homestead program. Alternates were resorted to in several instances. Having alternate names to draw upon enabled communities to get their houses reoccupied in less time and with less administrative effort than would have been needed if the selection process had to begin anew.

In Tacoma for example, after names are selected for each of the houses available at the time of the annual lottery, some more names are drawn as alternate winners. The alternates provide a pool of homesteaders to draw from if HUD should offer more houses during the year. According to Tacoma officials, the alternate system eliminated the need to hold properties vacant or to hold costly second and third lotteries during the year. The result is that properties are transferred to homesteaders faster and program officials are not bogged down with administering lottery applications and screening applicants. Of the 10 houses we selected for analysis in Tacoma, 3 were awarded to alternate homesteaders. It took an average of 58 days to place the houses with alternate homesteaders as compared with 79 days for houses awarded through the lotteries.

Comprehensive disposition of houses--  
a good plan not adequately pursued

In November 1975 while formulating the homesteading demonstration program, HUD sent instructions to its field offices requiring them to work with community officials to set up a Comprehensive Property Disposition Program for each homestead target area. The HUD field offices and the communities were to agree on an appropriate disposition technique for each property. These instructions were not thoroughly carried out. In only two of the homestead programs in our review--Dallas and Tacoma--did local homestead officials work closely and consistently with the HUD field office to develop a comprehensive disposition plan for each available house.

The agreements between HUD and the homestead communities generally gave local officials a voice in the disposition of properties which were in the target area. The urban homesteading agreement between HUD and Tacoma specified guidelines for a comprehensive property disposition program in line with the HUD instructions. The agreement stated that HUD was to dispose of its properties in the Tacoma homestead target areas so as to best further the city's objectives for those areas. As HUD acquired any properties it was to consult with the city and agree on how to dispose of the house according to the following guidelines:

- 1.) Houses needing little or no repair were to be sold as is.
- 2.) Houses needing substantial repairs would:
  - First be considered for homesteading.
  - Next be considered for transfer to the city under the Property Release Option Program.  
(These would be houses of very low value.)
  - If unsuitable for either homesteading or transfer under property release, the houses would be repaired and sold, if possible.
  - If repairs were not feasible, then demolition would be considered.

Dallas homestead officials and the HUD field office there followed a similar cooperative procedure, although it was not spelled out so specifically in the Dallas homesteading agreement. The cooperative arrangement has proved

valuable in practice. It provided for orderly and prompt disposition of each house acquired, after thorough consideration. Both HUD and the city worked together to decide on the disposition method that would be best for the homestead neighborhood and for HUD. The close working relationship that existed in Dallas between HUD and city homestead officials is one factor in the success of Dallas' homesteading program.

While the Dallas and Tacoma programs worked closely with the HUD field offices, HUD's relationship in other homesteading communities was not so consistently maintained. For example, when Wilmington rejected HUD properties for homesteading, the city sometimes explained why and sometimes made no comment. Wilmington officials sometimes made informal suggestions for disposal of the properties that they had declined, according to HUD field office officials in Philadelphia.

A close working relationship benefits HUD, the homestead communities, and potential homeowners. Homestead officials first inspect the properties that HUD offers. Thus they are often able to comment on the condition of the house and suggest an appropriate disposition. Such cooperation would make it easier for HUD to select the disposition method most advantageous to the community and to HUD and could provide for the timely disposition of houses with corresponding improvement to the neighborhood. Under HUD regulations, effective January 1979, for the permanent homesteading program, HUD is to develop a comprehensive plan for each homestead target area.

#### DALLAS--A PROGRAM THAT WORKS

Of the programs we reviewed, Dallas was the most successful in homesteading houses in a timely and cost-effective manner. The houses Dallas acquired from HUD were among the lowest in value of all houses in the demonstration program. Its rehabilitations were performed quicker and at lower costs than those in the other programs we reviewed. By March 13, 1979, Dallas had homesteaders living in 311 houses provided by HUD--more than any other community in the program.

Dallas was one of the 23 communities selected by HUD in 1975 to participate in the 3-year urban homesteading demonstration program. Dallas entered into its contract with HUD on December 17, 1975. At the time of its application there were about 150 HUD-owned repossessed houses in the target area--the highest concentration of such houses in Dallas.

Within the target area there were about 7,500 housing units. Some 68 percent of these were single-family houses, many similar in size to those shown on the following page. Vacancy rates in the target area had been rising and by April 1974 about 10 percent of the houses were vacant.

The city considered that houses valued between \$2,500 and \$10,000 would be suitable for homesteading. About 100 of the 150 then available were believed suitable for homesteading. Houses of lower values were to be excluded because the level of deterioration would make rehabilitation too costly for either the city or the homesteaders. The more valuable houses were to be excluded to increase the number of homestead houses to a level that could be handled with anticipated homestead funds.

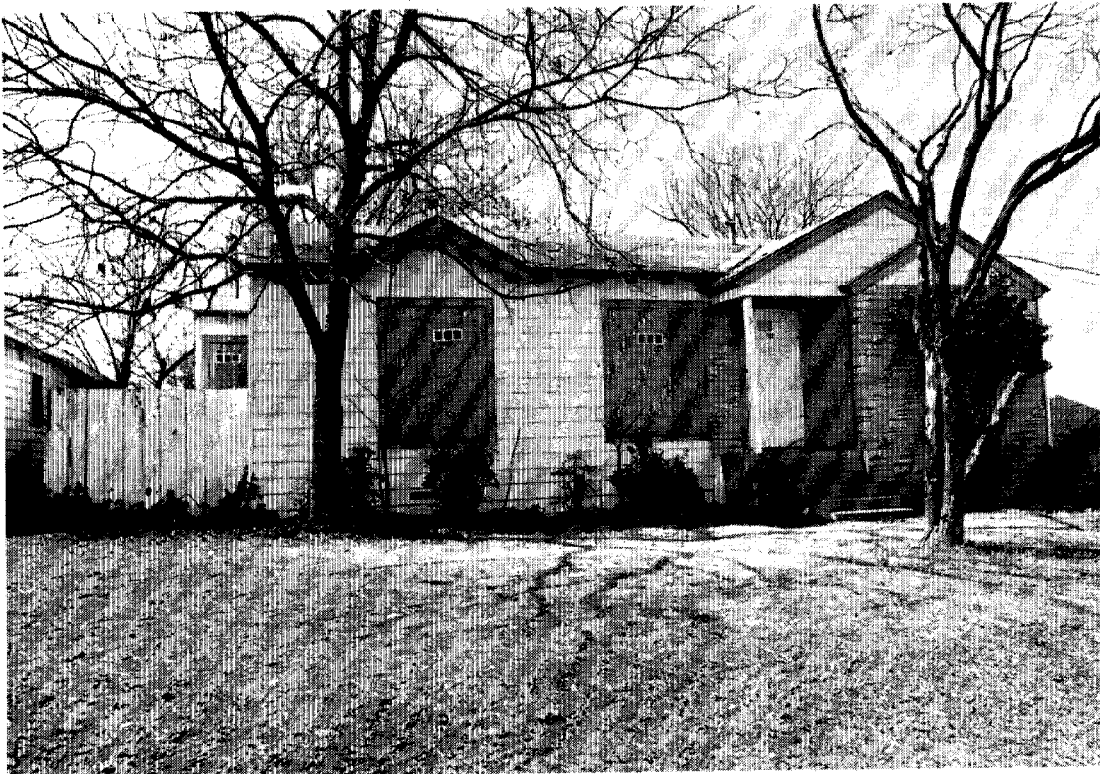
The contract provided that HUD was to offer Dallas all HUD-owned houses in the target area. The contract also provided that HUD and the city would establish a comprehensive disposition program for these houses and those to be acquired during the contract period. The comprehensive disposition program was to lend support to the city's overall program for improvements in the target area. Various HUD property disposition programs and techniques could be used--not just homesteading.

In carrying out the homesteading demonstration, HUD offered Dallas the houses in batches because the city liked to process homestead applications and placements in batches of about 30 houses. HUD also informally advised the city about houses as they were acquired.

The city promptly inspected each house offered, and preliminary work write-ups and cost estimates were made. Basically sound houses needing repairs estimated at \$1,000 to \$7,000 were selected for homesteading. Houses considered in too good condition were turned back to HUD with a recommendation as to how they should be disposed of. Houses so deteriorated that repair was believed uneconomical were turned back to HUD with a recommendation that they be demolished. Dallas officials told us that before they rejected a house for homesteading, they always discussed it with HUD personnel so all agreed on what to do with the house.

As of September 30, 1978, HUD had offered Dallas 419 properties in the target areas. Of these, 340 were transferred to the city for homesteading and 79 were not. Of 37 not used for homesteading that we selected for analysis:





Source city of Dallas, Texas

**HOMESTEAD HOUSE IN DALLAS, TEXAS, BEFORE REHABILITATION.**



**SAME HOUSE AFTER REHABILITATION.**

--Seven were considered to be in too good condition, needing only minimum repairs. HUD subsequently sold these at prices between \$9,501 and \$23,551.

--Twenty-two were considered to be in too poor condition. The city recommended demolition, and HUD usually demolished these houses within 8 weeks after the city's recommendation.

--Six were rejected because they were outside the target area.

--Two were not accepted because HUD withdrew the offer or the structure was not eligible because of size.

HUD followed Dallas' recommendation in all instances but one. The city and HUD later agreed to include this house in the homesteading program, instead of demolishing it as the city had recommended.

Dallas' homesteading program was designed for fast placement of houses with homesteaders. Soon after the houses were selected for homesteading, fliers were printed and mailed to a constantly updated mailing list. These fliers told interested persons where the houses were located and when they would be open to the public for inspection. Information was included about the size of each house, the approximate repair cost, and the minimum income needed to qualify. Wide publicity about houses available for homesteading was arranged through announcements to the press and radio and television stations, and by publication of legal notices. Interested homesteaders were required to apply within 8 days of the open house.

Dallas used a lottery to award houses to homesteaders. Through November 30, 1978, the city held 11 lotteries. Only those with the financial ability to rehabilitate and maintain the houses were included in the lottery, which provided for selecting one winner and two alternates for each house. Alternates were picked to help ensure quick placement of the house. If the winner did not take the house, or otherwise comply with program requirements, the house would be offered to an alternate. We observed several instances where an alternate homesteader was given the house.

Soon after the lotteries were held, city personnel met with the awardees to plan for renovating the houses. The city required that homesteaders bring the houses up to minimum code standards before moving in. It tried to have the houses occupied within 90 days after the award. Longer periods were allowed for some persons who contracted for the

repairs because of the time needed to obtain bids from contractors and to process loan applications.

Records relating to 20 of the 340 houses accepted by Dallas through September 30, 1978, that we randomly selected, showed that 15 of them were occupied within about 90 days after the award. Homesteader withdrawals or problems with contractors or bank financing delayed occupancy of the other five houses. However, all of these were occupied at the time of our review, taking an average of 273 days.

Interviews with homesteaders in 18 of the 20 houses in our sample showed that they did much of the renovation themselves. Contractors were employed for plumbing, heating, electrical work, and some other repairs. The city had developed a program to teach homesteaders about making repairs. City personnel visited the houses several times to inspect the progress of rehabilitation.

On the average, the 18 homesteaders estimated they had spent \$2,348 rehabilitating their houses. The amounts ranged from \$253 to \$8,600. The actual expenditures were considerably lower than the average of \$4,707 estimated by HUD for repair of these houses.

City officials estimated that 80 percent of the homesteaders rehabilitated their houses themselves and that the remaining 20 percent of the homesteaders contracted through the city. The officials estimated that repairs by the homesteader cost about one-half of the contract price for the same repairs. They believed that self-help is essential to the program's success because homesteaders who do their own work tend to take more pride in their houses, are less prone to abuse the properties, and will make more permanent residents, compared with homesteaders who do not do their own work.

Fifteen homesteaders commented to us on other improvements made by their neighbors, expressing a general feeling that the condition of the neighborhood was stabilizing or improving. The improvements mentioned included painting, house remodeling, new aluminum siding on houses, and new sidewalks. Several homesteaders reported changes in attitudes and less vandalism in the neighborhood.

Dallas officials told us that the homesteading program had succeeded in stimulating improvement of the neighborhood. They believed that, on the average, two houses per block were upgraded because a homestead house was improved. They further believed homesteading had contributed to the stability of the neighborhoods because it increased the proportion

of owner occupied housing and reduced the number of abandoned houses.

Our review showed that the Dallas program

- has reduced the inventory of HUD-owned abandoned houses in the target area;
- provided a mechanism for returning HUD-acquired houses quickly to occupancy;
- removed the blighting influence of abandoned houses from the neighborhood;
- appears to reduce the costs of rehabilitating houses; and
- appears to be influencing neighbors to make improvements.

The success of the program may be attributed in part to

- the cooperation between HUD and the city in deciding the best way to dispose of the houses;
- timely disposition of the HUD-acquired houses;
- criteria for homesteaders to use in scheduling their rehabilitation work, and enforcement of the criteria with adjustments as needed;
- widespread use of self-help; and
- guidance provided to homesteaders.

## CHAPTER 3

### DEPARTURES FROM THE IDEAL OF HOMESTEADING

As noted, the urban homestead program was intended to help preserve declining neighborhoods by moving new owners into previously abandoned houses, thereby combating blight. The Congress saw the program as a means to help HUD dispose of houses it owned that were difficult to sell, and in the process help persons who could not afford to buy houses by providing them with the opportunity to rehabilitate houses through their own efforts.

In two of the demonstration communities that we visited--Freeport and Tacoma--the programs have departed from the ideal of homesteading. In Freeport, rehabilitated houses were sold to homesteaders for no more than \$10,000, rather than given away in an unrepaired state. The sacrifices of repairing the houses and even bearing the full costs of rehabilitation were absent from the Freeport program. The approach was tested in the belief contracting would be faster than self-help, and that limiting the sales price to \$10,000 would benefit moderate-income persons. As operated, the Freeport program did not rehabilitate the houses quickly and the recipients had annual incomes of up to \$28,000.

HUD and city officials told us that cycling of the Tacoma economy from depression to prosperity helped upgrade the homestead neighborhoods. The dilapidated houses that had languished in HUD's inventory for some years have all been disposed of, and the few houses now being foreclosed apparently are salable on the current market. There no longer is a need to give them away through homesteading.

We believe the giving to communities of higher value houses in good condition will generally not be warranted. The moneys used for these houses could better be used in other communities where more blight and deterioration are present. Also the continued selling of completely rehabilitated houses at costs far below their market value should be stopped.

#### FREEPORT--A COSTLY WAY TO HOMESTEAD

The Village of Freeport, New York, chose to contract out the rehabilitation of homestead houses and did not permit homesteaders to do their own work on major repairs. The village adopted this approach in the belief that contractors could finish repairs faster than homesteaders could, thereby speeding up improvement of the target neighborhood.

Freeport officials believed its approach would be an effective way of restoring the target area to sound health. The 600-acre target area is primarily residential consisting mostly of single-family, detached houses. Through March 31, 1979, Freeport had acquired 63 houses from HUD. Five of these were returned because they were not suitable for homesteading. The remaining 58 houses had a value of \$606,655, after deducting the estimated costs that HUD would have incurred to maintain and sell them through its other programs for disposition of houses.

The \$8,644 median value of the houses transferred to Freeport as of April 1, 1978, was the third highest of the 23 communities in the first phase of the demonstration program, and was 81 percent greater than the average median value of \$4,778 for all houses transferred to the 23 communities. We visited the Freeport homestead target area and saw that the rehabilitated houses were mainly of good appearance. However, average repair costs were \$1,800 to \$13,000 higher than the rehabilitated houses we studied in Baltimore, Dallas, Nassau County, Tacoma, and Wilmington.

According to cost information we obtained from Freeport officials, the cost of handling and repairing each of the 28 occupied homestead houses was about \$18,300. Homesteaders were charged an average of \$9,849 for each house while \$236,624 in community development block grant funds were used, an average of \$8,451 for each of the houses.

We observed in Dallas and Tacoma that it was much more expensive to rehabilitate houses solely through contractors than through self-help. In Dallas we obtained data on the repair costs for 18 randomly selected houses. Two of these were repaired by contractors at an average cost of \$5,450 each. The 16 which were rehabilitated mostly by the homesteaders cost an average \$1,950.

In Tacoma, 4 of the 10 houses we randomly selected for analysis were fixed up by the homesteaders, at an average cost of \$3,312. For the six houses where contractors were employed, the average cost was \$10,610.

HUD issued a report in October 1978 showing that of 116 homestead houses studied in 7 of the demonstration cities self-help resulted in an average savings of \$1,531 per property. Eighty-five percent of these savings was attributable to avoiding contractor labor costs and 15 percent was attributable to savings in the costs of materials.



**FREEPORT, NEW YORK, HOUSE BEFORE REHABILITATION.**

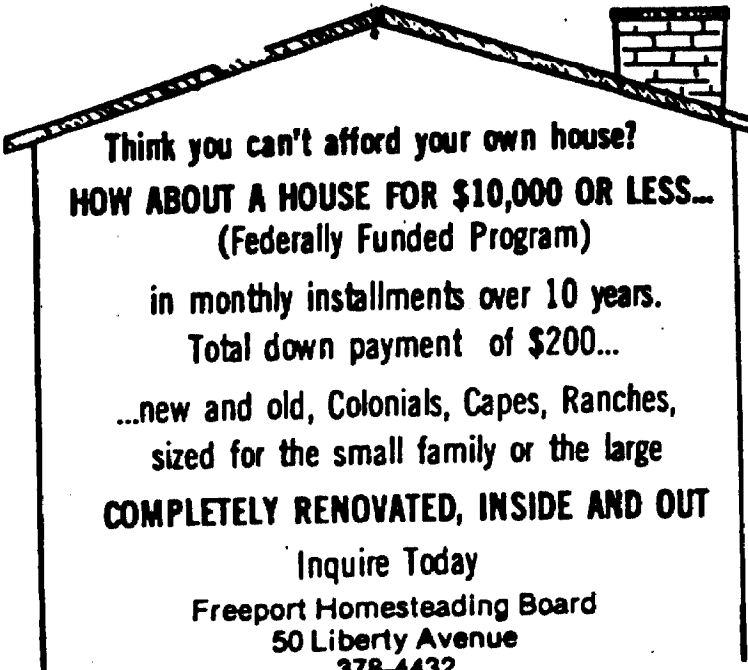


**REHABILITATED FREEPORT HOMESTEAD HOUSE.**

It can be misleading to compare rehabilitation costs in different communities because of such variables as condition and size of the houses, labor costs, and local code requirements. However, it appears that heavy reliance on contracting caused Freeport's rehabilitation costs to be higher than they would have been if some self-help had been allowed.

Freeport used a unique method of financing rehabilitation of houses. It paid all costs for repairing each homestead house, plus other costs, out of its community development block grant. Homesteaders were charged \$10,000 or the cost of rehabilitating their houses, whichever was less, for the rehabilitated houses. Homesteaders' payments were deposited in Freeport's community development block grant account to offset the costs which had been paid.

For \$10,000 or less the homesteaders received rehabilitated houses with average market value of about \$20,000 to \$25,000. They were left with the responsibility of fixing the grounds, painting and papering of walls, and finishing the floors. Homesteaders could do optional, cosmetic work on their houses after occupancy. Homesteaders were not permitted to work on their houses until they moved in.



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Some homesteaders received a good bargain relative to their incomes. By May 1977 the mean household income of Freeport homesteaders was about \$22,000, the second highest of all homesteaders participating in the program and well above the \$12,560 mean income of all homestead households in the United States.

The 28 homesteaders occupying Freeport's homestead houses through January 1979 had annual incomes ranging from \$11,520 to \$28,000. Freeport has estimated that homesteaders will incur carrying charges on their houses which, with repayment of the \$10,000, taxes, and utilities, averages out to approximately \$325 monthly. According to the standard of 25 percent of gross income--used by HUD in some of its other housing programs--an annual income of \$15,600 would be needed to support the average Freeport house. Our review showed that of the 28 homesteaders who were occupying houses in Freeport, 18 had annual incomes over \$15,600.

We discussed with HUD officials Freeport's spending of community development block grant funds on persons of these incomes. We were told that Freeport may legally spend the block grant funds to assist persons with better than moderate incomes, but that such use of the funds might be considered unreasonable because the law says that the funds are intended principally to help persons of low and moderate income.

Rehabilitation of houses under contract and providing them to persons at subsidized prices should be stopped. It does not embody the self-help concept of homesteading often expressed by Members of Congress and others. The program should be modified to use less costly methods or HUD should dispose of houses in Freeport through other less costly disposition programs.

#### Freeport's comments to our draft report

Responding to our draft report on the Freeport homesteading program (see app. II), the village noted that most of the incomes of the homesteaders reflect both the husband and wife working and that the median level is somewhat misleading in view of the high-cost area in which Freeport is located.

We observed during our review that other communities, too, had families in which both the husband and wife worked. However, our concern about the Freeport program stemmed from its overall approach to homesteading, not with the incomes alone. We concluded after reviewing the program that the subsidizing of homesteaders' rehabilitation costs, regardless of ability to pay; the prohibiting of self-help, which

tended to increase rehabilitation costs; and the average high-level of incomes, made the Freeport program more costly in Government funds than it needed to be.

#### TACOMA--A HOMESTEADING PROGRAM NO LONGER NEEDED

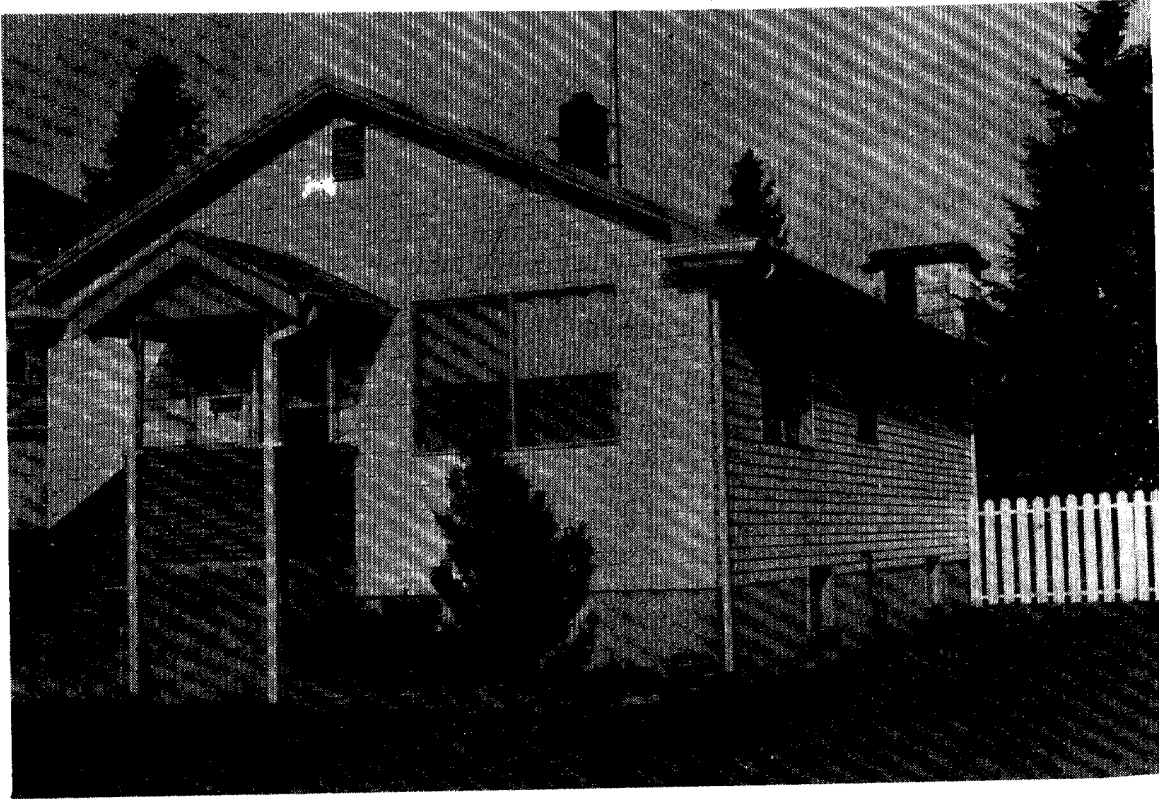
Housing demand in Tacoma has picked up considerably since the local homesteading demonstration program began in December 1975. The Boeing Company, the major employer in the area, discharged about 75,000 employees in 1971, touching off a severe decline between 1972 and 1975 in the Tacoma housing market. Recovery began about 1975 or 1976 and has continued ever since. A Tacoma homestead official said in May 1979 that because of the current housing market, HUD is not acquiring many houses and those that are acquired have high values.

When we visited the Tacoma target neighborhoods in January 1979, we found them unblighted. We saw only a few vacant houses in the homestead areas. Houses similar to those shown on the following page were common in the Tacoma homestead target areas.

Throughout the target areas we observed improvements to houses. Some of the improvements had been made with section 312 loans provided by HUD. Our examination of seven randomly selected rehabilitated Tacoma homestead houses showed them generally to be structurally sound and of good appearance. Tacoma homestead officials said the target neighborhoods have improved considerably over the last few years and are now stabilized. HUD officials at the Seattle area office believed that some of the houses given to Tacoma for homesteading could have been sold easily.

Of all the houses given to the 23 communities in the demonstration program, those in Tacoma had the highest average values. As the demonstration progressed, the values of the houses transferred went up considerably. During the first year of the demonstration, 16 of the houses transferred had an average value of \$10,584 after deducting the estimated costs that would have been incurred if HUD had disposed of the houses through its regular programs. During the second year the 24 houses transferred had an average value of \$13,882, and the 12 houses transferred during the third year had an average value of \$18,781. Four houses acquired from HUD by Tacoma by June 18, 1979, had an average value of \$21,750.

Under regulations effective in January 1979 for the permanent homesteading program, single-unit houses with a



**REHABILITATED TACOMA, WASHINGTON, HOMESTEAD HOUSE.**



**SAME HOUSE SHOWN WITH SURROUNDING HOUSES.**

value of more than \$15,000 (after deducting the estimated costs of continued care and handling HUD would incur if it retained ownership of the houses) are no longer to be offered to communities for homesteading. HUD may waive the limitation when believed justified. HUD and Tacoma officials told us they believed it would be necessary to waive the \$15,000 limitation in order to continue providing houses to Tacoma. They did not expect that many houses becoming available in the future would be worth less than \$15,000.

Through June 20, 1979, HUD had allocated \$930,000 to Tacoma for acquiring houses for homesteading. In January 1979 HUD entered into a new agreement with Tacoma extending the urban homestead program to December 8, 1979. No more funds were provided, but the \$193,400 unused from previous allocations was to remain available. By May 9, 1979, that sum had been reduced to \$106,400 after acquiring four more houses. In May 1979 a Tacoma homestead official told us the city would like to receive about four more houses at a probable average value of \$25,000 to use up the remaining funds.

On February 16, 1979, we discussed the high value and good condition of the houses being used for the program with a HUD official. We discussed whether the funds then available to Tacoma for homesteading should be reallocated to other communities where blight and deterioration were present. The official took the position that since Tacoma's selection criteria provided for giving the houses to persons of lower income who might otherwise not be able to own a home, the program is worthy of continuing, particularly in view of the soaring costs of housing in the Tacoma area.

We disagree with the view that homesteading should be continued solely on the ground that it is providing houses to those who might otherwise be excluded from the housing market. The primary objective of the homestead program is to rehabilitate neighborhoods that are becoming blighted, using HUD-owned vacant houses as a catalyst. While income is a factor that is to be considered in awarding the houses to homesteaders, the giving away of HUD-owned houses in unblighted neighborhoods, even though to persons of low income, does not appear to be the best use of the limited homestead program funds.

We believe the giving away of HUD-owned houses for homesteading should generally be confined to deteriorated

neighborhoods where the values of the HUD-owned vacant houses are low. The giving away of high-value houses in unblighted neighborhoods is an unwarranted departure from the concept of homesteading.

#### Tacoma's comments and our evaluation

After reading our draft report on the Tacoma homesteading program (see app. III), city officials said that the homestead target areas met the Washington State definition of blight and the city plans to continue spending money to preserve and upgrade these areas.

Our comments on the unblighted conditions of the Tacoma target neighborhoods were made relative to the conditions in other homestead target areas we reviewed. While it may be worthwhile for the city of Tacoma to continue preservation efforts in the target areas, we concluded that in view of the high values and marketability of the HUD inventory of houses in these target areas, the homestead program was no longer needed there.

The city also said that HUD elected to convey the houses to Tacoma based on the apparent inability to find people willing to purchase the homes and the belief that having the homes owned, occupied, and brought up to code was preferred over other alternatives. The city also said that if the homes had not been given for homesteading, they would have continued to remain unoccupied and subject to vandalism and further deterioration and would adversely affect the neighborhoods.

As we discussed in this chapter, housing demand picked up considerably after the Tacoma homesteading demonstration began in December 1975. While the houses provided during the early phases of the Tacoma homesteading program quite likely would have continued to remain unoccupied and subject to vandalism if they had not been provided for homesteading, it appears that this was not a problem by January 1979 when HUD extended the Tacoma program. Our questioning of the program was not of its being started or of giving away many of the houses, but of continuing the program beyond the time it was needed.

## CHAPTER 4

### EFFECTIVE MONITORING WOULD HAVE

### DISCLOSED QUESTIONABLE PRACTICES

HUD's evaluation of the homesteading demonstration program has not been directed to all the aspects needed for effective program management and planning. The evaluations that have been made were not designed to identify improper practices and did not cover any of the 16 communities added to the demonstration in May 1977.

By March 1979, over 3 years after the demonstration began, HUD was only beginning to operate an administrative reporting system for the homestead program and to establish a program of visits to the cities other than the visits made by a contractor hired to evaluate the demonstration program. A good reporting system and visits to the communities to monitor their programs could have disclosed the questionable practices we observed and will be needed for effective management of the program in the future.

### MISUSE OF COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS

Our reviews of the Freeport and Nassau County homestead programs showed that these communities were using community development block grant funds to reimburse HUD for the property taxes paid before transfer of title to the community. These communities also used block grant funds to continue paying property taxes until the houses were placed with homesteaders. Through March 1979, Freeport and Nassau County had used \$165,000 for paying taxes.

Title I of the Housing and Community Development Act of 1974 (42 U.S.C. 5301) established the community development block grant program to provide financial assistance to urban communities to provide decent housing and a suitable living environment--principally for persons of low and moderate income. Under the block grant program, communities may use the funds provided by HUD to acquire deteriorated real property suitable for rehabilitation or conservation. However, a recipient community may not use block grant funds for general government expenses. It was improper to use block grant funds to pay taxes on houses acquired for homesteading because those went into the local governments' general revenues.

On February 16, 1979, we brought the practice of the Freeport and Nassau County programs to the attention of HUD

headquarters officials. In May 1979 the HUD New York area office directed the communities to stop paying property taxes with block grant funds.

TWO COMMUNITIES DEMOLISHED SOME  
HOUSES, ANOTHER NEARLY DID

We noticed during visits to the Philadelphia homestead neighborhoods that three houses provided by HUD for homesteading had been demolished. An official in Islip, New York, told us that five houses acquired for homesteading had been demolished. Three of the Islip houses were in bad condition when they were received from HUD and two were damaged later by fires. In Freeport, New York, homestead officials had considered demolishing several houses until we raised the question whether demolition was proper under the homestead program.

On February 16, 1979, we reported to HUD headquarters officials about the houses demolished in Philadelphia and questioned whether demolition of houses transferred for homesteading was permissible. Section 810 of the Housing and Community Development Act of 1974 requires that persons to whom the property is conveyed (1) occupy it as a principal residence for at least 3 years, (2) repair it to meet minimum health and safety standards prior to occupancy, and (3) make repairs and improvements to meet local standards for decent, safe, and sanitary housing within 18 months after occupancy. These requirements could not be met if the properties were demolished.

HUD headquarters officials were not aware of the demolition of houses in Islip and Philadelphia until we reported it. Nor were they aware that Freeport officials had considered demolishing several of the houses they had received from HUD. HUD had not monitored these programs, nor instructed area offices or the communities about demolition of houses. HUD did not know whether other communities had demolished houses because reporting such information was not required.

Several communities we visited had found ways to avoid the demolition of houses that were under the homesteading program. Freeport, New York, which had acquired five houses from HUD that were too deteriorated to homestead, arranged to transfer the unsuitable houses to other HUD programs which permitted demolition. (See p. 7.) Dallas and Tacoma were recommending to HUD that houses offered which were in severely deteriorated condition be demolished by HUD rather than transferred to them under the homesteading program. (See pp. 12 and 14.)

On April 25, 1979, a HUD homestead official asked HUD's Office of General Counsel for an opinion on whether demolition of homestead houses is permissible. On August 27, 1979, the Office said that demolition of homestead properties is not prohibited by section 810 where homesteading of a property is determined to be infeasible and the alternative use is consistent with a "coordinated approach toward neighborhood improvement" for the area. Although the Office's opinion felt section 810 could be interpreted this way, it recognized that demolition is a "deviation from the primary purpose" for which homesteading properties are transferred. The Office said also that HUD needs to develop regulations to set standards for determining when demolition of homestead properties should be permitted.

PHILADELPHIA TARGET AREA  
BOUNDARIES NOT OBSERVED

The HUD Area Office in Philadelphia offered, and the city accepted, 30 properties located close to, but not inside, the homestead target areas. These houses were worth about \$75,000. In establishing the urban homesteading demonstration, communities were required to delimit geographical areas where homesteading was to be tested. HUD chose to use target areas to help meet the section 810 requirements that the agreements with local governments provide for a coordinated approach toward neighborhood improvement and upgrading of community services.

HUD's records concerning the Philadelphia program showed that transfers of houses outside the target areas occurred throughout the 33 months it participated in the demonstration. However, because the Philadelphia program was not monitored, neither HUD headquarters nor Philadelphia area office officials knew that any of the houses transferred were located outside the target areas until we brought it to their attention.

On visits to the Philadelphia target neighborhoods during February and March 1979, we observed that six of these houses were occupied. Most of the others were still boarded. A HUD official suggested that when the homesteading program in Philadelphia is resumed the agreement could be amended retroactively to include the houses in the homestead target areas.

Some of the houses in question were severely deteriorated before their transfer to the city, and probably should not have been included in the homestead program. For



others, subsequent deterioration may have made rehabilitation difficult. Changing the target area boundaries to keep these houses in the homestead program may not solve the problem of what to do with them.

MONITORING OF HOMESTEAD  
PROGRAMS IS NEEDED

HUD has not monitored the operations of the demonstration programs to ensure efficient and effective management. However, it is spending over \$2 million for an evaluation of the urban homesteading demonstration. Yet HUD has used neither its own experiences nor the interim findings from the evaluation contractor to recommend management policies for homesteading programs.

Section 810 of the Housing and Community Development Act of 1974 required HUD to conduct a continuing evaluation of the homesteading program. Beginning 3 years after enactment of the legislation, HUD was required to send the Congress an annual report containing a summary of the evaluation and recommendations for future conduct of the program. In June 1976 HUD hired a contractor to evaluate the homesteading demonstration programs underway in 23 communities.

The main objectives of the evaluation are (1) to examine how local governments have approached the design and management of their homesteading programs and (2) to measure and analyze change in the homestead neighborhoods. Work toward the first objective includes collecting data from government officials, lenders, community representatives, and homesteaders. It also includes collecting data on the costs, quality, and progress of renovation of homestead properties.

Under the second objective, the contractor is making a series of surveys in the homestead neighborhoods to get comprehensive and statistically reliable data on physical conditions and on the characteristics, behavior, and attitudes of the residents.

The evaluation contractor has issued several publications that provide a very comprehensive analysis of the homesteading demonstration in the 23 communities. The publications issued as of May 1, 1979, are as follows:

- "The Urban Homestead Catalogue," three volumes, August 1977. Volume 1 describes the key elements of a homesteading program. Volume 2 is about selecting of homestead neighborhoods, properties, and homesteaders. Volume 3 gives the history of the concept

of homesteading, and describes the 23 demonstration programs up through December 1976.

- Two annual reports about the demonstration. The first, dated October 1977, describes program activities in the 23 demonstration communities to May 1, 1977. The second, dated September 1978, covers the period to May 1978.
- "Urban Homesteading: A Guide for Local Officials," published in October 1978, outlines what urban homesteading is and how it works. It describes policies and plans needed to ensure that resources are used effectively. The guide discusses what localities should consider when developing a homesteading program, but does not recommend specific courses of action. It does describe various possible ways of organizing a homestead program and reasons for selecting among the different approaches.
- "Baseline Analysis of the Urban Homesteading Demonstration," published in October 1978, analyzes the experiences of 116 homesteaders, and changes occurring in the target areas. The report contains preliminary estimates of benefits to homesteaders, and econometric estimates of the increases in property values occurring in the neighborhoods.

Although the evaluation contractor has gathered a great deal of information on the program, HUD had not established a system to use this data as a part of a monitoring program. HUD and community officials told us that there was virtually no monitoring by HUD of the homestead demonstration programs we studied. As a result, the questionable practices we observed had gone undetected. Also, HUD had not analyzed the various methods used by the demonstration communities to determine which are worthy of continuing or expanding and which are not.

HUD and contractor officials told us that the evaluation contract was intended to produce descriptive information about the demonstration and certain types of analyses, e.g., a cost benefit analysis of urban homesteading. They told us that the contractor was not asked to look for, or disclose to HUD, deficiencies in program operations.

The evaluation contract did not include evaluating the 16 communities that HUD added to the demonstration in May 1977. Nor did the contract call for detailed evaluation of homestead houses in the 23 demonstration communities other than those purchased with the first \$5 million appropriated

in June 1976. A total of \$55 million had been appropriated for the period through fiscal year 1979 and \$18.3 million of these funds had been used to acquire houses by June 30, 1979. Thus, the contractor's detailed evaluation has covered about one-third of the homestead houses.

The contractor's analysis of the houses transferred with the funds appropriated early in the demonstration may not provide an adequate picture of the houses that would be used in a mature operating program. In Dallas, Freeport, Nassau County, and Tacoma, we observed that as the programs progressed, the houses acquired by the communities were improving in condition and increasing in value.

Houses transferred during the early phases of the programs were lower in value partly because some of those houses had been in the HUD inventory for a long time before the homesteading program started. Some of the houses had been vacant for several years. Much of the contractor's analysis is based on these houses. As the demonstration has continued, HUD has transferred more recently acquired houses that may have deteriorated less than the houses transferred earlier.

A HUD official told us HUD decided that it would not be cost beneficial to expand the evaluation contract to cover all the homestead houses. We agree that in view of the expense that would be involved, an extensive analysis of all the houses provided to communities would not be warranted. However, some monitoring of each aspect of the demonstration program should have been provided for, especially in view of the wide diversity of approaches taken by communities, and the exploratory nature of the demonstration.

Under the permanent operating program, just as under the demonstration program, communities are permitted considerable flexibility in designing their homesteading programs. Because it is quite likely that a wide variety of approaches will continue to be taken, effective monitoring will be essential if HUD is to assess progress and help communities with program administration.

In March 1979 HUD issued instructions for monitoring the urban homesteading program. In view of the absence of monitoring efforts in the past, HUD needs to make sure enough attention is given the homesteading program.

HUD's ability to monitor the homesteading program other than through visits is somewhat limited by the lack of a reporting system to provide data essential to assessing local homestead programs. In March 1979 HUD began to

accumulate data on houses transferred to the 16 communities added to the demonstration in May 1977. The evaluation contractor has provided HUD with summary data on the homesteading programs in the 23 demonstration communities. However, the contractor's information is provided only annually, and it will cease when the contract ends in 1980. HUD had no efforts underway to accumulate data on the six communities added to the program through May 22, 1979, or to obtain data from communities to be added to the program in the future.

If HUD is to monitor the homestead programs operated by the communities and assist them in their program administration, adequate data must be accumulated for this purpose. HUD should expand its reporting system to include all the communities in the program and use this information in its monitoring efforts.

## CHAPTER 5

### CONCLUSIONS AND RECOMMENDATIONS

#### CONCLUSIONS

Homesteading has been somewhat of a positive influence on nearly every neighborhood we observed. Many homestead houses clearly stood out as newly repaired and well cared for--a far cry from the abandoned houses they once were. But the program has had uneven results. We observed many houses where rehabilitation had not been achieved.

Some communities had established ways to homestead their houses quickly, but others had relied on methods that took much longer to restore houses to occupancy.

Some communities achieved lower cost rehabilitations than other communities. Self-help by homesteaders, one of the more effective methods used, makes a great reduction in rehabilitation costs possible. The Federal homesteading program was founded with the hope that persons would rely on their own energies to fix up houses in urban areas. To a great extent the use of self-help is what distinguishes homesteading from other programs for rehabilitating deteriorated houses.

While there are limits to self-help because not all homesteaders have the skills needed and legal requirements that only licensed workers make certain types of repairs, self-help needs to be encouraged for the sake of providing homes to persons of limited incomes. For those able and willing to rehabilitate a house, homesteading provides a unique opportunity. Their efforts can benefit both themselves and their communities and can be viewed as their contribution to a better society, just as tax payments are the contribution of those with financial means.

HUD needs to identify the methods used by the demonstration communities which have provided timely, low-cost results. Other communities should then be encouraged to adopt these methods into their programs.

Some houses in the program are unsuitable for homesteading. Increased selectiveness by homestead program managers should minimize the problem in the future. However, instances are bound to occur where houses are not wanted by potential homesteaders or where damages, such as by fire or vandalism, make a house undesirable after acquisition by the community. HUD needs to work with communities to (1) identify houses transferred to communities

and found difficult to homestead and (2) decide what should be done with these houses.

Including high-value houses in the homesteading program represents a significant departure from the original programs in Baltimore, Philadelphia, and Wilmington where basically sound, but unmarketable, houses were used. When the neighborhoods involved show few signs of blight and the houses are marketable, the giving away of high-value vacant houses acquired by HUD is unnecessary. The funds used for such houses could be put to more effective use to homestead houses in other communities where improvements are needed. The giving away of high-value houses could be viewed by the taxpaying public as an unreasonable giveaway and could eventually undermine public support of the program.

As homesteading programs mature, there has been a tendency for the houses acquired by HUD in the target areas to be of increased value and to be in better condition. In Dallas and Tacoma, particularly, there was a substantial difference between the values of the houses acquired early in the program as compared with those later transferred. This may be due, in part, to the successes of the program. Other factors, such as changes in the economic conditions of the areas and inflation of house values, have also had an impact. Regardless of the causes, where the conditions are proper and neighborhood improvements are successful, the time should eventually be reached where homesteading is no longer needed in a neighborhood and the funds appropriated for homesteading can be better used elsewhere.

In Tacoma the values of the houses more recently acquired by HUD had much higher value than those which preceded them. Strict application of the \$15,000 value limit that is provided for in current regulations would have eliminated the offering of the houses recently provided by HUD for homesteading and caused a de facto termination of the program because of the absence of houses for program use. The real estate market conditions prevalent at the time the Tacoma homestead program was extended in January 1979 indicated to us that the funds made available for the city's use could have been more effectively used in other communities where blight is prevalent and house values are lower. HUD needs to be vigilant on neighborhood status to see when programs should be terminated.

Homestead programs also appeared to be more effective where there was a close working relationship between HUD and the communities involved. In these programs a clear disposition plan was established for each house involved and it was carried out in a timely manner.

HUD homestead program managers did not adequately monitor the demonstration program. When the program was in the demonstration stage, HUD should have watched closely program developments so that assistance and corrective actions could have been made as needed. In carrying out the program as a demonstration, it was beneficial to permit certain practices to continue so that an evaluation could be made of alternative methods of homesteading. But, before proceeding too far into an operating program, HUD should determine which methods are beneficial and which are not. This information should be used in developing new programs and in modifying those that exist.

The evaluation done by a contractor provided a lot of information that HUD could have used to monitor program progress. When contractor reports commented on practices, such as difficulties some communities were having with placing some houses because of their deteriorated condition, HUD should have looked for ways to take corrective action. HUD should have supplemented the contractor evaluation with a monitoring program of its own. Because this was not done, sufficient means were not used to surface problems as they occurred.

#### RECOMMENDATIONS TO THE SECRETARY

The Secretary of Housing and Urban Development should require:

- HUD's field offices to work with communities to (1) identify houses transferred to communities and found difficult to homestead and (2) decide what should be done with these houses.
- HUD program managers to identify methods of homesteading found to be successful and encourage communities to use those methods. Examples of effective homesteading practices are promptly selecting homesteaders after houses are chosen, selecting of alternate homesteaders, and encouraging creative use of self-help.
- Effective monitoring of the homesteading program to (1) assess the need for continuing existing local programs, (2) identify practices in need of correction, and (3) help local governments and HUD field offices improve administration of homesteading programs.

- An expansion of the reporting system to include all the communities in the program and use this information in monitoring the program.
- A halt to giving away higher value, marketable houses in unblighted neighborhoods so that homesteading funds can be concentrated in deteriorated areas.



## CHAPTER 6

### AGENCY COMMENTS

#### AND OUR EVALUATION

##### AN OVERVIEW

On August 30, 1979, HUD provided us with extensive comments on a draft of this report. HUD said that the report provided an excellent forum for discussing "outstanding issues" and many of its current policy decisions. But HUD said it was concerned about the methodology we used in the review. It said that we used criteria that would normally apply to operating programs and thus we distorted the intent, focus, and objectives of the homesteading demonstration.<sup>1</sup>

We disagree that our methodology was inappropriate. We recognize that homesteading was being carried out as a demonstration, but the problems we found needed HUD's attention regardless of whether homesteading was a demonstration or an operating program.

HUD expressed disagreement about the report. However, HUD is taking actions consistent with four of the five recommendations. HUD said that it (1) plans to have the evaluation contractor identify successful methods of homesteading and make recommendations on program designs, (2) has begun to develop monitoring and reporting systems, and (3) plans to terminate the Tacoma, Washington, homesteading program and will use the monitoring system to determine when other homesteading programs should be ended.

HUD also said that it had issued instructions to its field offices that would address our recommendation that HUD field offices work with communities to identify houses difficult to homestead and decide what should be done with them. These instructions, which were issued after we brought the matters to the attention of HUD officials, should help eliminate the transfer of houses which could become difficult for local homesteading agencies to place with homesteaders. However, the action taken by HUD will not solve the problem of houses communities now have on hand that have been difficult to place. We believe HUD should identify such houses and work with the communities to resolve the problem.

HUD said that it will have the evaluation contractor determine the homesteading methods which should be used; however, it did not commit itself to actively encouraging

local officials to adopt these methods. We believe such a commitment is needed.

A detailed discussion of HUD's comments and our rebuttal follows. The complete text of HUD's comments is contained in appendix I.

#### REVIEW METHODOLOGY

HUD expressed concern about the methodology we used in making our review. HUD said that essentially we examined a demonstration program with criteria for performance that would normally apply to an operating program, thus we distorted the intent, focus, and objectives of the homesteading demonstration. HUD said our confusion was due to our misunderstanding that homesteading became a permanent nationwide operating program in September 1977, when it was announced that the demonstration would be expanded into a regular operating program. HUD said that it was not until January 29, 1979, when regulations became effective, that homesteading became a permanent nationwide program.

There was no misunderstanding or confusion on our part on the status of the demonstration or its expansion to a permanent operating program. Our report states (see p. 3) that:

"HUD considered the homesteading programs in the demonstration communities as being in a demonstration status until their 3-year agreements expired."

More importantly, however, the matters we identified, such as transfers of houses not in target areas, no effort to identify and dispose of houses difficult to place, slow progress in the Philadelphia homesteading program, and lack of a monitoring system, should have been matters receiving HUD's attention regardless of whether homesteading was a demonstration or an operating program. To ignore such matters until regulations for an operating program became effective--which occurred over 3 years after the demonstration began and over 1 year after homesteading was made into a permanent program--was not prudent.

HUD said that the demonstration was designed and the communities selected specifically to encourage a fairly wide variation in local homesteading programs. This allowed communities to design programs consistent with their individual circumstances, needs, and capabilities and enabled

HUD to analyze the efficiency and effectiveness of a number of programs so that recommendations for future activities could be made. In light of this, HUD felt our contrasting of the Dallas and Freeport programs could be misleading because these programs were selected in part because their approaches were very different. Also, HUD said, we did not indicate the number of communities that have homesteading programs similar to Dallas and Freeport.

We selected the communities for our review because they represented different approaches to homesteading. We made our selection to obtain a cross section of the homestead program. (See p. 4.) It should be noted that HUD had categorized the demonstration cities into three groupings:

- cities that emphasized high standards of local program control over the specification and performance of work;
- cities which emphasized less stringent standards for rehabilitation, greater participation of homesteaders in work planning and contractor selection, and controlled use of self-help; and
- cities which required less stringent standards of rehabilitation, encouraged significant involvement of homesteaders in work planning, generally placed more reliance on homesteaders for contractor selection, and encouraged the use of self-help.

For our review, we selected cities from each of these groupings.

HUD said that our conclusion that the Dallas program is the optimum one is premature and fails to account for differences in communities' individual situations and experience in administering housing rehabilitation programs.

We did not state that the Dallas program was the optimum model to use. We described the Dallas program to illustrate the characteristics of a program that was successful in quickly homesteading a large number of houses at low cost. We believe the results achieved in Dallas are illustrative of the type of results HUD should be striving to achieve in the other local homesteading programs regardless of the methods they would use or their experience in administering housing rehabilitation programs.

## REVIEW SCOPE

HUD said that we generalized about the program from a limited sample of observations. It said that we examined only 6 of 39 considerably different local programs and within these a very small sample of properties were selected for study resulting in findings based on 70 properties--approximately 2 percent of all the homestead properties. According to HUD, individual instances of program difficulties are presented in a manner which suggests that they are indicative of widespread problems in the program, when in fact there is no basis for such a conclusion.

The scope of our review was not as limited as HUD said. The detailed analysis of the 70 properties represented just one aspect of our work. We obtained and analyzed a variety of information on 10 of the 39 homesteading demonstration programs. As we said in chapter 1, we discussed homesteading with HUD headquarters officials, with officials in five HUD field offices, and with local officials who were responsible for managing 10 homesteading programs. Much of the information we obtained covered broad aspects of a community's homesteading program, not just the sample properties. For example, our discussions about houses difficult to place, about HUD offices not following the comprehensive disposition plans which had been prescribed, about the absence of a monitoring system, and about the Freeport and Tacoma homesteading programs, dealt not merely with a small sample of properties but the broad aspects of the homesteading program.

HUD said that although all its evaluation reports, as well as some unreported data, were made available to us, they were not used to paint an accurate picture of the entire demonstration, but were used selectively to support individual observations.

We categorically reject HUD's contention. We considered all the information we obtained from HUD in performing our review. Our report, however, is based on information we developed independently during our review. The information is factually correct and supports our observations. The recommended actions, we believe, are needed to improve the homesteading program.

## RECOMMENDATION CONCERNING HOUSES COMMUNITIES FOUND DIFFICULT TO HOMESTEAD

HUD acknowledged that our recommendation that its field offices work with communities to (1) identify houses transferred to communities and found difficult to homestead and (2) decide what should be done with these houses, concerned an

aspect of its administrative procedures that has not been fully developed. HUD said that it is reviewing policy alternatives and is consulting its Office of General Counsel. It also said that in the interim it will continue, on a case-by-case basis, to assist a community to develop a disposition plan for any property difficult to homestead.

Moreover, said HUD, it had issued on June 15, 1979, a memorandum which included procedures to facilitate the prompt offering of eligible HUD properties for homesteading and to avoid unnecessary administrative difficulties. The procedures that HUD said were relevant to our recommendation concerned (1) outlining an approach for disposing of properties not selected by communities for the homesteading program, (2) taking steps to ensure that the properties transferred to localities are within the homestead target areas, and (3) establishing a short-term reporting system to enable the monitoring of certain aspects of the homesteading program.

Although the actions that HUD cited are relevant to various matters discussed in this report, they are not responsive to this specific recommendation. Furthermore, the June 15, 1979, memorandum which HUD referred to was sent after we brought to HUD's attention that (1) some HUD field offices were not adhering to the comprehensive property disposition plans which had been established, (2) properties located outside the homestead target areas had been transferred to a city, and (3) we believed a reporting and monitoring system was needed.

HUD's reply contained no commitment to find out how many houses communities have had difficulty placing and to work with them to resolve the problem. We believe such a commitment is needed.

RECOMMENDATION THAT HUD ENCOURAGE  
COMMUNITIES TO USE METHODS OF  
HOMESTEADING FOUND SUCCESSFUL

In reply to our recommendation that HUD program managers identify methods of homesteading found to be successful and encourage communities to use those methods, HUD said that supporting one approach over another would defeat its intent to maintain the flexibility needed to keep the homesteading concept alive and responsive to local needs. It said that the nature of the urban homesteading program necessitates flexible guidelines.

HUD said that the program flexibility it has maintained does not mean, however, that local successes should not be shared and it told how it has shared information about various program experiences. HUD said that the evaluation contractor's final report, to be published next year, will critique 23 of the demonstration programs and will recommend successful program designs. HUD said also that it encourages local officials who are administering successful programs to make on-site visits to other communities requesting direct technical assistance and that, using this approach, it is able to provide communities with a variety of workable models that may be adapted to meet local program needs.

While HUD is to be commended for its continuing efforts to publish information about the various local homesteading experiences, we believe that this approach is too indirect to ensure that homesteading communities hear about successful methods used elsewhere. As we discussed in this report, the evaluation contractor has issued several publications that provide a very comprehensive analysis of the homestead demonstrations in 23 communities. The first of these publications was issued in August 1977, almost 1-1/2 years before we made our review. Yet, we observed little evidence of changes being made in the local homestead programs. Therefore, we concluded that HUD should actively encourage local program administrators to adopt methods which will fit their needs. We recognize the need for flexibility because of the varying conditions in the communities and that methods used successfully in some places may not be suitable elsewhere. Hence we did not recommend that methods be mandated throughout the program.

We believe that HUD's program of providing technical assistance for communities requesting help is also not sufficiently direct an approach to improve the program's performance. Such an approach waits for local program managers to identify that they have problems. We believe HUD should take an active role in helping local program administrators identify the best methods to use that will satisfy their program needs.

### Self-help

HUD said that a major evaluation criterion of our report draft was the degree of self-help encouraged by local programs. It said that our rationale for this, apparently, is that self-help "intrigued the Congress and the media at the time that the law was passed." The draft report, said HUD, does not examine the relationship between self-help and such factors as the quality of rehabilitation and the time required to complete it. Nor does it consider the possible

distortion of the homesteader client group if only those applicants with sufficient skills to accomplish their own repairs were allowed to become homesteaders. It said that families with two working adults, single-parent families, and otherwise qualified persons who lack home repair skills would have difficulty meeting a mandatory self-help requirement. Moreover, the section 810 legislation does not mention self-help per se, but merely requires the homesteaders to make repairs to the property to bring it up to local housing codes within 18 months. The flexibility allowed to communities with regard to self-help, HUD said, was intended to assure that program design was consistent with local needs, efficient program management, and equitable homesteader selection.

We believe that HUD misunderstood our reasons for saying that self-help is a successful method that communities should be encouraged to use. We advocated encouragement of self-help because our review had shown that houses rehabilitated through self-help cost less to repair than those that were done solely by contractors. (See p. 20.) This fact was also recognized in a report HUD issued in October 1978. Furthermore our review of the Dallas program showed that a homestead program embodying the self-help concept could accomplish the rehabilitation of houses quickly. And local program administrators in Dallas and Wilmington, where self-help was advocated, expressed the view that persons who did some of the rehabilitation work themselves tended to be better homesteaders. Because of these factors, we decided to emphasize the positive aspects of self-help rather than the negative.

HUD also apparently misunderstood the intent of our report if it believed we only wanted persons with self-help skills to become homesteaders. Nowhere in the report have we stated that self-help should be mandatory. We recommended only that its use be encouraged. We recognize that a mandatory self-help requirement would not be feasible because of local code requirements which prohibit other than licensed skilled workers from performing plumbing, heating, electrical, and some other tasks or because some persons would not want or be able to undertake rehabilitation tasks on their own. But, to deny or discourage homesteaders the opportunity to perform tasks they are willing and able to do themselves is a disservice to them. It denies them the potential cost savings and sense of achievement they could not otherwise receive.

HUD said also that the report draft argues that only Dallas and Wilmington strongly emphasized the self-help approach. It said our statement was simply incorrect and that

a detailed analysis of nearly 400 homestead properties in the 23 original demonstration cities has indicated that homesteader contributions to self-help ranged from 2 percent of total rehabilitation value to over 80 percent. HUD said that in Freeport, which we strongly criticized for its discouragement of self-help, 22 percent of the total rehabilitation values resulted from self-help. It said that our characterization of the Freeport program reflects our emphasis on the early stages of the Freeport program when it strongly discouraged self-help. It said that Freeport now simply corrects code violations; the cosmetic work (painting, etc.) is done by the homesteaders.

HUD has misinterpreted our statement about the number of cities that were emphasizing the self-help approach. We said (see p. 6) that "of the local homestead agencies that we reviewed, only those in Dallas and Wilmington strongly emphasized the self-help approach." Our statement was made in reference to the six communities where we performed a detailed review of homestead transactions, not to the entire homestead program.

Also, HUD's comments about the use of self-help in Freeport are misleading. After receiving the comments from HUD, we discussed them with a Freeport official who contradicted HUD when he told us that in many cases Freeport makes repairs that exceed minimum code requirements. The official told us that repairs are made to make properties livable when the homesteader moves in. The Freeport official said that the Freeport approach to self-help has changed little during the demonstration and that homesteaders generally are not permitted to improve their houses to a livable condition. Thus, the 22-percent value of improvements that HUD is referring to appears to be those cosmetic improvements the homesteaders made after receiving the houses from the village in a livable condition.

HUD's own published data on the homesteading demonstration also indicates that it considers the properties acquired by Freeport homesteaders as being in a completely rehabilitated condition when acquired by the homesteaders. A table in the second annual report on the homesteading demonstration showed that as of April 1, 1978, rehabilitation of 16 Freeport homestead houses had been completed. The report showed that 15 properties had been transferred to homesteaders and that 13 were occupied. By comparison, 16 of the 23 demonstration cities were reported to have more properties



occupied than having rehabilitation complete, indicating that rehabilitation was not completed at the time of occupancy. 1/

Also, while the HUD comment can give the impression that Freeport homesteaders are making substantial improvements on their own, the study made by the evaluation contractor, which HUD used as a basis for its statement to us, showed that the percentage of self-help work by homesteaders in 18 of the 23 demonstration cities exceeded that of Freeport homesteaders. We believe that the omission of homesteader self-help by Freeport earlier in the rehabilitation process has tended to increase rehabilitation costs. The Freeport official told us that because of the matters we questioned during our review, the village is considering permitting more self-help efforts by homesteaders.

HUD said also that our report draft did not acknowledge some negative aspects of relying heavily on self-help. It said that our highlighting of the Dallas program, which was exceptionally successful at achieving high levels of self-help and rapid occupancy of the properties, ignored the potential pitfalls of self-help and that other cities may not be capable of achieving that dual success. HUD said also that the report does not note the relationship between self-help and the time to reoccupy the houses. It said that in Gary, Indiana, where the self-help ratio is high, the occupancy ratio is low. In contrast, Kansas City, Missouri, and Rockford, Illinois, had moderate levels of self-help and high rates of occupancy and completed rehabilitation.

We cannot speak to the Gary, Kansas City, and Rockford programs because they were not within the scope of our review. However, we believe it was not necessary for us to emphasize the negative aspects of the self-help approach. In making our review we had found that Dallas was successful with the self-help approach and we sought to emphasize the positive aspects of that program and of self-help rather than the negative. Likewise, we believe that in administering the homesteading program, HUD should be striving to improve the performance of the various local homestead agencies by encouraging the use of successful methods rather than merely viewing the programs as being incapable of success. If Gary, for example, has a low occupancy rate, HUD should consider assisting the city to embody some of the methods used in Dallas or elsewhere so that Gary's program performance can be improved. Through effective program management,

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1/"Evaluation of the Urban Homesteading Demonstration Program," Second Annual Report, table II-2, p. 33.

HUD could help local program administrators overcome many of the pitfalls that HUD sees as obstacles.

HUD said that the report draft did not mention that self-help labor may affect the quality of the rehabilitation and that while homesteader efforts at repairing their own homes generally result in an acceptable final product, evidence from the HUD evaluation indicates that self-help labor fails to meet minimum standard requirements more often than contractor labor. HUD said that of 400 detailed inspections of rehabilitated homestead properties made during the evaluation, the quality of workmanship was deficient in about 13 percent of the contractor-performed tasks but amounted to about 30 percent of the homesteader-performed tasks.

The data on which the HUD comments were made showed that of the 29.7 percent of work tasks considered substandard that were performed by homesteaders, the quality of only 2.5 percent of these were considered so substandard that the item would wear out quickly or be susceptible to damage. The remaining 27.2 percent were rated by the evaluation contractor as being of minor substandard quality which should be corrected, but which did not require replacement.

The evaluation contractor also noted that in some cities the percentage of self-help tasks meeting or surpassing the standard quality of workmanship was higher than the percentage of contracted tasks meeting the same standards across the sample as a whole. It concluded that these cities seemed to have managed the self-help component of rehabilitation without significant dilution of the quality of workmanship. This observation by the evaluation contractor, we believe, further supports the need for HUD to identify successful methods and encourage their use by communities. It also shows that self-help can be useful in the homestead program.

HUD said that it is true that cities can achieve high levels of self-help while assuring good quality workmanship and rapid occupancy of the property. What this requires, said HUD, is sufficient staff resources to provide effective rehabilitation monitoring and training to homesteaders. Even though the number of available staff is important, HUD said, experience in managing housing rehabilitation programs is equally important. HUD said that Dallas has been exceptional in this regard, but other cities lack either the staff or experience. To compensate for these problems, local program administrators have attempted to find an optimum level of self-help which assures minimally acceptable performance with regard to speed and quality. To hold Dallas as the prototype and require all cities to match its performance would restrict the applicability of homesteading to very few communities.

We believe that HUD misunderstood our reasons for discussing the Dallas homesteading program. We did not say that other cities should be required to match Dallas' performance. We used the Dallas program as an example to show what a homesteading program can accomplish. We believe HUD should be striving to achieve the type of excellence achieved by Dallas in the other homesteading programs, rather than taking the position that similar excellence cannot be achieved elsewhere because other cities do not have the experience or have not committed the necessary resources. We made our recommendation because we would like to see other cities' programs improved--not because we believe HUD should restrict any cities that have not matched Dallas' performance.

Time used to  
rehabilitate houses

HUD said that our discussions regarding the speed with which HUD-owned properties were reoccupied provided a distorted picture of the achievements of the demonstration by relying heavily on a few examples in which long time lapses occurred. It said that we made no attempt to provide an overview using available reports and data. HUD criticized us for illustrating the activities on a Baltimore homestead house. It said also that we did not mention that the problems in Baltimore are largely the result of the unavailability of rehabilitation contractors due to the demand created by other city rehabilitation programs. It said that our report fails to mention that 73 percent of the properties transferred by HUD to cities are now occupied by homesteaders nor did we mention that Dallas is only one of the nine cities in which occupancy rates exceed 80 percent. HUD said that the occupancy rates are below 50 percent in only four cities. It also said that the data we presented for Freeport suggests that 70 percent of the village's properties remain vacant, when in fact only 45 percent are vacant.

We did not make overall statements about the homesteading program because they are already available in the several HUD publications. The statements we made, however, accurately reflect observations we made in the communities we reviewed. While HUD chose to mention our negative comments on the time used to rehabilitate houses, it should be noted that our report draft also pointed out several positive aspects that we observed. For example, we said that both Dallas and Tacoma were more successful than the other communities reviewed in achieving occupancy of homestead houses and that Dallas, New York City, and Tacoma were selecting more than one person for the available houses which enabled the communities to get their houses reoccupied

in less time and with less administrative effort than would have been needed if the selection process had to begin anew.

With regard to the Freeport program, we did not state that 70 percent of the houses were vacant. The seven vacant houses we discussed (see p. 10) were based on analyses we had made of the entire Freeport program, not just of the sample. Thus, our review had shown that as of March 31, 1979, 7 of the 58 properties Freeport had acquired had been vacant 27 to 36 months.

While the delays in homesteading houses in Baltimore may be due in part to unavailability of contractors, as HUD stated, this was not presented to us to be a major problem by local homestead officials. Baltimore discourages the use of self-help by homesteaders. This, we believe, has increased the cost to rehabilitate its homestead houses and may be further aggravating the shortage of rehabilitation contractors. Of importance also, as a Baltimore official told us, some houses have remained unoccupied because (1) some potential homesteaders did not want to take on the financial burden of houses that would be expensive to rehabilitate and (2) some disinterest in homesteading has occurred because there are other city rehabilitation programs that offer houses to persons at lower cost than homesteading.

It should be noted also that in preparing our report, it was not possible to discuss all the factors regarding the activities in each community. For this reason, we could only summarize the problems and cite examples of the situations we believed warranted attention.

#### RECOMMENDATIONS ON THE NEED FOR MONITORING AND REPORTING SYSTEMS

HUD said that in conducting the homesteading demonstration, the major problem its program managers had to cope with was the inexperience of the HUD field staff and local program administrators. It said that considerable effort was required to coordinate homesteading with other related programs. Program managers were in almost daily contact with field and city staff to facilitate the homesteading process, assure timely transfers of properties, and assist in solving legal, administrative, and financing problems as they arose. HUD said that it was inaccurate for us to say that HUD program managers did not adequately monitor the demonstration. HUD acknowledged that it had not made detailed audits on individual properties; however, HUD felt the most pressing need was to help localities get started and maintain their momentum.

Our comments about the lack of a monitoring system were in regard to the absence of detailed audits of local program activities. In view of the inexperience of program administrators with homesteading and the likelihood they would do inappropriate things during the demonstration, we had concluded that HUD should have established a mechanism to monitor the activities that were taking place. It is quite likely that the daily contact HUD program managers had with field and local government officials surfaced many problems for correction; however, this approach was not providing information as complete as would have been possible if a system of field monitoring had been established. We believe such a system could have uncovered such practices as transferring houses outside target areas and demolishing houses that were provided to communities for homesteading.

HUD said that it was regrettable that 2 properties in Philadelphia were homesteaded outside the designated target areas; however, we failed to note that these properties represented less than 1 percent of the 232 properties transferred by HUD to the city during its first 2 program years.

It appears that HUD completely misunderstood our discussion of houses transferred to Philadelphia that were outside the target area boundaries. Our report draft stated that 30 properties were transferred and that we had observed that 6 of these properties were occupied. The 30 properties represented 8.6 percent of the 349 properties the city had received from HUD through September 30, 1978.

HUD said that our statement that the evaluation contract has not been directed to all the aspects needed for effective program management and planning is generally an accurate statement. According to HUD officials, the evaluation was designed to measure primarily the impact and effectiveness of various approaches to homesteading; it is not, nor was it ever intended to be, a monitoring or management exercise. HUD also said that it seems inappropriate to criticize the evaluation on these grounds, particularly when program monitoring, in the sense that we employ the concept, would have been inconsistent with and detrimental to the evaluation's primary objective.

Our report was not critical of the scope of the contractor's evaluation, and we stated our agreement with HUD's decision not to have the contractor evaluate all the houses that had been transferred to communities. (See p. 33.) Our concern was that given the parameters under which the evaluation contract was awarded, HUD was deficient in not having a monitoring system to identify problems as they arose.

HUD said that now that homesteading has nationwide program status, monitoring obviously becomes imperative. It has been formulating a monitoring/reporting policy which it plans to have in effect shortly. We agree that the monitoring system is needed. It is unfortunate that a system is still not in place almost 4 years after the demonstration began and almost 2 years after expansion of the demonstration to a permanent program.

RECOMMENDATION TO HALT GIVEAWAYS  
OF HIGHER VALUE MARKETABLE HOUSES

HUD said it was puzzled by our draft report's findings concerning the Tacoma program. HUD said that Tacoma is the first demonstration program initiative to come to an end. The program, HUD said, has been successful in meeting its objectives and is scheduled to close at the end of this year.

HUD also said that under the regular operating program, the participating locality is to determine when a homesteading program is no longer needed. Additionally, the monitoring system will be used to alert HUD when it should discontinue a program's funding.

We questioned the practices used in Tacoma because we had observed in January 1979 that its target neighborhoods were quite unblighted (as compared with others we had observed), the values of the houses being given away were the highest in the nation, and the economy in the Tacoma area was such that the houses appeared marketable. Yet, in January 1979, HUD was negotiating a new agreement with the city which would provide \$193,400 in funds for acquiring additional houses. By then it was quite evident that the giveaway of houses in Tacoma was no longer needed.



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, D.C. 20410

30 AUG 1979

OFFICE OF THE ASSISTANT SECRETARY  
FOR COMMUNITY PLANNING AND DEVELOPMENT

IN REPLY REFER TO:

Mr. Henry Eschwege  
Director, Community and Economic  
Development Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Eschwege:

Thank you for your letter of July 23, 1979 and copies of the draft report entitled "Urban Homesteading: A Good Program in Need of Repair." Your report provides an excellent forum for discussion of outstanding issues and many of our own concerns regarding the Urban Homesteading Program. Furthermore, it reinforces many of our current policy decisions. We welcome this opportunity to review your findings and offer our comments.

Prior to discussing the problems identified by GAO and the recommended solutions, we believe that it will be helpful to explain our concerns with the methodology used in the draft report.

First and foremost, the report essentially examined the program as it was run during the Demonstration period beginning in 1975. The report's criteria for program performance are frequently inconsistent with those appropriate for Demonstrations. Rather, the report employs criteria that would normally apply to operating programs and thus distorts the intent, focus and objectives of the Demonstration. GAO's confusion is due to its misunderstanding that the Urban Homesteading Program became "...a permanent, nationwide program ..." in September 1977 (page 3). What actually occurred at that time was HUD's announcement that the Program would be expanded into a regular operating program. It was not until the Urban Homesteading Program Regulations were published in December 29, 1978 and became effective January 29, 1979 that the Urban Homesteading Program became a permanent nationwide program. Furthermore, the 39 communities participating in the Demonstration were operating under the terms of the three-year memoranda of agreement with HUD until the publication of the Regulations, at which time they were notified that new agreements would be required.

The Demonstration was designed, and the communities were selected for participation, specifically to encourage a fairly wide variation in local homesteading programs. Communities were selected to assure a range of designs on matters related to homesteader selection and procedures for accomplishing the rehabilitation. The purpose of this was twofold; not only did it allow communities to design programs consistent with their individual circumstances, needs, and capabilities, but it also enabled HUD

to analyze the efficiency and effectiveness of a number of programs so that recommendations for future activities could be made. In light of this, GAO's contrasting of the Dallas and Freeport programs can be misleading. These communities were selected in part because their approaches were very different. Furthermore, no attempt was made to indicate the number of communities that have homesteading programs similar to Dallas and Freeport. The GAO conclusion that the Dallas model is the optimum one is premature and fails to account for differences in communities' individual situations and experience in administering housing rehabilitation programs.

Second, the draft report attempts to generalize about the program from a limited sample of observations. Only six of 39 considerably different local programs are examined, and within these, very small samples of properties were selected for study; findings were based on 70 properties which represent approximately two percent of all homestead properties. While the property sample may be an unbiased random sample, it nonetheless is so small that it raises serious questions concerning sampling precision. Individual instances of program difficulties are presented in a manner which suggests that they are indicative of widespread problems in the program, when in fact there is no basis for such a conclusion.

Third, although all HUD evaluation reports, as well as some unreported data, were made available to GAO, they were not used to paint an accurate picture of the entire demonstration, but were used selectively to support individual observations.

Essentially, the draft report made five major recommendations which we would like to address individually. These issues are:

1. HUD's field offices to work with communities to (1) identify houses transferred to communities and found difficult to homestead and (2) decide what should be done with these houses.
2. HUD program managers to identify methods of homesteading found to be successful, and to encourage communities to use those methods. Examples of effective homesteading practices are prompt selection of homesteaders after houses are selected, selection of alternate homesteaders, and creative use of self-help.
3. Effective monitoring of the homestead program to assess the need for continuing existing local programs, identify practices in need of correction, and help local governments and HUD field offices improve administration of homesteading programs.
4. An expansion of the reporting system to include all the communities in the program and use this information in monitoring the program.
5. A halt to the giveaway of higher-value, marketable houses in unblighted neighborhoods so that homesteading funds can be concentrated in deteriorated areas.



GAO RECOMMENDATION #1

HUD's field offices to work with communities to (1) identify houses transferred to communities and found difficult to homestead and (2) decide what should be done with these houses.

This recommendation identifies an aspect of our administrative procedures for the regular operating program that has not been fully developed. We are reviewing policy alternatives and have requested the advice of our Office of General Counsel in resolving this matter. In the interim, however, we will continue, on a case by case basis, to assist a locality in developing an appropriate disposition plan for any properties proving difficult to homestead. Moreover, we have issued a memorandum to our Regional Administrators, Area Managers, and Service Office Supervisors which includes procedures to facilitate the prompt offering of eligible HUD properties for homesteading and to avoid unnecessary administrative difficulties (see attached memorandum dated June 15, 1979). Directives from this memorandum that are relevant to the GAO recommendation are the following:

1. The Chief Property Officer in consultation with the Local Urban Homesteading Agency is responsible for developing a planned property disposition approach for all acquired home properties that are not selected or that are not eligible for homesteading. This includes multifamily properties. This disposition plan should be incorporated in the formal Planned Program Approach and support the locality's neighborhood preservation objective in the designated urban homesteading neighborhood(s).
2. The Property Disposition Chief Property Officer must take steps to assure that all properties made available and/or transferred with Section 810 Urban Homesteading funding are located in approved Urban Homesteading areas.
3. Properties located outside of approved Urban Homesteading areas must not be made available to Urban Homesteading Agencies with Section 810 funding. This does not mean, however, that other properties in any area may not be sold directly to units of local government for their own purposes utilizing other funding sources.
4. All properties in approved Urban Homesteading areas which meet the criteria specified in the Urban Homesteading Regulations must be made available to the respective Urban Homesteading Agencies. Lists of available properties should be sent directly to the local Urban Homesteading Agency by the Property Disposition Coordinator to use in monitoring and coordination.
5. Approved Urban Homesteading Agencies requesting the transfer of acquired home properties should be required to do so in writing which incorporates a certification that each property requested is located in the HUD approved Urban Homesteading area.

6. Maps of the Urban Homesteading area are included in the package submitted to the Area Office for CPD approval of local Section 810 Urban Homesteading Program applications. Copies of these maps must be made available to the Property Disposition activity upon approval of the application. The Urban Homesteading Coordinator should take the lead in assuring appropriate coordination on this matter.
7. In order to monitor certain aspects of implementation activities and to identify potential difficulties at an early stage, a short-term reporting requirement of Urban Homesteading activities has been initiated by the Property Disposition Office. We are working with Property Disposition to make it a permanent part of its reporting system for FY 1980.

These program guidelines are also delineated in the Urban Homesteading Handbook, which is presently in clearance.

GAO RECOMMENDATION #2

HUD program managers to identify methods of homesteading found to be successful, and to encourage communities to use those methods. Examples of effective homesteading practices are prompt selection of homesteaders after houses are selected, selection of alternate homesteaders, and creative use of self-help.

Supporting one approach over another defeats our intent to maintain the flexibility needed to keep the homesteading concept alive and responsive to local needs. The nature of the Urban Homesteading Program necessitates flexible guidelines. This flexibility enables the community to adapt the concept to local needs and conditions. The Program's objectives are threefold: (1) to utilize existing housing stock; (2) to upgrade neighborhood facilities and services which will encourage more public/private investment; and (3) to provide homeownership opportunities.

It is within this framework that the locality must design the theoretical and practical aspects of the Program. A community's objectives, whether they be preventing displacement, fighting abandonment, or revitalizing neighborhoods, dictate the design alternatives such as selection of homesteaders, methods of financing, or methods of rehabilitation.

The Program flexibility that we have maintained does not mean, however, that local successes should not be shared. We have attempted to do this

in the three homesteading catalogues produced by Urban Systems Research and Engineering (USR&E) in which 23 programmatic models have been fully illustrated. Furthermore, USR&E's final report which will be published next year, will critique the 23 models and make recommendations regarding successful program designs. To benefit from the communities' past experiences we are also employing several other information sharing mechanisms; these include: consumer forums and homesteading workshops. We also encourage local officials who are administering successful programs to make on-site visits to other communities requesting direct technical assistance. Using this approach, we are able to provide communities with a variety of workable models that may be adapted to meet local program needs.

A major evaluation criterion of the draft report is the degree of self-help encouraged by local programs. Its rationale for this, apparently, is that self-help "intrigued Congress and the media at the time that the law was passed." (page 6 of report) The draft report does not, however, examine the relationship between self-help and factors such as the quality of rehabilitation and the time required to complete it. Nor does it consider the possible distortion of the homesteader client group if only those applicants with sufficient skills to accomplish their own repairs were allowed to become homesteaders. Families with two working adults, single parent families and otherwise qualified persons who lack home repair skills would have difficulty meeting a universal mandatory self-help requirement. Moreover, the Section 810 legislation does not mention self-help per se, but merely requires that homesteaders make repairs to the property to bring it up to local housing codes within 18 months. The flexibility allowed to communities with regard to self-help was intended to assure that the design was consistent with local needs, efficient program management, and equitable homesteader selection.

The draft report demonstrates its points about self-help by contrasting the Dallas program, which emphasized self-help, with that of Freeport which did not. The report argues that only Dallas and Wilmington strongly emphasized the self-help approach (page 6 of report). This is simply incorrect. A detailed analysis of nearly 400 homestead properties in the original 23 demonstration cities indicated that homesteader contributions to sweat equity, including the value of family labor and savings in the purchase of materials, ranged from 2 percent of total rehabilitation value (in Jersey City) to over 80 percent (in Islip, New York). Four cities exceeded the Dallas figure of 69 percent, and Wilmington's 28 percent placed it at about the middle of the range. Freeport, strongly criticized for its discouragement of self-help, actually had a 22 percent figure. The GAO characterization of the Freeport program reflects the emphasis of its study on the early stages of the program which did, in fact, strongly discourage self-help. This approach was undertaken to get the program off to a relatively quick start. That city now simply corrects code violations, and the cosmetic work (painting, etc.) is done by the homesteaders.

Furthermore, the draft report does not acknowledge some negative aspects of relying heavily on self-help. By highlighting the Dallas program, which

was exceptionally successful at achieving high levels of self-help and rapid occupancy of the properties, the report ignores the potential pitfalls of self-help and the fact that other cities, for numerous reasons, may not be capable of achieving that dual success. The draft report emphasizes the importance of rapid occupancy of the properties to forestall further deterioration and continuing neighborhood decline. It does not, however, note the relationship between self-help and time to re-occupancy. In Gary, where the self-help ratio is a high 77 percent, only 47 percent of the properties transferred by HUD to the city were occupied as of April 1979. Of those on which rehabilitation had begun, only 23 percent were complete. In contrast, both Kansas City and Rockford have moderate levels of self-help (just under 20 percent) and both have high rates of occupancy (74 and 98 percent, respectively) and high rates of completed rehabilitation (81 percent in each). Failing to acknowledge these trade-offs does a disservice to the cities which are attempting to find the best approach to homesteading given their needs and goals.

Similarly, the draft report makes no mention of the fact that self-help labor may affect the quality of the rehabilitation that is done on the properties. While homesteader efforts at repairing their own homes generally result in an acceptable final product, evidence from the HUD evaluation indicates that it fails to meet minimum standard requirements more often than contractor labor. Nearly 400 detailed inspections of rehabilitated homestead properties were conducted during the evaluation; the quality of an average of 20 individual work tasks per property was examined. While the quality of workmanship was deficient in about 13 percent of the contractor-performed tasks, it failed to meet minimum standards in 30 percent of the homesteader-performed tasks. In general, homesteader tasks involved finish work rather than major systems repair or structural work so the livability of the homes was not affected. Nonetheless, a failure to recognize this trade-off in self-help labor could result in difficulties for local programs.

It is, of course, true that cities can achieve high levels of self-help while assuring good quality workmanship and rapid occupancy of the property. What this requires, however, is sufficient staff resources to provide effective rehabilitation monitoring and training to homesteaders. Even though the number of available staff is important, experience in managing housing rehabilitation programs is equally important. Dallas has been exceptional in this regard, but other cities lack either the staff or experience. To compensate for these problems, they have attempted to find an optimum level of self-help which assures minimally acceptable performance with regard to speed and quality. To hold Dallas as the prototype and require all cities to match its performance would restrict the applicability of homesteading to very few communities.

Another major evaluation criterion used by GAO is the speed with which HUD-owned properties are re-occupied by homesteaders. As discussed above, this is related to the self-help issue. Apart from this, however, the

draft report provides a distorted picture of the achievements of the Demonstration by relying heavily on a few examples in which long time lapses occurred. No attempt is made to provide an overview using available reports and data.

The draft report states, for example, that 6 out of 10 properties in its Baltimore sample were not occupied (page 10 of report) and presents a detailed account of one property which was not occupied by a homesteader until two years after HUD acquisition. Ironically, the Baltimore problem is largely the result of the unavailability of rehabilitation contractors due to the demand created by other city rehab programs. The report does not mention that, of the original Demonstration cities, 73 percent of the properties transferred by HUD to the cities are now occupied by homesteaders. Nor is it noted that Dallas is only one of nine cities in which occupancy rates exceed 80 percent. In only four sites are occupancy rates below 50 percent. The data presented for Freeport suggests further that 70 percent of that city's properties remain vacant, when in fact only 45 percent are vacant. By highlighting the difficulties in Baltimore, and through an apparently high sampling error for Freeport, the report presents a distorted picture of the status of homesteading properties across the Demonstration cities.

#### GAO RECOMMENDATIONS #3 AND #4

Effective monitoring of the homestead program to assess the need for continuing existing local programs, identify practices in need of correction, and help local governments and HUD field offices improve administration of homesteading programs.

An expansion of the reporting system to include all the communities in the program and use this information in monitoring the program.

Our response addresses the reporting and monitoring recommendations jointly since they are directly related.

The draft report identifies monitoring as a major weakness of the Urban Homesteading Program. This criticism is another example of judging HUD's Demonstration in terms of an operating program. As we stated before, the failure to note this difference is a fundamental problem throughout the report.

Although a number of localities had already developed local urban homesteading programs before Section 810 was passed in 1974, the concept and process of homesteading was still relatively untested. For that reason, HUD's Urban Homesteading Program was developed as a demonstration. Localities were given wide latitude in designing their programs and selections were made with the intent of achieving maximum diversity in program designs across the Demonstration sites. The overall objective was to test a variety of homesteading approaches so that at the end of the Demonstration HUD would be able to recommend the best approaches or combinations of approaches.

The major problem the HUD program managers had to cope with during the Demonstration was the inexperience both of HUD field staff and local program administrators in conducting a homesteading program. Considerable effort was required to assure field coordination of property disposition, community development, and Section 312 housing rehabilitation staff since all three programs were integral parts of the homesteading process. The program managers, who were in almost daily contact with the field and city staff, attempted to facilitate the process, assure timely transfers of properties, and assist in solving legal, administrative, and financing problems as they arose.

It is thus inaccurate to state, as the GAO does on page 37 of its report, that "HUD homestead program managers did not adequately monitor the demonstration program." In the sense of detailed audits on individual properties and procedures, the statement has some validity. Given the complexity of designing and implementing 23 new programs, however, the most pressing need was to help the localities get started and maintain their momentum. The HUD program management procedures can best be described as cooperative and supportive of local program efforts and designs. It is regrettable that the two properties in Philadelphia were homesteaded outside the designated neighborhood, as the GAO points out; however, the GAO fails to note that these represent less than one percent of the 232 properties transferred by HUD to the city during its first two program years. Furthermore, the report stated that HUD's Urban Homesteading evaluation, as conducted under contract by USR&E, "has not been directed to all the aspects needed for effective program management and planning." This is generally an accurate statement because the evaluation was designed to measure primarily the impact and effectiveness of various approaches to homesteading; it is not, nor was it ever intended to be, a monitoring or management exercise. It seems inappropriate to criticize the evaluation on these grounds, particularly when program monitoring, in the sense that GAO employs the concept, would have been inconsistent with and detrimental to the evaluation's primary objective.

However, now that homesteading has nationwide program status, monitoring obviously becomes imperative. Since the publication of the Homesteading Regulations, we have been formulating an extensive monitoring/reporting policy which we plan to have in effect shortly.

The following is an outline of the monitoring tools.

A. The Community Planning and Development Monitoring Handbook.

Program elements that will be reviewed by the CPD Area Office staff as covered in the Monitoring Handbook are:

1. Program administration.
2. Locality's ability to abide by the Regulations.
3. Successful implementation of the program elements as described in the application.
4. The conveyance and rehabilitation of properties.

- B. The Urban Homesteading Quarterly Report, as administered by the Urban Homesteading Division. Data will allow for the monitoring of:
1. Section 810 reservations.
  2. Section 312 expenditures.
  3. Status of applications, agreements, and amendments.
  4. Programmatic benchmarks.
- C. Staff monitoring trips to all participating communities.
- D. Regional Desk System. Biweekly telephone calls to the Area Office Homesteading Coordinators by the Homesteading Central Office staff.
- E. Short-term reporting requirement of urban homesteading activities (see attached memorandum dated June 15, 1979). These will be submitted monthly.

This monitoring and reporting plan will satisfy our program data needs; and will assist us in assessing the need for continuing funding to existing programs, identifying practices which require correction and helping local governments and HUD to improve program administration.

GAO RECOMMENDATION #5

A halt to the giveaway of higher-value, marketable houses in unblighted neighborhoods so that homesteading funds can be concentrated in deteriorated areas.

The two cities cited in the report as potential "give-away" programs were Freeport, New York, and Tacoma, Washington. Again, the GAO is not clearly distinguishing between the objectives of the Demonstration and the objectives of the regular operating program.

The Freeport, New York, model was designed in the first-round Demonstration phase. Although the model does not demonstrate as traditional an approach as do the other homesteading programs, it has provided neighborhood revitalization and homeownership opportunities. Also, according to USR&E findings, 22 percent of the rehabilitation costs were accomplished via self-help initiatives. Freeport city officials informed us that while the city brings the property up to code, the homesteader is responsible for all cosmetic work.

We are puzzled by the draft report's findings concerning the Tacoma program. It is the first Demonstration program initiative to come to an end. The program has been successful in meeting its objectives, and is scheduled to close at the end of the year.

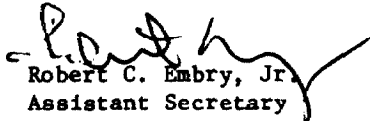
Both the Tacoma and Freeport programs reflect the Department's objectives for the Demonstration: "... to test the viability of the homesteading concept in a range of carefully chosen declining neighborhoods which are not severely blighted and have potential of regaining viability."

With respect to the regular operating program, the participating locality is to determine when a homesteading program is no longer needed. Additionally, the monitoring system will alert us as to when we should discontinue a program's funding.

CONCLUSION

We were very pleased to have this opportunity to comment on the draft report. Our major concern is with the report's methodology, in which the objectives of a Demonstration were judged by the standards of an operating program. The report, however, did aid us in evaluating our work and overall objectives.

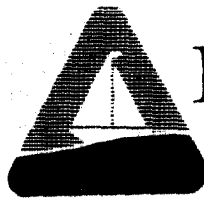
Sincerely,

  
Robert C. Embry, Jr.  
Assistant Secretary

Enclosures



NEW ADDRESS  
67 NORTH MAIN STREET  
FREEPORT, N. Y. 11520



**Freeport**

COMMUNITY DEVELOPMENT AGENCY

50 Liberty Avenue, Freeport, N.Y. 11520

Telephone (516) 378-4432/4350/4000 Ext. 203

JAMES R. DUNNE, Director of Planning & Community Development

August 29, 1979

United States General Accounting Office  
Community and Economic Development Division  
Washington, D. C. 20548

Attention: Henry Eschwege

Re: Village of Freeport  
Comments on Draft Report

Dear Mr. Eschwege:

This is in response to the draft report prepared by your office entitled "Urban Homesteading: a Good Program in Need of Repair", received by this office in a letter dated July 23, 1979.

Comments

- 1) (Page 19) - Part of the original foreclosure problem was and is the fact that Homeowners who can only marginally afford their homes have difficulty maintaining their properties. Then when a financial crisis occurs (separation, sickness, etc.), they do not have the financial resources to carry them through the difficult period. Thus foreclosures and blight begin to make inroads. The point is that at the minimum, a homeowner must be able to meet his monthly expenses and to be able to absorb "reasonable" emergencies, which are very difficult for "any income" family to do, particularly a low-income family.

It should be noted that most of the incomes of the homesteaders involved in the program are the result of both the husband and the wife working, and therefore the median level is somewhat misleading, particularly when you consider the high cost area (Nassau County), in which the Village of Freeport is located.

- 2) (Page 23, paragraph 2) - Another factor that should be considered when attempts are made to compare different problems, is that the

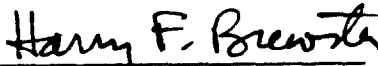
Chairman: William H. White    Commissioners: Dorothy Storme Altier, Simon C. James, Clark/Timothy C. Peternana

extent and quality of repair can vary greatly from community to community. The Village of Freeport's program was originally based upon a high level of repair and quality, and not just the minimal requirement to make the house livable and in conformance with code requirements. The overall difference between the quality of work completed by contractor vs. self-help should also be considered when comments are made about the success of various programs.

Finally, from the viewpoint of "continued occupancy" the Village of Freeport's program seems to be working, in that only one property has been re-possessed by the Agency, and even in that instance it was re-occupied almost immediately by another homeowner.

We appreciate the opportunity to comment on the draft report, however, we would like to keep open the option to make additional comments at a later date.

Very truly yours,

  
Harry F. Brewster  
Harry F. Brewster  
Deputy Director

HFB:jb



COMMUNITY DEVELOPMENT DEPARTMENT  
740 ST. HELENS STREET, TACOMA, WASHINGTON 98402

August 20, 1979

General Accounting Office  
Washington, D.C. 20548

ATTN: Henry Eschwege, Director

Subject: Homestead Program Report to Congress

Dear Mr. Eschwege:

Responding to your letter of July 23, 1979 requesting comment on the draft report to Congress on the Homestead Program; we have the following comments:

1. In at least two places in the report the writer indicates the homestead neighborhoods are devoid of deterioration and blight.

Page 19. "We believe the giving to communities of high value houses in good condition will generally not be warranted. The money used for these houses could better be used in other communities where blight and deterioration are present."

Page 24. "When we visited the Tacoma Target Neighborhoods in January, 1979, we found them unblighted."

We could repeat some of the cliches. Blight is relative or blight is in the eye of the beholder, etc. Our blighted areas certainly meet the state definition of blight.

We believe the neighborhoods are blighted. The City has expended millions of dollars in these areas over the years to upgrade and preserve these neighborhoods and plan to continue to do so in the years ahead.

2. Another quote from page 24: "HUD officials at the Seattle Area Office believed that some of the houses given to Tacoma for homesteading could have sold easily."

HUD elected to convey the houses to Tacoma, based on HUD's apparent inability to find people willing to purchase the homes and belief that having the homes owned, occupied and brought up to code was preferred over other alternatives.

Page - 2

3. It should also be pointed out that Tacoma has received 57 homestead houses. The average cost for rehabilitation for these homes was \$8,616. The homes could hardly be considered "high-value" or "good condition" homes. All homes are expensive in the Tacoma area. Houses having a value less than \$12,000-\$15,000 probably should be demolished in many instances. They are not economically feasible to repair. That is, when the cost to repair does not add to the market value of the house, it may be inappropriate to spend large sums of money to rehabilitate them. HUD required the City to accept only those homes which in our judgment were suitable for rehabilitation.
4. We believe the Homestead Program, along with other rehabilitation programs, has helped us to make an impact on our neighborhoods. Whether Congress envisioned giving away houses which required an average of only \$8,000 to repair or whether we "departed from the ideal of homesteading" is more a matter for your office to determine than ours. But we are sure that if HUD had not given the homes to the City, regardless of value, they probably would have continued to remain unoccupied and subject to vandalism and further deterioration and adversely affected the neighborhood as well.

We thank you for the opportunity to comment and we are returning the draft report for you information.

Sincerely,



KEITH A. PALMQUIST  
DIRECTOR, COMMUNITY DEVELOPMENT

KAP: gla

cc: A. Foote, Housing Program Manager

COMMUNITIES PARTICIPATING IN  
HUD URBAN HOMESTEAD DEMONSTRATION

CHOSEN IN OCTOBER 1975

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 Baltimore, Maryland  
 Boston, Massachusetts  
 Chicago, Illinois  
 Cincinnati, Ohio  
 Columbus, Ohio  
 Dallas, Texas  
 Decatur, Georgia  
 Freeport, New York  
 Gary, Indiana  
 Indianapolis, Indiana  
 Islip, New York  
 Jersey City, New Jersey  
 Kansas City, Missouri  
 Milwaukee, Wisconsin  
 Minneapolis, Minnesota  
 New York, New York  
 Oakland, California  
 Philadelphia, Pennsylvania  
 Rockford, Illinois  
 South Bend, Indiana  
 Tacoma, Washington  
 Wilmington, Delaware

CHOSEN IN MAY 1977

Cleveland, Ohio  
 Compton, California  
 Dayton, Ohio  
 E. St. Louis, Illinois  
 Village of Hempstead, New York  
 Joliet, Illinois  
 Los Angeles, California  
 Nassau County, New York  
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